Finance & Management

ICAEW FINANCE & MANAGEMENT FACULTY

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FEELING IT OUT
ADVICE ON HOW TO MANAGE YOUR EMOTIONS

FIGHTING FIT
HOW TO TAKE ON A HOSTILE TAKEOVER

SOFTLY, SOFTLY
THE SOFT SKILLS NEEDED TO SUCCEED

THE WEIGHT OF THE WORLD

How have geopolitics affected the pound, and SMEs as a result?

A FACULTY MEMBERSHIP PUBLICATION

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February 2017

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"For accountants, our technical prowess will only take us so far in our careers and in business. What really counts are our non-technical skills"

Angus Farr,
director,
Training Counts

Taking punishment

FINANCE & MANAGEMENT FACULTY

The news last October from BT that internal audit had uncovered historical accounting errors and "areas of management judgement requiring reassessment" was quite bad news,

but appeared to be contained. The expected EBITDA hit of £145m was not significant enough to merit much attention at the time. However, in January this year BT's share price tanked by 20% after it was revealed that senior management had been involved in "inappropriate activity".

The impact of "improper accounting practices and a complex set of improper sales, purchase, factoring and leasing transactions" over a number of years resulted in the Italian subsidiary overstating profits to the tune of £530m, according to BT's own press release.

The fact that the Italian EBITDA contribution was no more than 1% of the group company makes the market reaction very strong, but like Tesco before this, the market punishes what it sees as poor management and poor control even if the financial effect is not significant overall.

The poor management of BT Italia was apparently known outside the company. Interactive Investor stated: "It seems the business there was rotten for years, with inadequate governance, compliance and financial safeguards", so it seems strange that no action was taken by headquarters to clamp down on this.

Research conducted by shareholder advisory firm Glass, Lewis and Co in 2005 found that markets punish announced financial control weaknesses at an accelerating rate. The initial announcement of a material financial control weakness results in a fall in share price of 0.67%, relative to the stock market, but this fall increases to 4.06% three months later.

Interestingly, revelations of material weaknesses relating to personnel issues raise more concerns than weak financial controls. Announcements of a material weakness relating to personnel issues results in a fall in share price of 0.9%, relative to the stock market, but this fall increases to 4.8% three months later. Personnel weaknesses appear to unsettle markets more than financial control ones; the latter may be compliance failure, but the former means that the company may not understand its own employees.

Any company they found could recover consumer confidence with timely return filing and clear statements of intent. Companies can win back market confidence over time – let's hope that BT is able to do so.

We hope that you enjoy this month's magazine – please contact robert.russell@icaew.com or stephen.ibbotson@icaew.com if you have any ideas or thoughts about the faculty.

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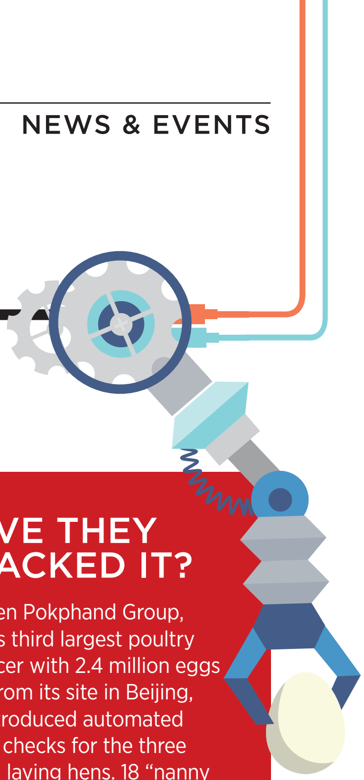
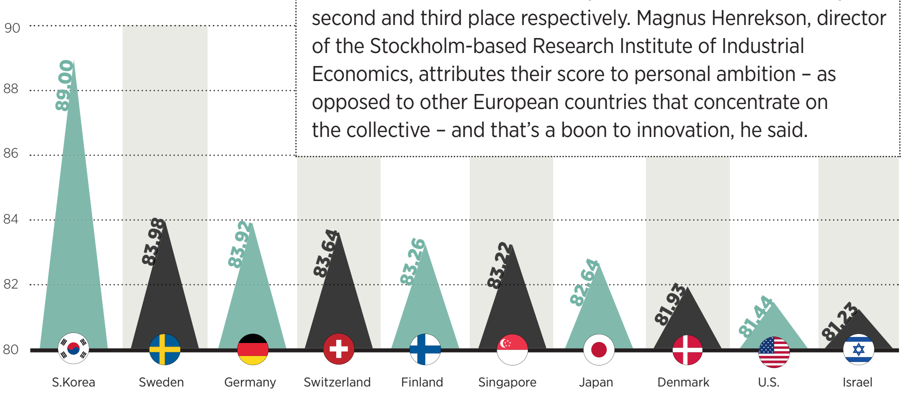
News



INTERNATIONAL INNOVATION

BLOOMBERG 2017 INNOVATION INDEX



Bloomberg's 2017 innovation index revealed South Korea as the world's most innovative country, with Sweden and Germany in second and third place respectively. Magnus Henrekson, director of the Stockholm-based Research Institute of Industrial Economics, attributes their score to personal ambition – as opposed to other European countries that concentrate on the collective – and that's a boon to innovation, he said.

LONDON CALLING

US company Snap, the owners of Snapchat (with 150 million daily users), announced in January a change to its operations in Soho, London, by billing advertising revenue through a UK entity. "We want to pay taxes in the countries where we sell advertising," said the company. Snap will float this year with a $25bn valuation, although it is yet to generate a profit.

SUB-PAR SUBCONTINENT

India service companies lost half of their revenue after the Indian government's demonetisation of R500 and R1,000 notes – which had formed 86% of Indian money in circulation – according to a survey by the All India Manufacturers' Organisation. Consumer durables sales are down by nearly 40% according to *The Times of India*. The decision has contributed to a 0.5% fall in GDP according to analyst Capital Economics.

CONFECTION FOR AFFECTION

MARS | VCA

$9bn

Price paid for veterinary firm VCA

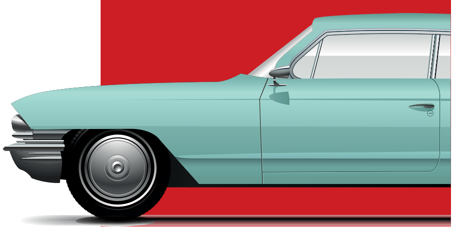
Mars, the US confectionery company, last month agreed to purchase veterinary hospital provider VCA Incorporated for $9bn (including debt) as it seeks to expand its pet care business. Mars is the second largest seller of pet care products in the US behind confectioner Nestlé, whose Purina brand has 21% of market share in the US. It is estimated the US pet market was worth almost $63bn in 2016 and it is expected to continue growing.

HAVE THEY CRACKED IT?

Charoen Pokphand Group, China's third largest poultry producer with 2.4 million eggs daily from its site in Beijing, has introduced automated health checks for the three million laying hens. 18 "nanny robots" roll around the indoor farm monitoring temperatures and movement and notify staff if there is a problem. Minimising human contact reduces the incidence of pathogens passing to the population. "Attending flocks with robots isn't typical," says Hongwei Xin, director of the Egg Industry Center at Iowa State University. "It could well become a trendy and valuable tool."

DRIVING INNOVATION

General Motors announced the launch of a new pay-as-you-go service for its Cadillac cars. The manufacturer is piloting a no-contract monthly fee of $1,500 for unlimited use of its cars starting this month. Dubbed BOOK by Cadillac, customers will be able to book a Cadillac of their choice whenever they want it, delivered to any location in New York. "This is obviously a service for very wealthy customers," commented Adela Spulber, transportation system analyst at the Center for Automotive Research.



Events

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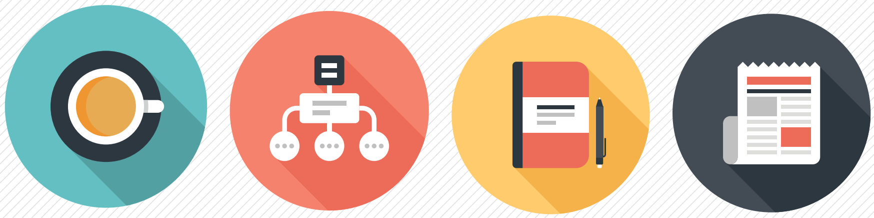
WEBINARS

icaew.com/fmfwebinars

Unless otherwise stated, all webinars and events are free to existing faculty members, and take place at Chartered Accountants' Hall



NEW: 20-MINUTE LUNCH WEBINARS

FREE

BOARDROOM CONVERSATIONS – FD'S CORNER

14 March 12:30 – 12:50

We cover the ICAEW's confidence monitor and Nigel Hastilow provides commentary from finance directors from around the country about issues that are bothering them. This short and interactive webinar will keep you updated with the economic outlook and concerns of your fellow ICAEW members.

To book a place, please visit icaew.com/lunchmar2

FREE

IP FINANCE TOOLKIT AND DISCLOSURES

26 April 12:30 – 12:50

Intellectual property is a hidden asset for many and should be explored. David Hopkins of the Intellectual Property Office (IPO) rejoins us to quickly run through his second practical FD's guide to Business Intellectual Property. This seminar will look into how to identify the IP within a business (IP audit) and discuss forms of licensing. David will also look at methods of valuation of intellectual property (trade marks, patents, designs and copyright) and highlight the free online tools the IPO can offer to support you.

To book a place, please visit icaew.com/lunchapr

FREE

STATISTICS FOR BUSINESS – HOW DO I KNOW IF MY TREND IS A MIRAGE?

29 March 12:30 – 12:50

We often see trends in our numbers and make decisions accordingly. Very rarely do we ask whether or not the trend is real or a mirage. Nigel Marriot of the Royal Statistical Society explains the basic principles of hypothesis testing using a Monte Carlo simulator that allows you to make a decision, and quantify the risks of incorrect decisions.

To book a place, please visit icaew.com/lunchmar

60-MINUTE WEBINAR

FREE

FUTURE PROOF YOUR FINANCE FUNCTION

21 March 10:00 – 11:00

A transition is happening – the finance function will be shaping the future more than it looks at the past. Finance leaders are becoming valued collaborators with business leaders. They are engaging with automation and technology to lower risk and empower their teams.

This webinar will be presented by Phophix's managing director Daniel Cobb. To book a place, please visit icaew.com/fmfmarwebinar

EVENTS

ONLINE LEARNING – LEAN PRACTICES TO TRANSFORM YOUR FINANCE TEAM

21 February 9:30 – 11:00
22 February 9:30 – 11:00
£85 + VAT

Join us over two days for this three-hour interactive lecture on making your team leaner. This course, delivered by David Parmenter, is designed to enhance the finance team's contribution, improve talent retention and deliver quick wins that will save the finance team over 30% of their time. David will cover closing the gap between best practice and your existing processes, the lean concepts and how to apply them to your accounting function and how to transform your finance team from good to great.

To book your place please visit icaew.com/lean17

FREE

7½ STEPS THAT EVERY FD MUST TAKE TO SUCCEED

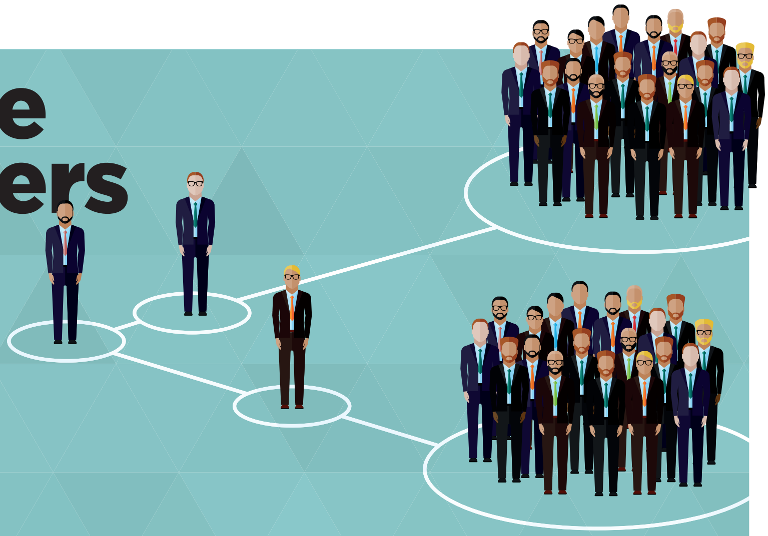
22 March 17:30 – 20:00

We all recognise that our technical knowledge is increasingly a given in today's workplace and that it's soft skills that determine success as a finance professional.

In this practical workshop Angus Farr will identify the key non-technical skills that he thinks will determine how far and how fast our finance career can progress. For each one, he'll identify a practical takeaway to help us better manage ourselves, our teams and key stakeholders.

To book a place, please visit icaew.com/fmfmarevent

Check up time for stakeholders



With 2017 getting into its stride, now is the ideal time to give your stakeholder programme a review, says **Rachel Maguire**

Here are five easy ways to ensure your stakeholder management programme is in top form.

1. SET ACHIEVABLE GOALS

- Create SMART benchmarks that are specific, measurable, achievable, realistic and timely.
- Benchmarks could include number of stakeholder meetings, attendance at conferences and so on.

Richard Laker, group finance director, Augean, says:

"It's useful to set out what you want to achieve based around what matters most to your company, how and when you're going to do it. Be ambitious, but make sure internal and external stakeholders see those ambitions as being realistic so they will share your confidence that they will be achieved. This anchors the stakeholder programme and means that you can manage the time the executive team spends on investor issues."

2. DON'T WASTE YOUR TIME, BUT DO USE SPECIALISTS

- Boost your integrated reporting (IR) effectiveness with specialist service providers.
- Your house broker/NOMAD may be equipped to do this. However, it may be worth using a specialist from time to time to gain fresh insights.
- Consider using specialists to help in areas such as corporate governance and corporate responsibility.

SAVE THE DATE

We are running a 60-minute webinar on 6 June at 10:00: Customer engagement – hidden value

Corporate governance expert Tim Purcell of Tim Purcell Associates says:

"Most executive management teams understand that their key stakeholders, including their financiers and stakeholders, view corporate responsibility and corporate governance as important aspects of their business. However, there is often a lack of understanding about which factors are most relevant, and a tendency to view these areas as risk rather than an opportunity. External advice is often very useful in enabling companies to comprehend these issues and feel more confident about how they are addressing them. Consequently, management is empowered to be more effective in running their business."

3. MEASURE THE BENEFITS

- It's worth periodically reviewing your advisers are giving you value for money.

John Grant, experienced non-executive director for Touch Bionics, says:

"Small companies generally struggle with the quality and breadth of analyst reviews. House broker analysts and paid-for reports are not seen as sufficiently independent. It can be worth developing relationships with others to encourage coverage."

4. HIRE A TRAINER

- Consider getting an outside perspective on how to improve your programme to achieve better results.
- IR consultants can help you switch from a reactive approach to a proactive one in your stakeholder outreach efforts.
- With many to choose from, make sure you select the firm that understands your goals and has the chemistry with you.

William Lock, chairman at growth company Elcom, says:

"We fully appreciate the need to keep stakeholders happy, but right now we are focused on driving growth. We brought in external specialists to up our game in our stakeholder outreach, and create a proactive engagement programme in step with our strategic direction. A key factor in choosing them is they really understood who we are as a company and that shines through in the materials created for us."

5. KEEP YOUR ENGAGEMENT PROGRAMME CONSISTENT

- Achieving measurable results needs regular time and effort.
- Develop a long-term calendar of interactions and events, including publications of results.
- Have a follow-up strategy ready to keep analysts, potential investors and stakeholders abreast of developments.

Industry veteran Bob Holt, chairman of Mears Group, says:

"Don't expect shareholders and stakeholders to 'get it' after one meeting. You need to get out there and meet the people who matter. Don't be afraid to talk to them if the results aren't what you hoped. Managing expectations and telling it like it is in good times and bad helps build trust. Once stakeholders trust you, you're on the way to building a loyal and stable shareholder base. Remember to visit private client brokers who will appreciate the effort of a visit. And work it as hard as you would the business!"

Rachel Maguire,
CEO, Arko Iris investor relations counsel
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THE HEART OF BUSINESS

Philip Gimmack argues that emotional intelligence is a crucial ingredient to personal and business success, while **James A Runde** explains how it can transform your career

EMOTION – INFORMATION YOU CAN COUNT ON

***Philip Gimmack** uncovers how understanding and interpreting emotions brings greater value to our lives and work*

I was an accountant once, a long time ago; but I've reformed. People sometimes comment 'you've moved a long way from finance, Philip'. Well actually, I don't believe I have.

I began my career counting things and trying to extract the most value from data to render it useful information - an exercise in awareness-building and management.

I then built IT financial management systems to automate the capture and manipulation of data and sophisticated reporting to create more value, so to speak.

All these relate to building awareness and better management, focusing on and bringing out the value for improving performance; only now I do this for the most important resource, for people.

I help develop people's intelligence around emotions. These qualities include awareness of self and others (empathy), management of self and others including flexibility, assertiveness and impulse control and positive beliefs including self-regard and optimism. Helping people use such qualities appropriately goes to the heart of improving ourselves and how we connect with people. These are facilitated through our 'emotions' and so called emotional intelligence (termed EI or EQ).

WHY EMOTIONS?

Emotions are messages, our primary internal feedback mechanism, that give value and meaning to experiences. If we work with emotions we can use them to better understand, express and adapt to change and so better manage our interactions and weigh up decisions. Emotions facilitate our personal data management and reporting. Emotion is key information and information is king.

So whether it's facilitating a finance project or someone's goals at work I find this awareness, management and positive feedback process of universal application. The trick for me is creating awareness of this emotional information by listening carefully and asking a few simple open questions of ourselves and others.

1 Find the need: What do you want or need?

Examine the want or need from both the positive and negative standpoints. What are the feelings you have about doing/having it and not doing/having it. (This can be usefully written as a grid). This establishes clarity and enables you to connect to the value behind the need which can build self-belief and motivation, clarify decisions and much more.

2 Find the value of the need: what's important to you (about this)?

This gets to the heart of an issue and brings out the core value if we ask this again until the reply cannot be resolved any further.

This is a great question to ask in meetings to help regain focus. When we ask this of others such as for stakeholders it builds a connection to what's most valued and brings all-important feedback so you know where you are with others. Importantly, it serves to acknowledge the feelings of others as well as convey your interest to them and then potentially assist better understanding of them. This is the seed of empathy that encourages us to see matters from the perspective of another and can help dissolve perceived obstacles to the resolution of conflict.

3 Listen wholly and with compassion to what you're feeling and what others feel

This is the power of connecting; to be in balance with the emotional needs of all concerned without focusing merely on words, our own needs or desired outcomes. Listen patiently and sincerely and discern emotions - these tell us what we need to know. People often don't fully understand what they themselves are feeling especially when things happen quickly or they struggle to adapt to change or when strong emotions are present. Effective listening helps people to perceive, acknowledge and work through their feelings; and people know when they are being truly listened to or if it's lip service.

Here are some typical scenarios and ways

that emotionally intelligent approaches work to establish value. Whether it's budget meetings or interviews, find the value of things to people by asking what emotions they feel about having or not having it. Remember people seek to have their needs fulfilled and these are often emotional - comfort, safety, certainty and, most importantly, feeling valued.

Understanding and working with positive emotions can help bring into sharp contrast an emotional world that drives people and their behaviours and yet few of us engage fully with and wonder why we get things wrong or simply miss things.

If you want to work better with someone, ask yourself how you can value them more and how to reflect this value sincerely. This can also mean looking at our words - making them kind, positive or using a soft tone; or our demeanour - being patient, trusting and approachable. It can mean listening more and speaking less. It can mean asking open, explorative and valuing questions more frequently than directive, closed or potentially critical ones.

These kinds of approaches can have a huge impact on relationships and positively affect staff turnover, engagement and how a business is led.

And yet so many organisations deal with their employees and customers without finding out how these key stakeholders feel or what's most important to them or use positive open and engaging ways of being. Without taking this emotionally intelligent approach, they fail to deliver their best.

Be emotionally in tune

We are emotional beings and what I mean by this is that positively engaged with, emotions exist to establish our reason and relationships rather than undermine them. Emotions are at the root of our survival mechanism, decision-making and relationship building, and yet how much time do we spend learning about and working with what we feel?

Listen with your eyes

Another area of emotional intelligence relates to reading emotions in faces. There is an entire science around this built up over 30 years by Paul Ekman. He discovered that all emotions show themselves on the face of every human being in exactly the same way. Facial emotional expression is hard-wired - even blind people from birth represent their emotions in the same way. What's more our emotions are flashing across our faces (micro-expressions) even when we believe we're hiding them.

What's amazing about this is that with just a little practice you can improve your reading of these expressions. So imagine being furnished with this additional powerful information instantly. What could you do?

- The client who doesn't like your last idea - spot their disappointment early and deliver a new one quickly and continue to gauge and adjust your responses.
- Spot when your colleague or boss needs help or isn't happy. Acknowledging needs and helping to remedy are powerful relationship drivers.
- By developing and polishing a well-honed emotional vocabulary and using appropriate emotional expression you'll have increased ability to gauge and connect in just the right way to collaborate, avoid an issue or mitigate conflict.

This is where you can count on EQ. It's subtle, beautiful and powerful, and I've found it to be highly valuable.

THEORY INTO PRACTICE

EQ assessments are increasingly used to develop leaders and model success within all types of organisations; the US Air Force slashed budgets and drop-out rates on their recruitment programmes (eg, para-rescue jumpers) by profiling the EQ qualities of its best people and recruitment for these qualities. L'Oreal dramatically increased its sales prowess by focusing on the EQ components known to help sell - one such EQ component being optimism.

EQ helps all businesses succeed because all business is about people and people navigate their lives and work through emotion.

Philip Gimmack, is a facilitator and motivational speaker on emotional intelligence at EQworks, the London-based skills and culture development consultancy
eqworks.co.uk

THE SECRET SAUCE OF SUCCESS

***James A Runde** lays out why he thinks career advantage can always be linked back to emotional intelligence*

The role of a CFO or finance director has evolved in recent years. Successful CFOs are expected to be influential business leaders and decision-makers who can provide insights into both future performance projections and strategic planning. In the UK most CFOs have conquered the Companies Act 2006, just as their American counterparts have mastered Sarbanes-Oxley. This means that a top-notch CFO needs to focus on becoming a strategic adviser to the CEO, the board, investors and employees. The best CFOs need to be able to drive change, manage risks, engage and retain talent, and deliver results.

In order to do this, today's CFOs need to emphasise soft skills or EQ and recognise that this is the secret sauce to career success. Cognitive skills, book learning and even a certification (such as ACA) are now the accepted minimum entry-level qualifications for top financial positions. But people skills are the way finance directors and CFOs distinguish and differentiate themselves. EQ is more than charisma or personality or salesmanship. It is exhibited in adaptability, collegiality and empathy. EQ is about your relationships:

Relationship with yourself

Your ability to adapt begins with the awareness of where you are, and that you will need to change at certain points in your career. Self-awareness is your ability to recognise your emotions and how they affect your thoughts and behaviour – as well as understanding your strengths and weaknesses. Self-awareness can help you to adapt to the array of varying situations and different bosses with divergent working styles you will encounter throughout your career.

> Today's CFOs need to emphasise soft skills or emotional intelligence and recognise that this is the secret sauce to career success

Relationships with colleagues

Through collaboration a team can achieve better results than any individual can achieve alone. Collaboration is essential in today's large and complex organisations because the work is done primarily in an environment in which a team is expected to be united by a common objective. You need to work well with your colleagues, industry partners, suppliers and customers for the entire team to succeed, but those team members bring together expertise across disciplines that are increasingly global, diverse and even virtual.

Relationships with stakeholders

Empathy is understanding what others feel because you have experienced it yourself, or can put yourself in their shoes. Empathy allows you to build trust with your clients. People starting out their careers think that figuring out the analytically correct or technically correct answer is the hard part of the job. We are all in the solutions business, but finding the right solution is often not the difficult task. The real challenge is getting the other person to tell you enough that you can discern the real problem.

Empathy can be a vital skill in discerning the needs and wants of a stakeholder and can be critical in detecting the political dynamics of a group such as a board of directors. Empathy will also allow you to build trust with various stakeholders including customers.

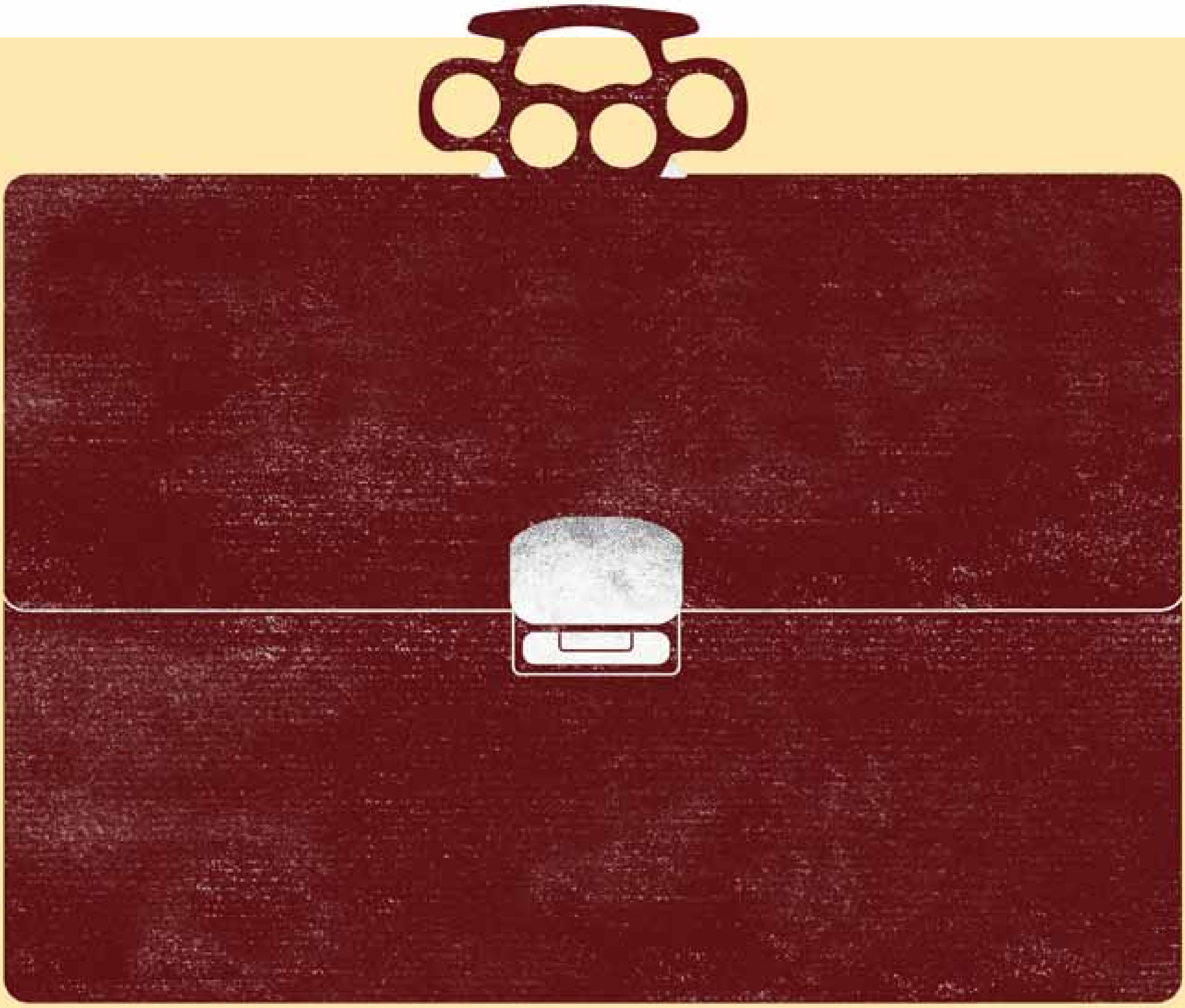
JUDGEMENT/INSIGHTS

Big data and artificial intelligence are increasingly crucial to businesses. Turning information into insights is a process of taking data, putting it in the context of the situation and the strategy, performing sensitivity analysis and applying judgement. Of these four elements, judgement (another soft skill) is the most crucial.

Over the past few years there has been a paradigm shift in the role of the CFO. World-class CFOs are now expected to use soft skills to make significant strategic and commercial contributions. CFOs can differentiate themselves by developing their EQ in a manner that creates stakeholder value and enhances corporate talent.

James A Runde, corporate director and author of ***Unequaled: Tips for Building a Successful Career Through Emotional Intelligence*** (Wiley)

JAMIE JONES/IKON



THE BEST FORM OF DEFENCE

Christian Doherty details some of the ways to ensure survival during every finance director's nightmare: a hostile takeover

Most FDs will go through their career without being targeted by a black knight looking to take over their business. But for some that nightmare can become a reality – when a potential acquirer comes knocking and doesn't want to take no for an answer. While the experience may not be the most pleasant, there are ways in which the FD can take to the barricades and defend their company. But what makes a takeover hostile?

Perhaps the most famous of all spawned a book and HBO movie, *Barbarians at the Gate*, dramatising the 'blood on the carpet' deal that saw venture capitalist fund KKR drag US cereals giant RJR Nabisco kicking and screaming into a leveraged buy-out. But while the reality of most unsolicited takeovers is a little less dramatic, FDs can expect to have their mettle tested during what can become a stressful and overheated process.

"There are a range of ways in which an approach can be made," says David Smith, a director of Deloitte's financial advisory service, who has advised clients on both sides of the net. "Typically I'd expect it to be a call into the CEO or chairman from the offer or company informing them of their intentions, followed up by a public announcement of what they're up to."

A TEST OF STRENGTH

In that scenario, Smith says that how things proceed for the targeted company will very much depend on the strength and resilience of their corporate governance structures and how well prepared they are.

"As an adviser I would immediately want to know if those systems are up to scratch in terms of how the company plans to respond," he says. "A well-prepared corporate will have protocols that come into play and a sequence of steps that get taken. That, to our mind as an adviser, is absolutely critical in helping ensure the success of whatever strategy you employ," Smith explains, stressing the need for the FD to lead proper and thorough preparation.

That preparation, he says, should coalesce around a company manual that outlines the correct roles and responsibilities in the same way a crisis management or business interruption guide would. "If I was being asked to assist in the preparation of the manual, there would be sections that would appear in every one in terms of key individuals and responsibilities, steps that follow, the potential white knights and so on," Smith says.

He's also keen to point out the value of good advisers in order to navigate the complexities of The City Code on Takeovers and Mergers, otherwise known as the Takeover Code, a binding set of rules that apply to listed companies in the UK. And in particular rule three, which governs how companies should use advice throughout the process.

RULES OF THE GAME

Smith's sentiments ring true to Simon Laffin. As chairman of Flybe and an experienced NED and company chairman, Laffin has been on both sides of the fence. For him, there are two key things that the FD and board colleagues must concentrate on. "You have to have good rule three advisers and you have to hope that the other guy gets a good rule three adviser," Laffin says. "You do not want him to have a poor adviser. It's so important, so I always ask carefully who's advising the other side. I almost care more about that than I do about my own. If those advising the other side are poor quality, inexperienced or if they've got conflicts, you can't be sure that they are going to react according to the rules and rationally."

> "If those advising the other side are poor quality, inexperienced or if they've got conflicts, you can't be sure that they are going to react according to the rules"

No company can hope to survive a hostile takeover without a clear understanding of their rights and obligations under the Code, which offers the FD of the target company some genuine protection as well as outlining their obligations when a hostile acquirer comes calling.

"The key point for me is to maintain a good dialogue and open relationship with the principal shareholders at all times, not merely when there is an offer on the table," says Tristan Price, CEO of M.P. Evans Group plc. "Management's objective is not to make the company unattractive to a bidder. Rather it is to maximise the value of the company for shareholders, which includes running the company with a balance between returning profits to shareholders now and increasing future profits, making optimal use of the assets you have now, and making sure the shareholders understand the value those assets. If these things are done well they will reassure existing shareholders that value is maximised so that they are less likely to agree to a sale."

PROTECT YOURSELF

Of course, smaller businesses are far less likely to face the threat of a hostile takeover - owner-managed businesses have excellent defence to reject any bid as they control the shares. However, for smaller listed companies there are ways to protect themselves from an unwelcome approach. The most obvious is to encourage employees to buy shares in the business. Filling the share register with employees that have a vested interest in protecting the business from any unfriendly acquirer is a neat - and cheap - way of building a sound defence against any approach. The same can be said of retaining a majority stake for management once the business has floated.

GOING ABROAD

In the US, takeover rules allow a broad range of defences that include 'poison pills' (where a target company uses a certain amount of sleight of hand to present itself as less attractive to a potential acquirer) and the 'Pac-Man

SIMON LAFFIN EXPLAINS THE ROLE OF THE NON-EXEC IN A HOSTILE TAKEOVER

Non-executive directors are representatives of the shareholders in this process, like all directors are, but the point is that they come at it from a different perspective. They are independent of management. So imagine if you've got an unsolicited offer, I think shareholders would not be surprised that in many cases, though not always, executive management may have a tendency to want to dismiss that offer.

But shareholders would expect a good non-exec board to apply a really careful look at the detail, because in the end a takeover will be decided by shareholders. What a board has to decide is whether to put an offer to the shareholders; it's not technically deciding whether to accept it or not. So one of the things that the non-execs will wrestle with is: should we give the shareholders the right to decide?

Of course you can consult certain shareholders, provided you bring them in as insiders and you almost certainly should do that. If it's a tight decision, you should talk to your big shareholders, but again the emphasis is going to be on whether we should give the shareholders the opportunity to vote on this."

defence', where the target responds to a hostile pursuit by turning around and attempting to gobble up their pursuer. However most of those defence tactics are not available for use by FDs. "Right or wrong, in the UK it's seen as important that shareholders are given the opportunity to assess the merits of the business," Smith says.

In fact, the UK regime provides very limited scope of action for targets to use in order to stymie a bid. "You may well hear your advisers referring to rule 21, which outlines the non-frustration principle, that essentially restricts target companies from undertaking any actions that might frustrate a bid without first seeking shareholder approval," Smith explains.

That means employing forbidden strategies like issuing shares, selling assets that might be of interest to the bidder or entering into contracts they might not do in the ordinary course of business. "Things you would see in places like the US - and to a lesser extent in Europe - are not available for management in the UK," says Smith.

ARGUING THE DEFENCE

So does that leave the FD of a UK company entirely unprotected? Not quite, but in the absence of delivering a poison pill or engaging in other shady arts, his main defence strategy will have to be one based on argument and persuasion. This is where the FD has a real advantage. Smith explains: "That gives you the chance to communicate with your shareholder base and the broader market to articulate the value that you see in the business that isn't necessarily reflected in the value of the offer on the table."

Persuading shareholders that the attempted takeover should be rejected will typically involve the FD building out a financial forecast that reassures investors to stick with the status quo. "You will need to put out an alternative set of plans and the FD will be key in the development of those," says Smith. "Profit forecasts are often used, and there are certain procedures that mean project forecasts are required to be prepared in a certain manner, with the CFOs taking a lead on that."

On the use of quantified financial benefit statements - that Smith says is "a fancy word for cost savings" - and other key financial analysis that doesn't fall under the prescribed procedures of the Code the FD will be expected to take the lead, as well as in the production of verification materials.

Laffin, coming from a finance background but having worked extensively as a non-exec during his career, says the quality of this material will be critical in persuading shareholders that the FD and his board have a better plan for the business than a hostile acquirer, and that they have a better understanding of the company's underlying value than this acquirer.

"When it comes to a valuation, your rule three advisers will give you a good idea on what the control premium is going to be, typically 20% to 30% depending on the business," Laffin says. "But they will ask for numbers from the executives, and the non-execs will want to know: what's the financial forecast? They will turn that into different valuations for your company and the non-execs are very important because they need to apply a really cold hard look as to whether they believe the executives' forecasts."

Ultimately, the FD will not have to face a hostile takeover alone. With a board and advisers lined up in lockstep, some of the burden will be shared. But there's no doubt that, as in so many other arenas, the FD will play a central - and irreplaceable - part.

TANG YAU HOONG, LUCIANO LOZANO/IKON

PUTTING IN A SHIFT

Freelance work is increasing in today's so-called gig economy. David Adams looks at what this means for businesses and those who work for them

The gig economy has always been with us. In the past, labourers and skilled craftspeople were often paid by the day. In the present day, a huge range of casual shift workers and skilled freelance professionals work in every industry sector, from catering to the media, from logistics to financial services, the public sector and the third sector.

About 4.6 million people in the UK are now self-employed, according to the Office for National Statistics (ONS). That is about one million more than in 2006. But, the percentage of self-employed workers within the total workforce has risen quite slowly, from 13.4% in 1996 to ▸

14.9% today, according to Work Foundation research/ONS figures. What has changed is that it is now easier to become a freelance worker, and freelancers are often easier to find and hire, thanks to social media, freelance forums and the changing attitudes in the workplace.

Being a contractor or freelancer is both liberating and risky, and to some extent that's true for employers too - there are two sides to the story.

LOOK ON THE BRIGHT SIDE

The advantages are obvious. "The freelancing model helps firms access expertise in a flexible way, helps them manage peaks and troughs in demand for their services, test out new ideas without large fixed costs and grow cautiously without over-extending themselves," says Adam Waters, senior policy adviser at the Association of Independent Professionals and the Self-Employed. Besides a full-time salary, the expense employers save when using freelancers instead of permanent staff include employers' national insurance contributions and the costs of training, administration, pension contributions and providing other employee benefits.

But the gig economy has also attracted negative publicity, with some employers being accused of exploiting workers. In October 2016 an employment tribunal ruled that Uber drivers should be considered as 'workers', not self-employed contractors, so should be entitled to rights including being paid minimum wage, annual leave and other protections. At the time of writing, Uber is appealing the judgement.

About 49% of all self-employed people are on low pay, as measured per hour, compared with 22% of employees, according to the Social Market Foundation. There has also been a fall in the number of self-employed people making pension contributions: down to just 500,000 by 2013 compared with 1.1 million 10 years earlier, according to the Resolution Foundation. These figures suggest that many gig economy workers are more likely to be relying on uncertain and irregular sources of income than to be skilled contractors moving from one lucrative assignment to the next.

The Work and Pensions Committee is currently consulting on self-employment and the gig economy; the Business Energy and Industrial Strategy Committee (BEISC) has just closed a consultation on the future world of work and the rights of workers; and the Royal Society for the encouragement of Arts, Manufactures and Commerce chief executive Matthew Taylor is leading an independent review of employment practices for the government. The way contractors and freelancers are treated within the tax system is also being reviewed. It seems likely that legislative and/or regulatory change will come in the near or medium term, making it even more important that employers follow best practice when working with gig economy workers and contractors.

The willingness to use freelancers varies hugely by sector and from one employer to another, but does seem to have increased overall, suggests Dave Chaplin, CEO and founder of Contractor Calculator, which provides products and services to contractors working in different sectors. He believes the change has been driven in part by the development of online job marketplaces like Upwork, freelancer.com and industry-specific websites that make it easier for employers to find freelancers. Some employers can also benefit from hiring offshore freelancers who may work for lower pay.

There are also now services that will help employers to meet more complex employer needs, matching them with suitable contractors. For example, Brainbroker enables access to a network of freelance experts in digital, online marketing, website design and other related skills, along with relevant software tools.

BEING REALISTIC

But there are disadvantages. The cost benefit is not always so clear and costs can escalate if contractors are being paid hourly or day rates and a project is delayed. One almost universal source of problems is a lack of clarity when an employer explains what they want. "If the requirements and the brief are vague you'll end up with an unhappy client and an unhappy contractor," Chaplin warns.

There also has to be clarity around payment. Brainbroker co-founder

4.6M

Number of self-employed people in the UK

500K

Number of self-employed people making pension contributions in 2013

14.9%

Percentage of self-employed workers within the total workforce today

49%

Percentage of self-employed people that are on low pay (measured by hour)

22%

Percentage of employees that are on low pay (measured by hour)

CASE STUDY: IDEAS MADE

IDEAS MADE

London-based marketing company Ideas Made uses freelancers regularly in a number of different roles, though it still prefers to use in-house personnel if possible. Partner Ross Tavendale says the most important advantages of using freelance workers are the flexibility and the specialist knowledge.

"Using copywriters as an example, a project will only usually require a copywriter every few months to help build campaigns or write specific pieces of copy, so having a full time copy staff doesn't make sense," he explains. "Also, some of our clients, such as law and finance firms, need highly specialised knowledge in order to produce good quality copy, so it pays to hire a specific legal copywriter to complete the job to the highest standard. And if you have lots of freelancers on your payroll, you can easily scale up projects and take on higher-paying work without a huge payroll liability on your balance sheet."

Disadvantages include the occasional culture clash and an understandable but still potentially problematic lack of loyalty to the organisation. "With freelancers there is no company loyalty so there is no guarantee that they will [always] be available to work on your project," says Tavendale.

Costs employers save when using freelancers include NI contributions, the costs of training, administration and pension contributions

Jonathan Lemer suggests employers should be open-minded about whether to pay by the hour, shift, day or project: all can be valid approaches, all have advantages and disadvantages.

An employer's room to manoeuvre will depend in part on the way market forces act in a given sector. For some roles, such as in specific areas of IT, engineering or professional services, the most highly skilled contractors often have the upper hand over employers in negotiations, Chaplin reports. In others, such as oil and gas, buyers have more control over the market.

IT'S NOT FOR EVERYONE

At the extreme end of the scale, some freelancers do not really want to be freelancers. In its written response to the BEISC consultation, submitted in December 2016, Contractor Calculator railed against "false self-employment" being exploited by employers, citing examples including warehouse staff fired then rehired on a piecemeal basis with no employee rights or benefits. "A person doing multiple gigs for the same firm day in and day out is a 'worker' under employment law, as the Uber case perfectly highlighted, and they should have protections," wrote Chaplin in the response document. "We need legislation that makes this clear."

The gig economy doesn't suit everyone. What feels like freedom to some workers is a frightening lack of security for others. There is a good reason why so many of us were advised by family members or teachers to get "a good, steady job". Nor is every job suitable for a freelancer. But where working with a freelancer is an option, employers must choose their freelancers carefully, seek clarity over what each party should expect from the other and, above all, ensure that all regulatory and legislative conditions are met in full.

JOHN HOLCROFT/IKON

WHEN IS SOMEONE SELF-EMPLOYED, EMPLOYED, OR A 'WORKER'?

In law, broadly speaking, for a worker to be "employed" they must provide their services personally and submit to the right of control by their employer over how, what, where and when work is completed. Their relationship must also be subject to "mutuality of obligation" – the worker must work to be paid and the employer must pay the worker for work done.

If any of those conditions are not met, the individual worker is not an employee. If all three are met they may be an employee if secondary tests are also met, including whether the worker provides the tools of their trade, are exposed to financial risk or if they work mainly for one client.

"Worker" status in EU and UK law guarantees rights to individuals who are not employees or self-employed. Worker status does not determine tax status but does guarantee the right to be paid the minimum wage, to holiday pay, to auto-enrolment pension contributions and to protection from unlawful deduction of wages, unlawful discrimination and unfair treatment if the individual becomes a whistleblower.

Mark Groom, an employment tax partner at Deloitte, suggests that recent employment tribunal case law suggests "that the only individuals excluded from the definition of 'worker' are contractors who have a sufficiently arm's length and independent position, to be treated as being able to look after themselves in the relevant respects... It is possible that large numbers of gig-economy workers would be classified as workers under this definition," he says. HMRC have provided a useful tool to ascertain the likelihood of status at tinyurl.com/GOV-EmpTest

Employers should also be certain that all relevant rules are complied with if they engage a contractor who owns a personal service company. If application of the tests above shows that an individual would in effect be employed for a specific engagement, the IR35 tax regime – an anti-tax avoidance measure introduced to stop contractors hiding employee status to avoid tax – applies. From April 2017 public sector organisations will bear the responsibility for establishing whether or not this is the case. It is possible that private sector employers will also bear this responsibility at some point in future.

A nation in fluctuation

Tumultuous times have ensued since the EU referendum vote and the election of US president Donald Trump – not least where business cash flow is concerned. David Craik looks at the volatility of the pound and how this will affect SMEs

The UK referendum vote back in June last year brought a day and night of the highest political, social and economic drama.

After voting closed it seemed likely, given opinion polls and UKIP leader Nigel Farage's near concession speech around 10pm, that the remain camp would be victorious and the UK would stay in the EU.

But it wasn't only the Leave EU campaign's cancelled party that initially signalled the likelihood of a remain win; sterling's rate against the US dollar raced to a year high of $1.50 on the hope that stability rather than instability would be the economic byword over the next few months and years. But then came the early results in Sunderland and Newcastle, showing a higher than expected turnout for leave. This northern wind chilled the hopes of remain - and the rest is history.

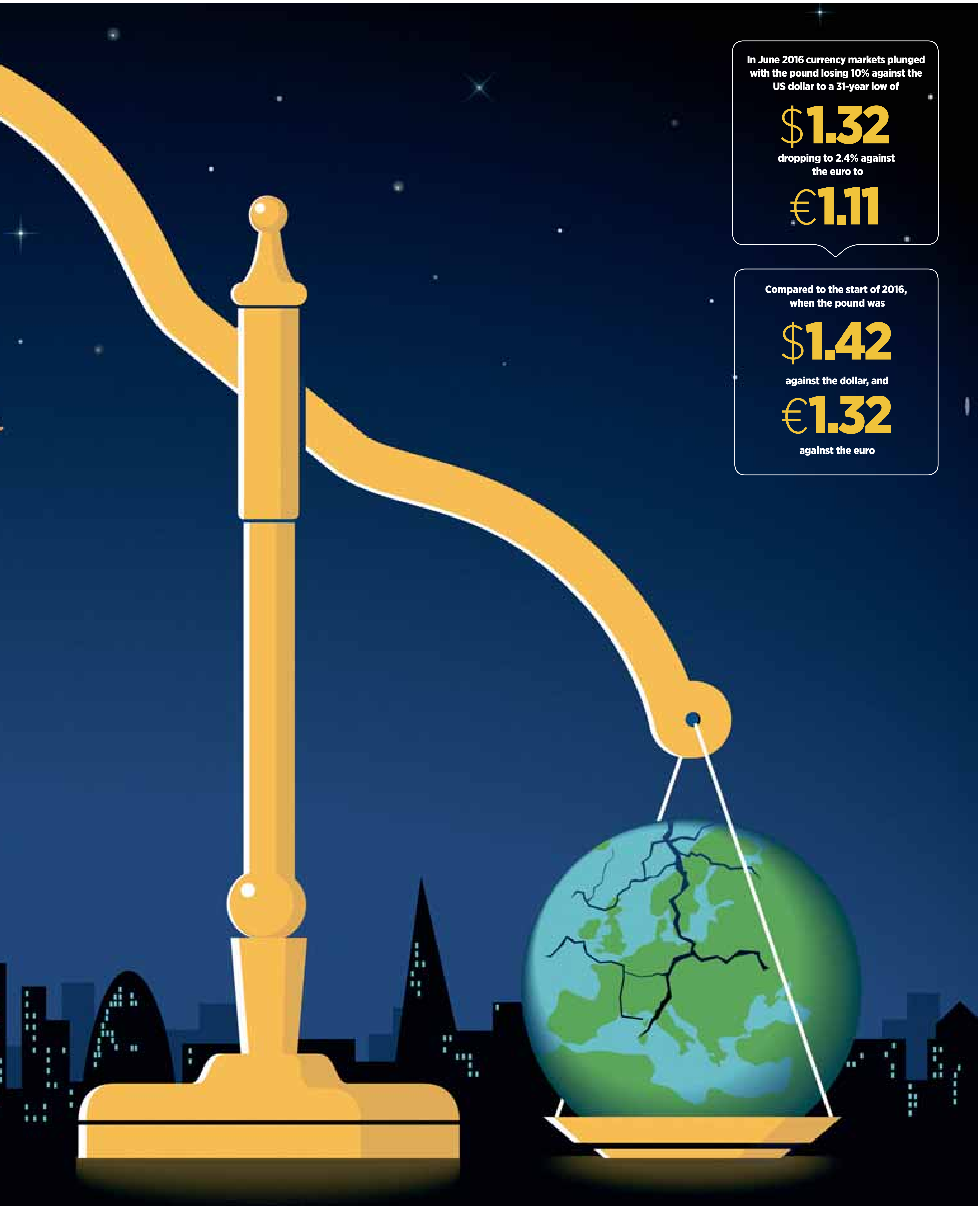
Currency markets plunged with the pound losing 10% against the US dollar. This took it to a 31-year low of $1.32 and a drop of 2.4% against the euro to €1.11. This compared to $1.42 and €1.32 at the start of 2016. Since the vote the values have fluctuated, often wildly, with the pound against the dollar plunging further to a low of $1.14 and the euro rate dropping to a low of €1.10.

Lingering nervousness about what Brexit means for the UK economy, plus the widespread feeling that the government is making policy on the hoof, both add to the sense of uncertainty. The election of Donald Trump as US president, continued economic problems in the eurozone and the possibility of further referendums in Holland, France and Italy only served to heighten this feeling. The implications of volatility have been trickling down ever since.

MORE INSTABILITY?

At the time of writing, the pound is at $1.22/€1.17, with the rest of the year likely to see more fluctuations.

According to a Reuters poll of more than 60 foreign exchange strategists, the pound will continue to weaken against the dollar. They believe it could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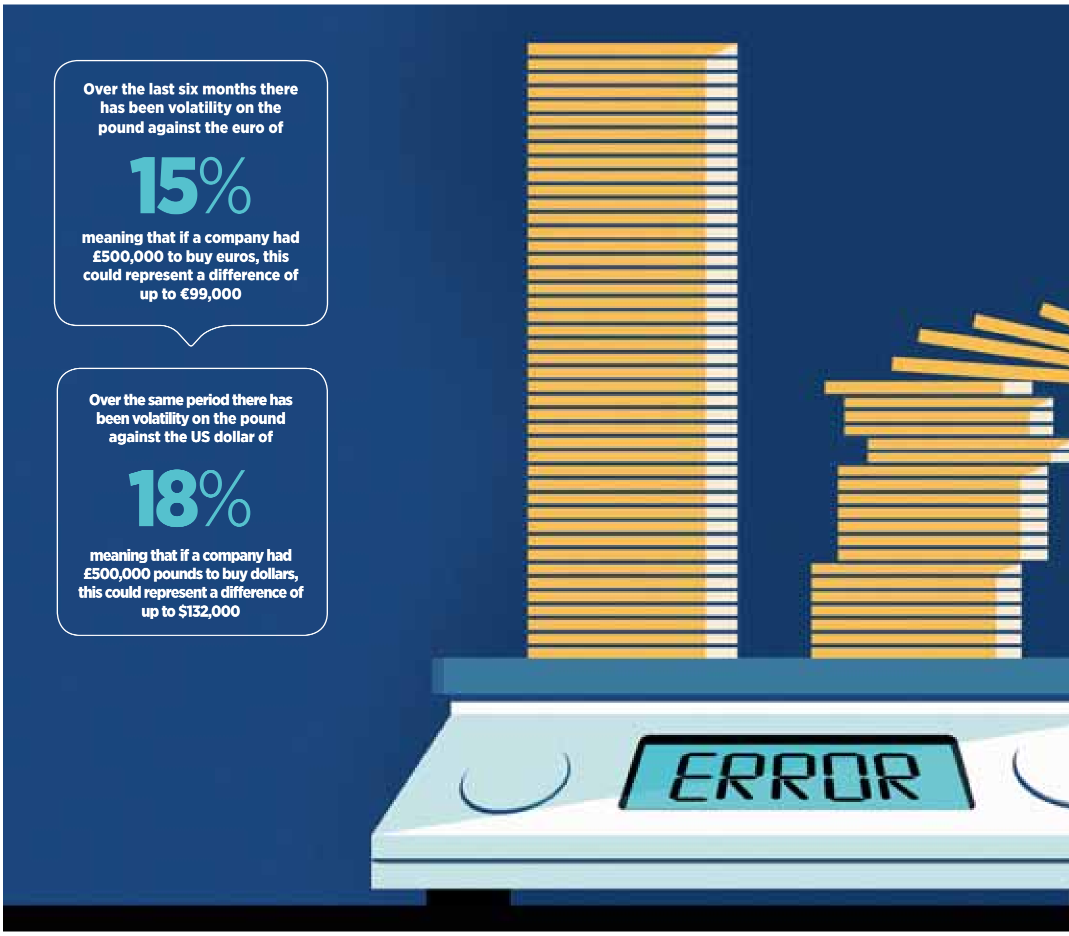

fall back down to $1.15 because of the implementation of Article 50, the trigger to begin the UK's departure from the EU, and potential negotiation deadlocks. Growing economic uncertainty is also likely to weigh on sterling. In comparison, the US dollar is tipped to rise - boosted by hikes in interest rates and Trump's expected economic stimulus.

However, Barclays expects a better outcome on the sterling/euro rate, which it expects to rally to €1.31 by the end of the year. This will be helped by continued eurozone weakness; more quantitative easing moves by the European Central Bank; and potentially disruptive elections in pivotal countries such as France and Germany. But what does all this mean for CFOs and CEOs in UK SMEs? What impact are these fluctuations having on their bottom line and growth prospects?

The Zurich SME Risk Index in September suggested SMEs had undergone a "tumultuous time" since the referendum vote, with 22% believing the devaluation of the pound had hindered their business. Over half (57%) said they were now primarily concerned with the effect of the official exit from the EU on foreign currency and exchange rates. This anxiety, the index suggested, could be due to the knock-on effect of a weak sterling on import and export conditions, the second greatest concern among SMEs post-referendum.

"The foreign exchange market is mainly made of speculators, meaning rates are driven by perception, fear and greed as opposed to hard facts or practical necessity"

In basic terms a weak pound is good news for exporters, as it is cheaper for customers abroad to buy their products. However, it also makes imports more expensive. This is a problem for many UK firms as they have widened their global supply chains in recent years for cost and customer demand reasons.

Of course many of our exporters are also importers using global suppliers for raw materials and commodities. However, the big challenge inherent in the export/import balance is that import prices respond and change much faster to currency fluctuations than export demand does.

KNOW YOUR ENEMY

So how can SMEs best manage this volatility and uncertainty? The first trick is to fully understand how the system works. "The foreign exchange market is mainly made of speculators, meaning rates are driven by perception, fear and greed as opposed to hard facts or practical necessity," explains Tobias Woodward, account manager, corporate partnerships at Moneycorp. "It is driven by short-term speculative flows, which means foreign exchange rates are highly volatile and make it very difficult for companies to plan for their foreign exchange transactions. These fluctuations can have major implications for SMEs if they don't plan effectively for their foreign exchange exposures."

Indeed, Woodward points out that over the past six months there has been a 15% price movement in sterling against the euro. In practical terms, if a company had £500,000 to buy euros, this could represent a difference of up to €99,000 between the best and worst point of purchase. Similarly, with the pound against the US dollar there has been an 18% volatility and again, with £500,000 to spend, this could represent a difference of up to $132,000.

"The post-referendum devaluation of the pound may have been great for

exporters, who have seen their sterling priced products become more affordable for overseas buyers, but many also import part of their products and are suffering the effects of the pound's recent decline, and the resulting impact on their profit margins," Woodward adds. This is why, if an SME needs to buy or sell foreign currency, it may want to consider having a policy in place to monitor and manage these exposures.

BEING PREPARED

"With currency fluctuations that can erode profitability on deals or wipe out profits altogether due to adverse rate movements, SMEs should develop a hedging strategy that matches their attitude to risk," Woodward states. "The foreign exchange market carries opportunity as well as threat, as favourable market movements could reduce costs and increase profits. Risk-averse SMEs shouldn't be looking to make money from the foreign exchange markets however, they should develop a treasury policy to manage and mitigate their risk, while keeping their focus on running their underlying business."

"In general terms a vanilla option contract gives the holder the right but not the obligation to buy currency at an agreed rate for a premium"

Spot contracts are a useful option if an SME needs to purchase currency and make a payment over a short-term horizon. Such a contract generally allows an SME to fix an exchange rate and settle their deal the same day or over the next few days. However, Woodward provides a word of caution: "You may be exposed to the volatility of the foreign exchange market in the time between the exposure being established and the date of the spot deal. Purchasing currency at spot during a period of market volatility can mean losing out on thousands of pounds. On the other hand, the market may move in your favour and save you money. Ultimately your final rate is at the mercy of market fluctuations until the deal is executed."

Forward contracts are another option - they allow an SME to fix a prevailing exchange rate and apply it to a transfer they are planning to make further in the future, generally up to two years ahead. "It enables them to protect against subsequent rate movements and fix rates that meet their underlying budget," Woodward outlines. "However, forward currencies have no flexibility and represent a binding obligation from which neither party can walk away. There is no ability therefore to take advantage of any subsequent improvements in the exchange rate. If the exposure does not materialise there may be a cost to unwind the position at a later date. There also may be a requirement to place a security deposit and margin call requirements to consider."

There are also currency options and structured products to consider. "In general terms a vanilla option contract gives the holder the right but not the obligation to buy currency at an agreed rate for a premium," Woodward explains. "There is a wide range of such products available to help manage currency exposure. They tend to be used by more sophisticated companies to manage a portion of their overall currency risk. However, such products are regulated investment products and carry a higher level of risk than traditional forward contracts and are certainly not suitable for everyone."

TIME TO MIX AND MATCH

Woodward believes that many SMEs will choose to implement a mixture of these products as part of a wider foreign-exchange hedging policy. He believes that despite the current volatility there continues to be good access to hedging and guidance for SMEs through brokerages.

Of course, non-hedging techniques are also available. SMEs could price sales in a foreign currency in exchange for cash in advance. The current market rate then determines the sterling value of the foreign proceeds. Alternatively, they could pass the currency risk on to purchasers or their suppliers if they insist payments are made in sterling.These all sound positive and possible paths for SMEs through the choppy waters both now and further into 2017.

THE VOLATILITY FACTOR

Despite the options, Stephen Baseby, associate policy and technical director at the Association of

"Profitability is the key word. It is a balance between sales and volumes, so as we will not get all the price increases away, marginal business may be lost"

Corporate Treasurers, sees a more complicated picture. "Many contracts do not have enough margin in them," he explains. "One chap emailed us with a business of importing fancy car tyres from the US in dollars after the [referendum] vote. Obviously his costs increased as the sterling rate against it plunged, but the question is what could he have done to prevent it? He could have bought forward and fixed his price only to find that the rate went the other way on a different result, or he could have paid for an option that, as it is, due to the cash upfront needed, is hard for a SME to do. He is essentially a one-product business."

Larger organisations, Baseby states, have many product lines, various sources and a larger customer base giving them more flexibility. SMEs in contrast haven't got "that much scope in their business to react to any problems". He continues: "They also have fewer skills in this area compared to a larger organisation. Smaller companies don't have the resource to manage areas such as currency hedging. But again, it is more to do with not having the big balance sheet to play with and having little reserves to fall back on or being able to get more equity or debt to raise cash. So the impact of any major shift in the market will hit them more heavily."

Baseby also points out the risk that Capital Requirements Directive IV and its equivalent capital regulations will mean that the credit cost will be higher for SMEs than for their larger competitors when hedging.

"With the regulations, the riskier a loan is the more capital has to be put aside by it. The credit margins for SMEs will be higher than for bigger businesses and that impacts not just basic loans, but all forms of credit, including hedging and hedging fees," he states. "SMEs may also want to think through the increased credit cost impact on the trade finance associated with the cause of the currency risk. The cost of trade settlements and letters of credit are also becoming more expensive."

So, what is happening at the coalface? How are SMEs directly dealing with currency volatility?

DEVISING AN ACTION PLAN

In a recent blog article *World First* highlighted the case of one of its clients - restaurant group Ibérica. It buys euros to be paid to suppliers, mainly in Spain, for products such as furniture, cheese and wine. Until recently they used forward contracts to buy euros three months ahead of time. Following the EU referendum they were concerned that instability caused by a lower pound/euro rate would lead to higher costs and the unwanted pressure of hiking customer prices. Ibérica took the decision to use this method for greater certainty both for themselves and for their clients.

They opted for a six-month contract. Finance director Sarah Winter said: "We book forward contracts in order to stabilise our menu prices. In this case, we recognised that it could be beneficial to buy more currency further forward due to the looming uncertainty heading into the referendum vote. We wanted to de-risk our menu to ensure our customers continue to receive the best value for money, which we can only do if prices are not volatile, particularly in the short term." As reported by Bloomberg, UK travel

JOHN W TOMAC

agent Tropical Sky used to hedge for three or four months at a time to protect against cost fluctuations for overseas destinations. However, things now are slightly different. Financial director Jacqui Collins said the business now “buys dollars on a weekly basis and adjusts selling prices” because of the increased currency risk.

“The credit margins for SMEs will be higher than for bigger businesses and that impacts not just basic loans, but all forms of credit, including hedging and hedging fees”

PROTECTING PROFITABILITY

Steve Magnall, chief executive of St Peter’s Brewery, looks to Spain to purchase its glass for bottles and the spare parts in its bottling hall in euros. He explains that its euro hedge ran out in December 2016 and it is now following the daily rate, “taking any hits to our P&L”. He expands on this: “The euro rate today is €1.17 and we had it hedged at €1.40, so there has been a 16% devaluation. The impact upon us is quite marked with glass costs increasing significantly along with other packaging such as labels and cardboard. Oil and transport costs will also increase on the back of the Opec production reduction.”

Magnall is currently involved in “hard negotiations” with a number of banks and institutions about future hedging. “We are talking to them about longer term but only if they will guarantee €1.20. The best so far is €1.16 but we believe there will be some levelling out and we should get a hedge at €1.20 or above at some point. It will be a decrease on where we have been, but it gives us a target for increasing sales to cover the additional cost,” he states. “Passing costs on is difficult especially with the supermarkets, which are facing their own battles, but we are trying to pass on some price increases now. Profitability is the key word. It is a balance between sales and volumes, so as we will not get all the price increases away, marginal business may be lost.”

Whatever the future holds Magnall believes SMEs still need to consider hedging rather than shying away. “We believe hedging gives us security in the current climate,” he says.

It’s been a long few months since the unforgettable vote in June, but SMEs - by taking advice and looking around at all available options - can survive the currency and economic fluctuations that have taken hold since.

TIPS ON PRICING STRATEGIES

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Take a look at the pricing terms contained in all contracts to determine exposure to currency fluctuations. If exchange rate fluctuations are in the terms then ensure they are enforced

Renegotiate contracts to allow for the use of the best exchange rate on any trade

Talk to your suppliers about spreading the cost of reduced margins

Consider sourcing from the UK or lower-cost countries. Look for cheaper materials of the same quality, and negotiate quicker payments to help cash flow

Take advantage – if you are not exposed but a competitor is then this could be an ideal time to steal share by attracting new suppliers or customers

“SMEs need to look at the customers and competitors to determine a viable price to maintain. That is the first decision,” says Stephen Baseby. “The hedging mechanics are there but will the banks give them a forward purchase line? The risk is that SMEs price themselves out of step because they get caught out by currency volatility, or damage their cash flow through paying for that protection. If their competitor gets it right and they don’t then it is a problem. It is a delicate balance.”

TIME TO TRANSFORM

Rick Payne is seeking your input on finance transformation, the challenges involved and any suggestions about what ICAEW can do to help

Our conversations with finance professionals suggest many are involved, directly or indirectly, with a finance transformation programme. We'd like to help, so this article's objective is to garner some feedback on what support you would value from ICAEW.

WHAT IS FINANCE TRANSFORMATION?

Transformation implies big changes and a finance function that is unrecognisable once the transformation process is complete. However, less ambitious programmes that are evolutionary and based on continuous improvement sometimes get the transformation badge. While it is usually associated with large organisations, smaller ones can clearly benefit from improvements in the finance function.

So we will use the following working definition: finance transformation is a planned programme designed to make significant improvements in the efficiency, effectiveness and value added of finance functions.

The question also arises as to what is being transformed and improved. In our report *The Finance Function: A Framework for Analysis* we systematically analysed the evidence on what finance departments do, and identified the following broad activities:

- **Accounting.** Examples include transaction processing and bookkeeping.
- **Compliance.** Think of tax returns and financial reporting to shareholders.
- **Management and control.** A wide-ranging heading that includes financial planning and analysis (FP&A), management information and investment appraisal.
- **Funding.** This incorporates debt, equity and other sources, and covers investor relations.
- **Strategy and risk.** The nature and level of this area varies significantly from organisation to organisation.

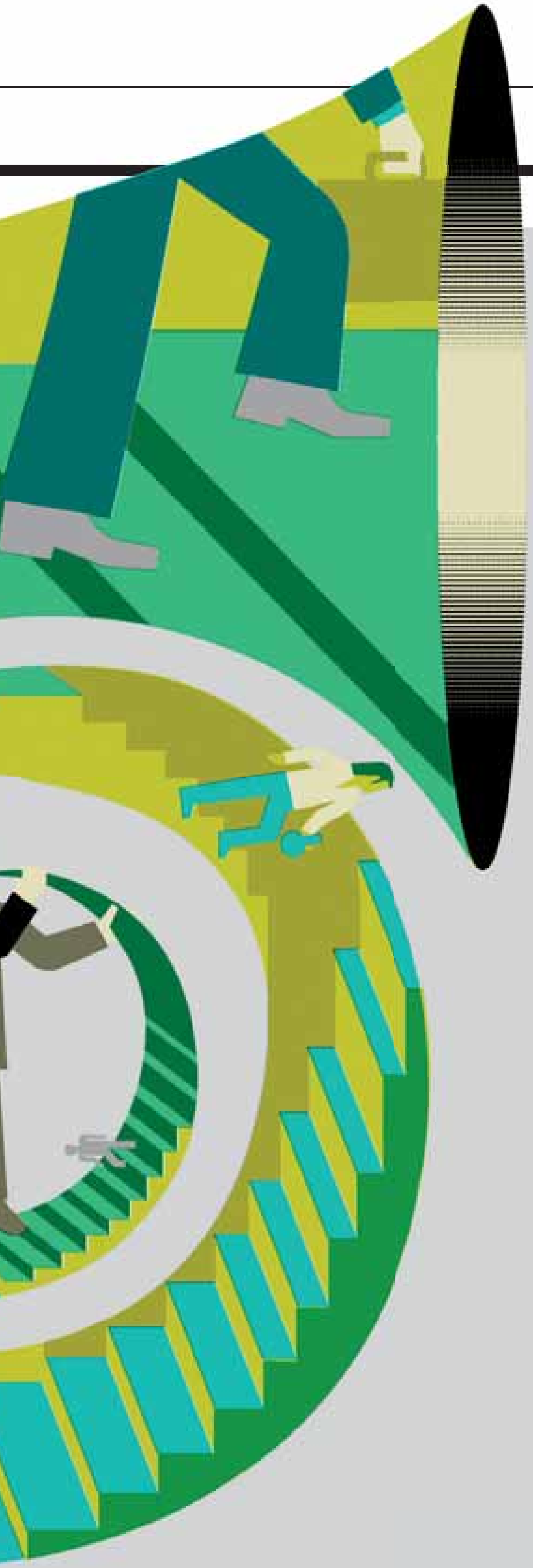
These activities – and importantly the interrelationships between them and the rest of the business – are the targets for transformation. It is clear that transformation requires taking a holistic perspective. Moreover, transformation also means that these activities do not necessarily have to remain within the finance department or be managed by the CFO if they can be carried out better elsewhere.

HOW TO ACHIEVE TRANSFORMATION

Transformation is achieved by developing and changing the factors – in the broadest sense – by which finance activities are achieved, which are also arguably being transformed. Factors include people; leadership; systems; processes; policies; organisational structure; culture; and power and politics.

Again these factors need to be treated in a holistic way. For example, getting the most from new finance IT systems will require new policies and broader culture change.

Successful finance transformation will therefore depend on active CFO support with strong programme management that sets out clear plans and priorities, a target operating model and an integrated approach to improving each factor.



WHAT ARE THE KEY CHALLENGES?

There are a number of key challenges that those responsible for finance transformation will need to overcome. Making the business case and getting investment in the first place is no mean feat. Clearly cost savings are often the starting point but for the level of investment required these may not be enough, therefore benefits in terms of efficiency, timeliness and improved analysis for decision-making need to be brought into the equation. Even when the business case stacks up it may still not be as attractive as other business opportunities such as investing in a new e-commerce platform.

Once a finance transformation investment has been agreed, overall change management is perhaps the most difficult challenge. Gaining consensus on the preferred operating model, resistance to change, trading off the benefits of comprehensiveness with increased complexity and keeping existing processes going while implementing change will all rear their heads. The challenge will be exacerbated if the business as a whole is facing difficult times.

As the transformation process gets closer to implementation the people issues come into sharper relief. Where routine work has been automated and/or moved to a captive shared service centre, managing increased staff turnover may be an issue. Different skills may now be required, for example managing an outsourced relationship is different to managing staff in-house, and grasping the opportunities for improved analysis requires people with the necessary skills.

TRENDS IN FINANCE TRANSFORMATION

There are a few trends that we are seeing in finance transformation that need to be considered. First we have the impact of advances in information technology, big data and analytics. These have the potential to accelerate the pace and scope of automation in the finance function, eg, through robotic process automation. In addition they also raise possibilities for finance departments to take their existing competencies with data into new areas to aid decision-making.

Second we see some organisations moving to global business service centres that house processes across finance, procurement, IT, human resources and other functions. The idea is to manage processes with an integrated, end-to-end approach in order to maximise efficiency and effectiveness. The development of such centres means that a significant number of finance activities may not fall under the management of the CFO and the finance department.

WHERE WOULD YOU VALUE ICAEW HELP?

The Finance and Management Faculty and ICAEW already provide many sources of help. *Finance & Management* has carried many relevant articles, we have produced relevant reports, such as *Finance business partnering: a guide* and the recent special report *IT policy and the FD*. We have held breakfasts and dinners to discuss FP&A and Shared Services. ICAEW's academy includes a wide range of relevant programmes and courses, which can be found at icaew.com/academy

However, we are conscious that these activities could be better integrated and flagged to members and that there are gaps in what we offer.

We would value your input on how ICAEW can help you with your role in finance transformation and, for example, in respect of the following concerns:

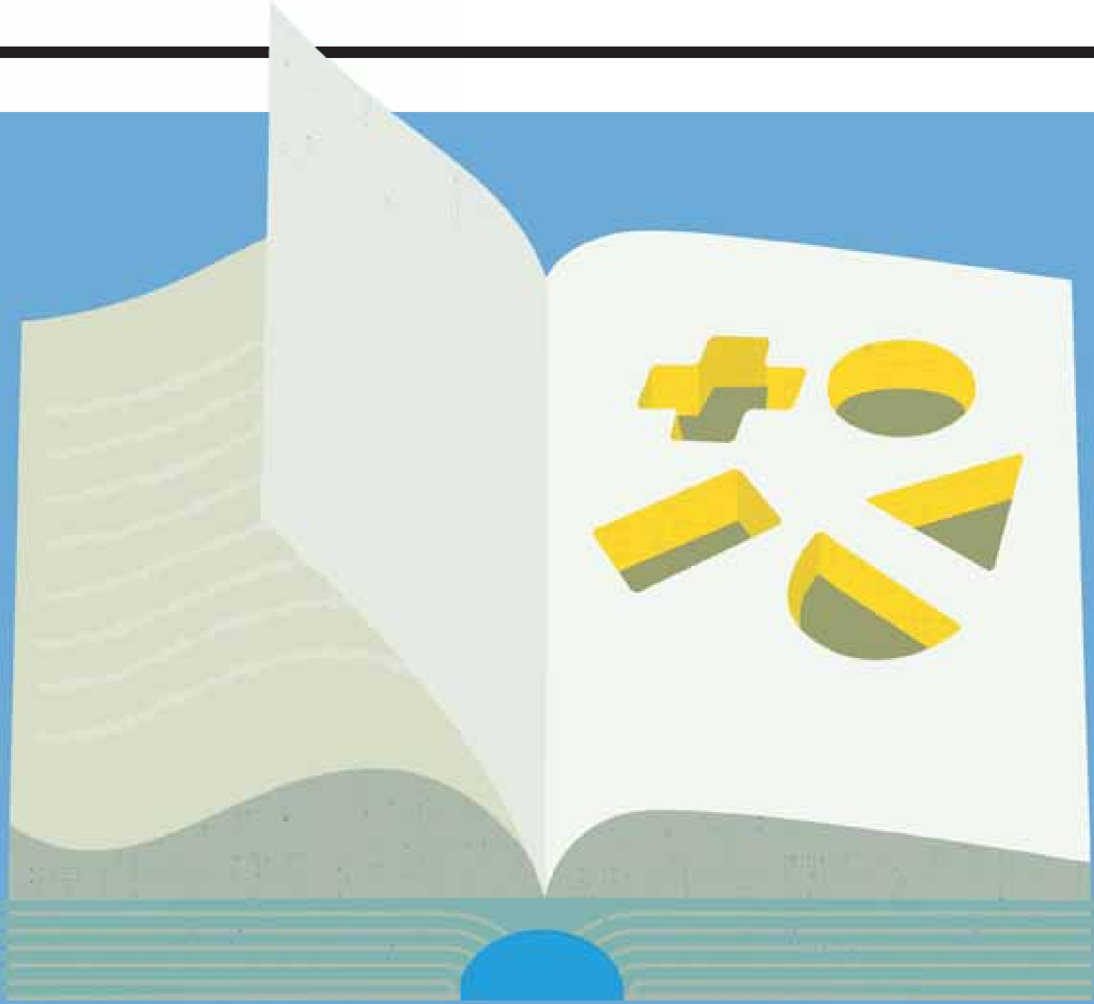
- What are the main challenges in implementation?
- What training courses would you like to see ICAEW develop?
- What events and discussion topics would be of most use?
- Are there any gaps in the services and support provided by other organisations that ICAEW could fill?

Please email your thoughts to rick.payne@icaew.com or post them on the Finance and Management Faculty's LinkedIn group.

Transformation also means these activities do not necessarily have to remain within the finance department or be managed by the CFO if they can be carried out better elsewhere

Rick Payne, finance direction programme, Finance & Management Faculty

OTTO DETTMER/IKON



GILLIAN BLEASE/IKON

REACHING OPTIMUM INCOMPETENCE

Angus Farr details the 7½ soft skills all accountants need in order to succeed and practical examples to follow

My favourite management model, the Peter principle, may not have ever been referenced in a *Finance & Management* article before now, but I'm quite sure you're familiar with it - if not in name, then certainly in evidence. It may be nearly 50 years since Laurence J Peter's book of the same name, but the principle still rings true today. Put simply, it suggests we all rise to a level of incompetence and then stay there!

For accountants, like many professionals, our technical prowess will only take us so far in our careers and in business. What really counts are our non-technical skills - our ability to manage ourselves, our teams, our clients and stakeholders. If we're deficient in these, we'll struggle and it's unlikely we'll progress any further.

In my work I see this from both sides - the prevention and the cure. Most of the time I'm training supervisors or new line managers precisely to develop these all-important skills just as they're beginning to need them. Occasionally I coach individuals who have effectively hit their level of incompetence, so the focus here is retro-fitting some of these same skills - better late than never.

So if you're looking to avoid, or at least defer, being tripped up by the Peter principle, you're in the right place. Set out here are the 7½ soft skills I think all accountants need and also a suggestion of something to do or think about for each one.

1 Networking

This is your ability to 'work a room' - whether to build an internal network or sell yourself to potential clients, or employers. If this prospect scares you, don't worry, you're not alone. You can learn and rehearse the basics here, whether it's how to get into a group, how to get out of one or how to get from small talk to business talk.

Develop a solid introduction. We usually default to our job title - "Hello, I'm Angus, I'm a financial controller", but if you want to stand out, try saying what you do, rather than just your title, for example, "Hello, I'm Angus, I give the directors the financial information they need to run the business", or "Hello, I'm Angus, I help our shareholders sleep soundly!"

2 Presenting

This is to present your ideas, research or recommendations to a group of people. Together with networking, this can fill people with utter dread. The main concern is how to deal with nerves. It's fine to be nervous - it's acting as if you're not that's the trick. The biggest help is simply to know your stuff and realise that your audience is there to listen and learn, not to will you to fail!

To prepare, use the acronym INTRO:

- **Introduce yourself:** who are you? What is it about you that will build your credibility the most?
- **Need:** Why do they need to listen to you? What are they going to find out or be able to do as a result?
- **Timing:** How long will you take? Will there be a break? Are people welcome to ask questions as you go or would you prefer them at the end?
- **Range:** What media will your presentation range across?
- **Objective:** What is the main purpose of your presentation?

If you cover these elements in your first few minutes, you'll not only give your audience everything they want to know at the beginning, but by rehearsing it you'll also give yourself a flying start.

3 Negotiating

Could be described as 'the subtle art of letting someone else have your way'. Negotiating is ubiquitous for managers - whether it's over price or fee, negotiating with staff over what you want them to do, or indeed managing upwards to agree your own workload for the month ahead. Avoid spending too much time mapping out your ideal and realistic bargaining positions, however tempting. You're unlikely to get your ideal, and you shouldn't be too strict on what you feel is realistic - this will ebb and flow as the negotiation progresses. You need to be very clear about your walk away point - the worst deal you'd still be happy to strike.

4 Personal impact

If you've seen the much-quoted figures that words comprise 7% of impact, voice 38% and non-verbal 55%, then unsee it. It's a misrepresentation of the original research, which was focusing on how we understand other people's emotional states. It's still useful to bear these three elements in mind, but assume they are about equal in importance.

In terms of voice, if you spend quite a bit of time on the phone, then be aware of how you actually sound. Leave yourself a one-minute message on your own voicemail; talk about anything you want - those last quarter's income variances, your summer holiday plans, what signature dish you'd prepare for the *MasterChef* final... Now listen to it. That's what others hear.

If you are balking at the mere thought of listening to yourself for just one minute, have some sympathy for your regular phone colleagues! And if this dose of self-realisation encourages you to vary one or more elements of your voice - speed, pitch, tone, volume - when you're next on the phone, then that's a minute well spent.

5 Business partnering

This is less of a skill and more knowledge of a toolkit of models that might help you develop strategy or solve problems. Remind yourself about simple models like Pestle, Five Forces, Ansoff and Pareto, and actually try them out. They aren't too complex, but can be powerful shared with people unfamiliar with them.

I am a particular fan of Ansoff's growth matrix. It's a simple way of helping people think about options for growing a business and can prompt good questions about how we understand markets (Geographic? Demographic? Psychographic?) and what new products or services could be developed.

ANSOFF'S GROWTH MATRIX

MARKET	PRODUCTS: EXISTING	PRODUCTS: NEW
EXISTING	MARKET PENETRATION	PRODUCT DEVELOPMENT
NEW	MARKET DEVELOPMENT	DIVERSIFICATION

6 Managing performance

Most mangers' inability or unwillingness to have difficult conversations is the biggest skills gap in many organisations. It may be daunting to give negative feedback when we want to be liked by the people we work with, but the cost of not doing this properly and promptly can be huge.

However, it's not just bad news we're sometimes poor at delivering, it's just as important to catch people doing something right. Central to giving constructive feedback, whether positive or negative, is to follow SAC:

- **Situation:** give them context - what was the task, project or client they faced?
- **Action:** what did they do or not do that you want to address?
- **Consequence:** what happened as a result of their (in)action? Sometimes junior staff don't have the perspective you have and so don't 'see' the knock-on effect.

7 Managing time

It's all too easy to spend an entire day (or week, year or indeed career) being busy with urgent stuff at the expense of important stuff. We tend to only do important things when they become urgent, and then we probably don't do them as well as if we'd tackled them sooner!

The key here is making better use of our diaries. Commit three of your important tasks to your calendar and stick to them. Don't defer them more than three times when the reminders pop up.

7½ Taking responsibility for your own skills development

This is the most important of all in my opinion. So why just a half mark? Because I'm probably preaching to the converted, seeing as you're sat here diligently reading *Finance & Management*.

If only professor Peter had known there was such an elegant solution!

Angus Farr will be hosting a one-hour workshop, 7½ steps that every FD must take to succeed, on March 22 at Chartered Accountants' Hall. Angus will go into more detail of the 7½ steps at this evening event, free to all faculty members. Please book a place at iacew.com/fmfmarevent

Angus Farr
director, Training Counts

Technical updates

Our regular roundup of legal and regulatory change

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.

SPRING BUDGET 2017 AND BUDGET CHANGES

On 8 March the government will publish the Spring Budget 2017. This was announced in the Autumn Statement, along with the news from chancellor Philip Hammond that this will be the first and last Spring Budget.

There will also be another change to come as Budget day will move to Autumn under Hammond, meaning that there will be two budgets in 2017 after all.

RISKS OF FRAUDSTERS DURING SELF-ASSESSMENT

On 5 January, the government updated its guidance document, *Phishing emails and bogus contact: HM Revenue and Customs examples*, which outlines all the latest risks to self-assessment posed by fruadsters (see tinyurl.com/FM-Phishing).

It is easy to fall foul of phishing emails or texts that seem genuine. The Tax Faculty highlights the recent option for paperless forms for certain personal tax communications. It's advice on these is as follows: "Taxpayers who have signed up to this [paperless] service will receive email notifications that there is a new item in their digital tax account. Importantly, these emails do not contain links – any email or text containing links and purporting to come from HMRC is almost certainly fraudulent – but instead advise the taxpayer to log in to their digital tax account for further details."

The ICAEW Tax Faculty recommends that when communicating electronically with HMRC, their guidance on genuine HMRC contacts should be followed. For this guidance visit tinyurl.com/FM-Genuine

COMPARING EMPLOYMENT, TAX AND NATIONAL INSURANCE LAW

When looking at the world of work and more specifically the world of recruitment, any review should factor in to what extent tax and national insurance (NI) costs will affect the employer and how this therefore drives hiring practice outside of employment law.

This was a view considered by the Tax Faculty in a written response, ICAEW REP 199/16, to the inquiry by the Business, Energy and Industrial Strategy Committee (BEIS) (a Parliamentary Select Committee) into the future world of work and rights of workers, which was launched on 26 October 2016.

Certain protections to the employee are provided by employment laws dependent on the employee status. But, it should not be the only factor taken into account when hiring. The tax and NI costs will also be dependent upon the employment status of the employee, as determined by tax law and NI law. This could be considered to be even more important for employers to recognise, due to the tax and NI costs being applied across all of these elements.

Despite this, sometimes these laws are not entirely consistent. For example, within the scope of NI is the entitlement to contributory benefits. This is becoming more important in light of the gig economy and the increasing number of individuals working for various employers. In these instances the individual is likely to remain below the threshold for NI contributions, meaning that individual employers are unlikely to pay towards their NI costs. This in turn will affect contributions towards state pension and social security benefits.

The Tax Faculty has a suggestion as to how HMRC might help with this tax situation: "In order to help low paid workers build up a contributions record, consideration might be given to automatically aggregating their jobs within HMRC's systems using the data submitted by employers – this would not necessitate making the collection process for class 1 NIC the same as PAYE income tax."

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

AMENDMENTS TO FRS

In December 2016 the Financial Reporting Council (FRC) issued Amendments to FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The amendments remove the requirement for a qualifying entity to notify its shareholders in writing that it intends to take advantage of the disclosure exemptions in FRS 101 or FRS 102. These amendments are effective for accounting periods beginning on or after 1 January 2016.

In December 2016 the FRC issued FRED 66 *Draft Amendments to FRS 101 Reduced Disclosure Framework 2016/17 cycle*. FRED 66 proposes limited amendments to FRS 101 in relation to IFRS 16 *Leases*.

For details of the amendments to FRS 101 and 102, see the Financial Reporting Faculty's blog at tinyurl.com/FM-Shareholders

A NEW INTERPRETATION

In December 2016, the International Accounting Standards Board (IASB) issued several amendments to IFRS and an interpretation that clarifies the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. These changes are part of the IASB's IFRS maintenance process.

The completion of the 2014-2016 Annual Improvements Cycle resulted in amendments to the following:

- IFRS 12 *Disclosure of Interests in Other Entities* - effective 1 January 2017;
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* - effective 1 January 2018; and
- IAS 28 *Investments in Associates and Joint Ventures* - effective 1 January 2018.

Earlier application for the above standards is permitted.

Amendments to IAS 40 *Investment Property* clarify the requirements on transfers to, or from, investment property - effective 1 January 2018.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* addresses diversity in practice by clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration - effective from 1 January 2018.

See the amendments at tinyurl.com/FM-Interpretation

NON-FINANCIAL INFORMATION LEGISLATION

The BEIS has published regulations that implement the EU Non-Financial Reporting Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large public-interest companies with more than 500 employees, and groups, in the strategic report. The aim is to improve the transparency of certain EU companies as regards non-financial and diversity information - applicable to qualifying entities from 1 January 2017.

See tinyurl.com/FM-Non-Financials

ACCOUNTING FOR BITCOIN

Recent reports suggest that over 100,000 retailers worldwide now accept bitcoin. It is therefore perhaps unsurprising that ICAEW is starting to hear more questions about how businesses should account for holdings of bitcoin. There's no official guidance on accounting for cryptocurrencies at this stage, so you need to go back to first principles. What follows is a summary of current Financial Reporting Faculty staff views on the matter, rather than a definitive guide to accounting for such transactions.

People often talk about bitcoin as if it was a form of cash or cash equivalent. Although bitcoins are readily convertible to known amounts of cash at any point in time, they aren't actually cash themselves. Moreover, the level of volatility in their value suggests that they aren't cash equivalents either.

So, if they're not cash or cash equivalents then what are they? Could they be viewed as some other type of financial asset? Probably not, as they don't meet that definition either. They seem more like gold or another commodity. In which case, holdings of bitcoin should probably be treated as either inventory or intangible assets depending on the business model of the entity that holds them.

If this were the case, the bitcoin would need to be initially measured at either the purchase price or at the fair value of goods or services provided at the time of the transaction. In most cases they'd then be subsequently measured at cost less any impairment. However, if the entity was a bitcoin trader it would make more sense to subsequently measure its bitcoin at fair value through profit or loss.

However the bitcoin is accounted for, the entity should make appropriate disclosures if its holdings were material or if it had a significant volume of bitcoin-denominated transactions. Such disclosures should, at a minimum, explain why the entity is dabbling in bitcoin, how doing so fits into its business model and how the related risks are being mitigated.

These are only tentative thoughts. Practice will, no doubt, evolve over time and if there is a lack of consistency then standard-setters may ultimately turn their attention to accounting for cryptocurrencies. In the meantime, the Financial Reporting Faculty will continue to monitor developments.

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.

EMPLOYING EX-OFFENDERS

A recent report from the Parliamentary Work and Pensions Committee, *Support for ex-offenders*, suggests that employers should be incentivised to hire ex-convicts to help with the current state of employment for individuals coming out of prison.

As it currently stands the number of employers willing to hire an ex-offender is at half – the report states from its findings that 50% of employers would not even consider hiring an ex-convict upon release.

The report found that currently only 26.5% of prisoners enter into employment after being released, therefore employers need to be incentivesed to tap what it describes as a "largely untapped resource".

The report provides a summary of its recommendations: "We recommend that the government pilot the reduction of national insurance contributions for those who actively employ ex-offenders. It should also consider other ways to recognise and reward employers who take corporate social responsibility seriously and actively employ ex-offenders.

"We recommend that Department of Work and Pensions develop practical guidance to help employers recruit ex-offenders. This should include information on spent and unspent convictions, insurance and how to recruit to different roles. It should also include information on businesses that have already hired ex-offenders and what support they can provide to other employers."

The full report can be found at tinyurl.com/FM-EX-offenders

NATIONAL LIVING WAGE

In December 2016 the Resolution Foundation released a report, *Industrial strategies? Exploring responses to the National Living Wage in low-paying sectors*, on the effects of the national living wage (NLW) since its implementation on 1 April 2016.

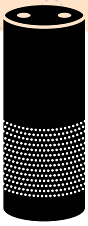
The report found that just under half (47%) of the 800 companies surveyed said that the NLW had increased their wage bill, with 19% saying it had increased "a lot".

Of those surveyed, 27% said that the increased wage bill had affected their employment structure, with actions taken including using fewer staff, offering fewer hours, and using more zero-hour contracts. Another strategy for employers was to alter benefits packages – 17% of companies admitted that this was their strategy.

"Pay rises don't come for free and many predicted the NLW would cause other negative effects, such as job losses. Thankfully, that hasn't come to pass as employers have responded by raising productivity, taking a profit hit and raising prices," Conor D'Arcy, policy analyst at the Resolution Foundation, said.

See tinyurl.com/FM-NLWstrategies

On a lighter note



AMAZON'S ALEXA GOES ON SHOPPING SPREE

A US TV station was inundated with complaints last month after a news story triggered a rash of automatic orders for dolls houses. During a report about a six-year-old girl from California asking Alexa, the Amazon Echo virtual assistant (VA), to order her the product, the reporter repeated the girl's exact words - triggering every viewer's VA to repeat the order. Amazon has said any "accidental" purchases can be returned for free. A four-digit security code can be added to stop unauthorised orders. "Down the road the technology will be more sophisticated... it will be able to identify certain individuals and register people [who] can access it," Stephen Cobb, a researcher for IT security firm ESET, commented.

DON'T BE A PARTY POOPER

Ikea became a victim of its own popularity after a dozen sleepovers were organised by customers in its outlets. The incidents occurred in multiple countries including the UK, US, Canada and Australia, triggered by the posting of a video of a successful overnight stay on YouTube. Customers, mostly those in their teens, hid themselves as the shop closed for the night and spent the evening inside the furniture outlet. The average size of an IKEA store is 300,000 sq ft and therefore difficult to patrol. Ikea spokeswoman Johanna Iritz said trespassers often hid in wardrobes at closing time.

TAKING THE NATURAL ROUTE

A recent decision by the Egyptian authorities to allow the peg against the US dollar to slide has resulted in consumers ditching pharmaceuticals. Despite government subsidies, drug prices had risen in Egypt, leading to a rise in traditional herbal remedies. Apothecaries say there has been a 70-80% increase in sales over the past year. Local spices and herbs cost between $0.27-0.54 per kilogram.

32ft

DIAMETER OF THE PIONEER CABIN SEQUOIA, FELLED BY STORMS

300k

SQUARE FEET IN THE AVERAGE IKEA STORE, MAKING THEM DIFFICULT TO PATROL

70-80%

INCREASE IN SALES OF TRADITIONAL REMEDIES IN EGYPT OVER THE PAST YEAR

IF A TREE FALLS IN THE WOODS...

California's most famous giant sequoia with a car tunnel cut into its base was felled by massive storms last month. It's not clear how old the Pioneer Cabin tree was, but other giant sequoias in the park are more than 1,200 years old. The 32ft diameter tree hit the ground after sustained rain and heavy winds. It is now completely unrecognisable, said Jim Allday, a volunteer at Calaveras Big Trees State Park. "It was majestic," he said. "Now it's basically a pile of rubble."

BALLPOINT BALL BEARING BREAKTHROUGH

Chinese state-owned steel firm Taiyuan Iron & Steel announced last month that it had succeeded in manufacturing its own fully home-produced ballpoint pen after years of trying to master the complex techniques involved in making the delicate tips. Despite manufacturing 80% of the world's ballpoint pens, China lacked the ability to make the tiny ball bearings with accuracy, relying on Japanese and Swiss imports. It was considered to be of such importance that state-run broadcaster CCTV hosted three manufacturing chief executives in an hour-long talk show discussing what the country could do to solve the problem in June 2015. The breakthrough is a small but very symbolic success for the central government's Made in China 2025 programme, designed to help domestic growth.