ICAEW FINANCE & MANAGEMENT FACULTY

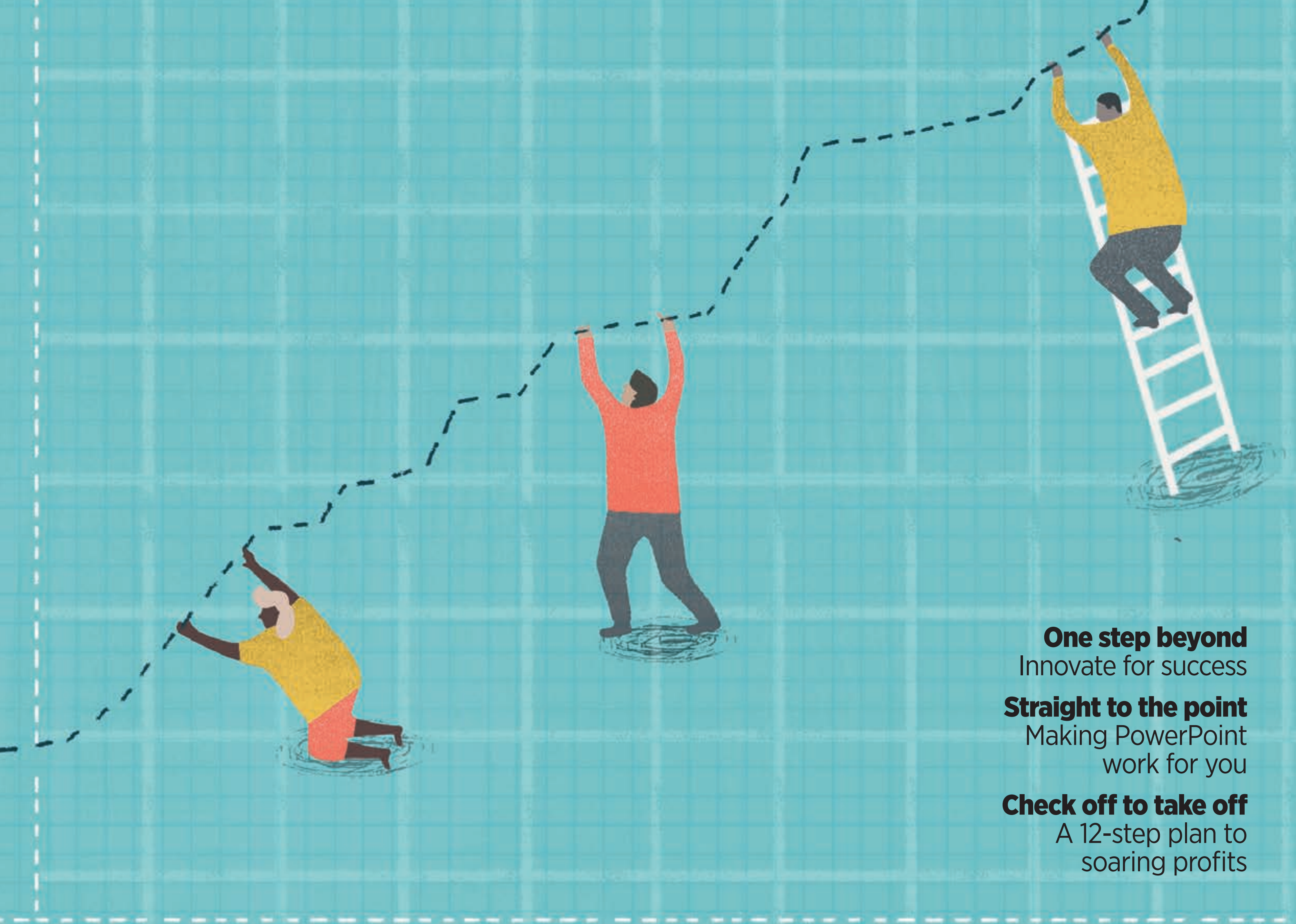
ISSUE 206
JANUARY
2013

icaew.com/fmfac

FINANCE & MANAGEMENT

"THE RISK REGISTER HAS COME TO DEFINE RISK MANAGEMENT FOR MANY PEOPLE" PAGE 22

Get up and grow
Finance's duty to deliver sustainable growth



One step beyond
Innovate for success

Straight to the point
Making PowerPoint work for you

Check off to take off
A 12-step plan to soaring profits

RX fuel consumption figures: urban 43.5 mpg (6.5L/100km), extra urban 47.1 mpg (6.0L/100km), combined 44.8 mpg (6.3L/100km). CO_2 emissions 145g/km.

PwC Manual of accounting series 2013

Expert financial reporting guidance – whichever framework you report under!

Fully up-to-date with the latest standards and packed full of practical worked and best practice examples, the PwC Manual of accounting series 2013 provides comprehensive and reliable guidance on IFRS and UK GAAP from one of the world's most respected names in accounting.

Whether you are reporting under UK GAAP, IFRS or both, we have a cost effective pack for you. For details of the books included in each pack, visit www.bloomsburyprofessional.com/pwc

For those reporting under IFRS in the UK

Manual of accounting: IFRS for the UK 2013 Pack

- ISBN: 978 1 78043 008 9
- Price £125

For those reporting under UK GAAP

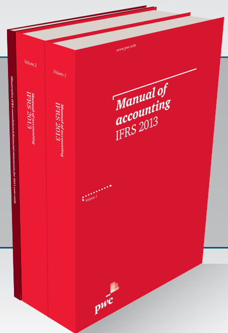
Manual of accounting: UK GAAP 2012/13 Pack

- ISBN: 978 1 78043 141 3
- Price: £90

Global guidance on IFRS

Manual of accounting: IFRS 2013 Pack

- ISBN: 978 1 78043 009 6
- Price £118



For those who purchased the Manual of accounting: UK GAAP 2012 Pack last year

Manual of accounting: UK GAAP 2013 Supplement

- ISBN: 978 1 78043 177 2
- Price: £65

For those reporting under IFRS in the UK

IFRS Reporting 2013 Pack

- ISBN: 978 1 78043 0119
- Price £165

Order your pack today at

www.bloomsburyprofessional.com/pwc

and make sure that your financial reporting guidance is up to date with the latest standards.

pwc

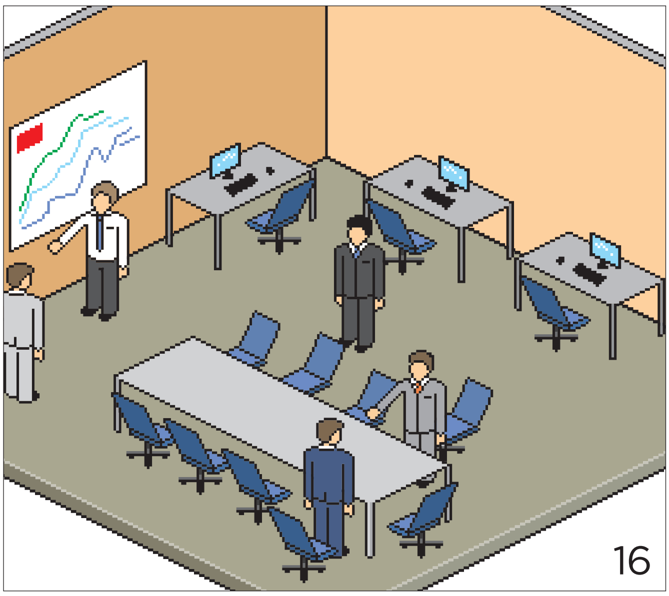
Bloomsbury Professional

Contents

Issue 206
January 2013

12

COVER: MAGGIE LI, ANDREW BAKER/IKON



16

Accountants are already routinely and deeply involved in decision-making, while specialist risk managers often find themselves battling for influence

Matthew Leitch is a chartered accountant and a member of the risk management committee of the British Standards Institution

22

Looking forward to growth in 2013

FINANCE & MANAGEMENT FACULTY

Happy New Year to you all! I often wonder if the previous government's intention to change the financial year to a calendar year was never implemented as too many government officials wanted to continue to take their long holidays

around Christmas and New Year. In any case, the UK has a special exemption from the EU to continue to have a non-conformist financial year end of 31 March.

We have articles on growth, risk and business turnarounds for you this month, which will hopefully provide you with food for thought. Andrew Sawers talks to us about growing our businesses as the first in a series of articles on growth – our underlying theme for 2013. We'll be covering raising finance in future articles.

Matthew Leitch adopts an assertive stance against the risk register approach to analysing the company's future hazard zones and Philip Varley takes us through his 12 steps to recovery – using a novel analogy of piloting an aircraft – in his article on business turnarounds.

We also have articles on PowerPoint and some interviews with finance directors.

We will be using feedback from our annual survey to ensure that the faculty remains pertinent and useful to our members. We welcome any feedback on the magazine and topics that you would like to see covered, especially on those new and refreshed pages within the 2013 magazine. Please drop me a line with your thoughts at robert.russell@icaew.com.

Have a great month.

Robert Russell
Technical Manager

THE TEAM

Robert Russell
Technical manager
+44 (0)20 7920 8417
robert.russell@icaew.com

Rick Payne
Finance direction programme
+44 (0)20 7920 8451
rick.payne@icaew.com

Caroline Wigham
Services manager
+44 (0)20 7920 8508
caroline.wigham@icaew.com

Christian Doherty
Commissioning editor
christiandoherty@mac.com

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

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

FINANCE & MANAGEMENT FACULTY
Chartered Accountants' Hall
Moorgate Place, London, EC2R 6EA
+44 (0)20 7920 8508
+44 (0)20 7920 8784
fmfac@icaew.com
icaew.com/fmfac
linkedin.com – find ICAEW
twitter.com/icaew
facebook.com/icaew

ISSN 1471-1818 TECPLM11829

Printed in the UK by Polestar Stones.

From the Faculty

GOVERNMENT DEBT DATA

The Chancellor's acceptance in December of the Treasury's inability to "close the deficit" before 2019 means that the UK will not be able to start repaying its debt until after this. The definition of "debt" is not always clear and different models take different debt definitions, resulting in an array of forecast ceilings to UK debt amount.

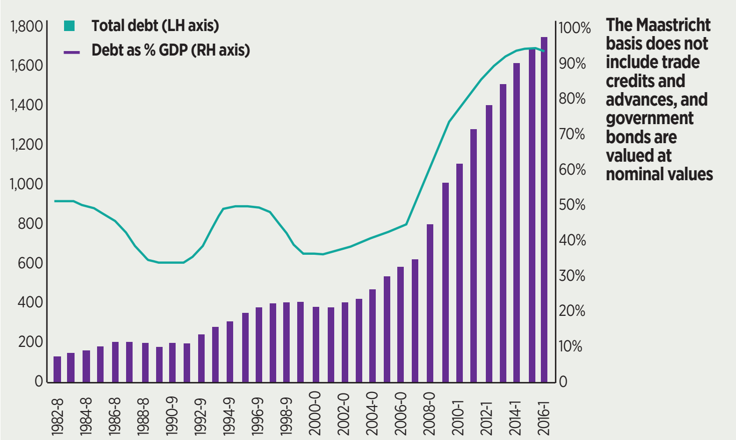
The Institute for Fiscal Studies (IFS) issues information which may be easier to digest and is a good source of data. They are forecasting UK government debt (under the Maastricht basis) to reach £1,720bn by March 2017 as you can see in the graph below.

The Maastricht basis varies from the OECD basis in two main ways:

- Gross debt according to the Maastricht criterion does not include trade credits and advances
- Government bonds are valued at nominal values under the Maastricht definition, but at market value or issue price plus accrued interest according to OECD rules.

IFS economic updates are available from their website **ifs.org.uk/**

Total UK Government debt in both £bn and as a percentage of GDP



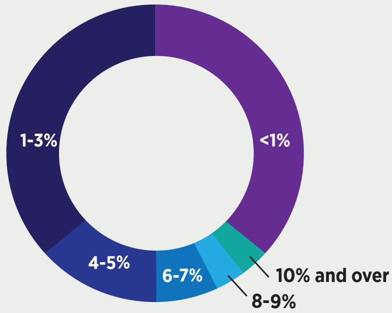
KEEPING AN EYE ON YOUR PENSION FUND PERFORMANCE

The Department for Work and Pensions (DWP) published its annual Attitudes to Pensions survey in late 2012. Sadly, this report is rather predictable in most aspects of attitudes and understanding of pensions, with 56% of men and 71% of women agreeing with the statement "sometimes pensions seem so complicated that I cannot really understand the best thing to do". The full report is available from their website at tinyurl.com/d95blao.

Another report from Hargreaves Lansdowne found that 14 of the largest 20 pension funds – with £62bn under-management – under performed their benchmarks over the last 10 years. It argues that as group schemes are conservatively built to limit under-performance, this also acts to limit over performance. "The answer lies in active engagement and oversight of pension investments," explains Tom McPhail, Head of Pensions at Hargreaves Lansdowne. "In group pensions this means regular governance meetings. For individual investors it means regularly checking on your pension and moving your money if necessary."

EFFICIENT FINANCE DEPARTMENTS – HOW DO YOU COMPARE?

A recent PwC report into the efficiency of finance departments shows that four out of 10 Singapore businesses report annual finance department running costs at less than 1% of turnover, with seven out of 10 at less than 3% turnover. If you want to read more you can find the full report at **bit.ly/W35kPS**



Costs of running finance department (including outsourced functions) as % turnover

Cost of running the finance department includes remuneration, IT, outsourcing and facilities as a percentage of the total turnover of the organisation

A few big moments in my life recently: I left RBS in October after nine years, and took a month off armed with a list of things to do around the house, of which I did virtually none; those DVD box sets don't watch themselves. My first few weeks of my new job at HSBC have been challenging but, with help from a supportive family and a talented team, I'm getting there.

Rob Thompson Deputy Chairman of the Finance and Management Faculty

Events

NEGOTIATING IS EXCLUSIVELY FOR EVERYBODY…

CHARTERED ACCOUNTANTS' HALL, LONDON

28 January 2013, 17.30 – 19.00

We live in a world where deal-making is vitally important, yet recent YouGov research shows that UK plc is losing millions a year due to poor negotiating. In this talk, international negotiator Clive Rich will give examples of common negotiating mistakes to avoid. Clive will also give tips on negotiation in both personal and business scenarios, including obtaining funding, selling a business, negotiating remuneration and overcoming negotiating anxieties.

More information and online booking: icaew.com/fmfjanevent

BREAKTHROUGHS IN BUSINESS PERFORMANCE MANAGEMENT

CHARTERED ACCOUNTANTS' HALL, LONDON

14 February 2013, 08.30 – 10.00

Business turnarounds require a more complete and deeper appreciation of key performance indicators (KPIs) than used within most businesses. Very interesting in themselves, KPIs also offer insights into how breakthroughs in more conventional situations might be managed. This lively session will look at how Performance Driver analysis should work and be prioritised to lead to possible Breakthrough and Continuous Improvement opportunities.

More information and online booking: icaew.com/fmffebevent

WEBINAR: FRAUD: IDENTIFYING AND CONTROLLING RISKS IN YOUR BUSINESS

FREE FOR FACULTY MEMBERS

Tue 26 March 2013, 10.00 – 11.00

David Luijerink, Forensic Partner at KPMG and author of *Corporate and Financial Fraud* explains the situations within companies and in personalities which lead to fraud. Stephen Caine, Director of Fraud Investigations and Disputes at Ernst & Young will be talking through those internal controls which will help you to minimise financial fraud without over-complicating the business operation, and be able to answer questions. The focus will be on small and medium-sized businesses.

More information and online booking: gotomeeting.com/register/269235784

"Very useful and interactive session"

Liz Ball
CV writing skills
27 November 2012

"The methods introduced could provide confidence to other forecasting techniques"

Michael Giles
Forecasting in uncertain times
19 November 2012

"Our board likes to see a range of risk options, but the use of regression analysis to find correlations between seemingly disparate series is one I could use"

Simon Gill
Forecasting in uncertain times
19 November 2012

Drive hard to beat the gloom

To celebrate the launch of this year's FDs Excellence Awards, produced in association with ICAEW, we asked former winners to talk us through their hopes and fears for 2013. Yes, they agree, the economy might be stagnant – but bold FDs and innovative companies can dispel the gloom

Don't despair. Global economies might be set to bump along the bottom for another year. But the message from some of the UK's best FDs is that the companies – and the finance functions – that focus on creative approaches to growth can still thrive.

That's the spirit that has always defined the winners at the FDs' Excellence Awards, produced in association with ICAEW, which has been seeking out "role model" finance leaders since 2005. And according to past winners, the "new normal" for business is just the catalyst for exploiting new markets, engineering innovation and looking for ways to do more with less.

"Making efficient use of resources is key," says Kevin Boyd, FD of FTSE 250 nanotechnology leader Oxford Instruments (and FD of the Year for quoted companies outside the FTSE 350 in 2011 – we'll be hearing more from him in the next *F&M*). "You need the right people in the right job and you need a culture of continuous improvement. Oxford Instruments is a good example. We've increased sales per head by 67% over the past six years – so we're not much bigger by headcount, but turnover is around three times higher."

Efficiency is only half the story. "We're five years into the downturn and that cliché about the 'new normal' is relevant," says Morrisons' FD Richard Pennycook. "The question is, how do you plan for the long term? I suspect many companies and their FDs have spent the past two or three years looking at the short term, focused on ways to get through the immediate turbulence. That's got to change next year."

Change how? Well according to CFO headhunter Mark Freebairn, a member of the FDs' Excellence Awards judging academy, you need to talk. "If they can communicate that sensibility around the business by getting people to be innovative with limited budgets, it's going to be a major plus," he says.

And that's true outside the business, too. "Whoever is providing finance for your business, they have to understand it in detail – and that means it's up to the FD to develop excitement in what its plans are," says Scotty Group FD Hugh Edmonds, a winner in 2009. "It's yet another communication task for the CFO. I call it the dinner party test – if you can explain to a fellow party guest what your business does without their eyes glazing over, it's likely the same story will work well with your bankers."

Understanding the business, supporting those within it to create innovative opportunities for growth, communicating those plans to the world – 2013 might be a tough year. But it promises to be an interesting one for forward-thinking finance executives.

RICHARD PENNYCOOK

"Build on the credibility and goodwill you've established over the past few years"

Richard became group FD in 2005. Prior to joining Morrisons, he was FD of RAC Plc. He was FTSE 100 FD of the Year in 2011.

It looks like the UK economy will continue to bump along with a low growth trajectory next year while Europe continues to be troubled. If there's one area in which to be bullish, it's probably the US, which might start to pull away.

There is a sense that businesses need to adapt to these conditions and get on. We're five years into the downturn and that cliché about the 'new normal' is relevant. The question is, how do you plan for the long term? I suspect many companies and their FDs have spent the past two or three years looking at the short term, focused on ways to get through the immediate turbulence. That's got to change next year.

For FDs, 2013 is going to be a year when the balance sheet is particularly important as boards start to turn their minds to the longer-term prognosis. The critical factors are interest rates and financing costs, and most boards have to make some interesting choices. For example, the low rates environment does some pretty bad things for the pensions outlook for UK plc and that's becoming a serious issue.

In retail, low growth will continue to weigh on business performance. If you're big and in bricks-and-mortar it's going to be challenging while small and nimble retailers should fare better. Those with a multichannel approach and those that are web-based will see some real opportunities.

It's fair to say that FDs 'have had a good war' in terms of the downturn and have made a much needed impact on the way businesses operate. We're seeing a new generation of FDs and senior financial managers come through who will carry the

MARK FREEBAIRN

"For many FDs 2013/14 will see interesting M&A opportunities"

Mark is a partner and head of Financial Management Practice at Odgers Berndtson. He is a member of the Board & CEO Practice.

lessons of the last five years through – the previous generation might have suffered as a result of operating through years of easy funding and growth.

A good board dynamic remains one where you have an ambitious, driving CEO and a slightly more cautious FD who's there to manage the risk. That kind of relationship has grounded a lot of FDs over recent years.

My main focus for the first half of 2013 is to leave the Morrisons' finance function in the best possible shape. I've got a great team and I want to help ensure they thrive and succeed. That's the main reason why we've had this 12-month transition period before I leave in the summer. After that? Well, I'm hoping to explore other opportunities. Turnaround is a natural environment for me – but I've not got specific plans just yet.

I'd advise FDs to build on the credibility and goodwill they've established over the past few years to keep the ship steady. The good work that's been done to instil discipline and confidence shouldn't be thrown away at the first sign of growth.

If social engagement is part of company health – and it's increasingly obvious that it is – it shouldn't be reported haphazardly with bits falling to IT or HR or marketing. The finance function can articulate it in the wider context of the business's KPIs and ensure people can gain real insight from it.

A good board dynamic remains one where you have an ambitious, driving CEO and a slighty more cautious FD

Next year looks like more of the same although there is plenty of potential for shocks to emerge. One interesting aspect is going to be the sheer weight of private equity debt that needs to be refinanced. With many of the banks that financed the original deals looking to draw in their horns, that could be a challenging situation.

It means private equity owners are going to be looking for alternatives with money from China looking like an interesting option. PE firms selling companies is going to be a feature, so there's likely to be plenty of activity around possible IPOs.

The other route is going to be trade sales to corporates with strong balance sheets. For many FDs, that means 2013/14 will see some interesting M&A opportunities.

There are plenty of other banana skins in 2013. If the euro suffers a major problem, if growth in China slows markedly, if US growth falters – any of those could destabilise matters here in the UK, and they're all outside the control of CFOs.

But 2013 will also be the year that people will start to appreciate just how small the world really is. The effects of the long-running trend for globalisation are getting pretty transparent and it's now obvious just how important every part of the world is to the performance of the UK. It also means corporates will look even more intently at driving their businesses internationally.

There's another long-running trend for CFOs that will continue in 2013 – the drive for them and their teams to be ever more commercial and strategic. One visible manifestation of that is that we're seeing more CFOs moving to the CEO or chairman role, and that trend doesn't look like slowing any time soon.

In terms of recruitment next year, there are some mixed messages. If you talk to some finance people, their perception is that the market is really bad because they're getting fewer phone calls. But this is largely because we're getting extremely clear and detailed initial criteria from boards on what they want from finance candidates and this means fewer people are getting an exploratory phone call.

I'd like to see UK plc develop a more nuanced attitude to management reputations. So many businesses have had issues over the past couple of years, and it's largely down to external forces. We've got some really great CFOs out there, who are often much smarter and battle-hardened for having been through a bad situation, but who get written off.

My advice for CFOs in 2013 is don't disappoint your shareholders. Whatever else you do, forecast well and ensure the business delivers those numbers. Maintain excellent relationships with the people spending the money internally and show them how much better their decisions can be when finance is involved constructively. That, in turn, gives confidence to banks and other sources of capital that the business is doing the right things.

With the risk of a seismic event in 2013 – something major, external and unexpected – finance professionals will have to be fleet of foot and risk aware. If they can communicate that sensibility around the business by getting people to be innovative with limited budgets, it's going to be a major plus.

HUGH EDMONDS

"It's up to the CFO to develop excitement in what its plans are"

Hugh Edmonds FCA is CFO of Scotty Group. He was FD of the Year for quoted companies outside the FTSE 350 in 2009.

Forecasts for the tech sector in 2013 depend on who you speak to. We'd like governments to do more. It was great to see the £40m Enterprise Capital Fund announced in November for science and technology businesses, but there's more that can be done to support and expand the sector.

We're working on ways to leverage our existing technology to offer different solutions and move into new markets. It's all about broadening the number of revenue streams. We have these very well developed niches and our expertise there can be applied elsewhere – it's about diversifying our approach while maintaining focus.

As a CFO, this business environment heightens my focus on what's important. The idea of a bean counter is ancient history – my role hinges on understanding what's important and what might affect that.

A lot of people will still be talking about cost-savings in 2013, but this isn't about slashing expenditures for the sake of it. We've had a restructuring, migrating the group's domicile to Austria, making it less important to have a UK office, so we closed it and I work from home now – the technology and the working practices make that kind of efficiency compelling.

The other big issue that looks likely to carry over is access to finance. The government is encouraging banks to lend, but they're risk-averse, and that doesn't look like changing in 2013. Whoever is providing finance for your business, they have to understand it in detail and that means it's up to the CFO to develop excitement in its plans.

It's yet another communication task for the CFO. I call it the dinner party test – if you can explain to a fellow party guest what your business does without their eyes glazing over, it's likely the same story will work well with your bankers.

SARAH BARNETT

MELISSA FOUX

"We want to grow, but we want to do it responsibly."

Melissa Foux has been FD at broadcaster CSC Media since 2010. Melissa was Young FD of the Year in 2009.

The biggest influence on FDs in 2013 is going to be the hunt for value for money. That's very different from cost cutting and it's not rooted in doom and gloom, which we're certainly not feeling here.

There also needs to be a desire to invest. We want to grow, but we want to do it responsibly. If the economy is going to bump along in 2013, the tolerances in forecasting and cash management are going to be tighter.

There's a real opportunity for FDs to build their influence and shape decision-making even more than usual. This year will see opportunities for them to show how they can add value to the business.

The other big theme for 2013 should be ensuring finance is properly integrated into the business. It's one thing having good basic accounting systems, but we want to generate reports that feed more constructively into other parts of the business. That's central to the idea of delivering value for money and controls.

The UK economy certainly seems to move at the behest of external factors such as Europe and you can't tell what's coming round the corner that might derail things here. This does mean that it's even more important to protect your business against external shocks as much as possible. We do lots of euro transactions, and a big part of my role is hedging carefully to cover the business against something catastrophic.

Even if things pick up, we're not going back to a pre-2008 growth boom, but it's true that the UK has many more options to bounce back than some other economies.

> There's a real opportunity for FDs to build their influence

THE FDs' EXCELLENCE AWARDS 2013

The ninth annual FDs' Excellence Awards, produced in association with ICAEW, are taking place on 9 May at the London Marriott Grosvenor Square. As usual, it will celebrate outstanding UK finance directors and reward the suppliers that have most delighted their FD customers over the past year.

In the quoted company categories, the shortlists are created by looking for companies where it's obvious a great FD has been at work – based on three-year changes in key metrics like ROCE, working capital and cash flow. An expert Academy then votes on the FD who'll be the "first among equals" – a role-model finance chief who exemplifies the best of the profession.

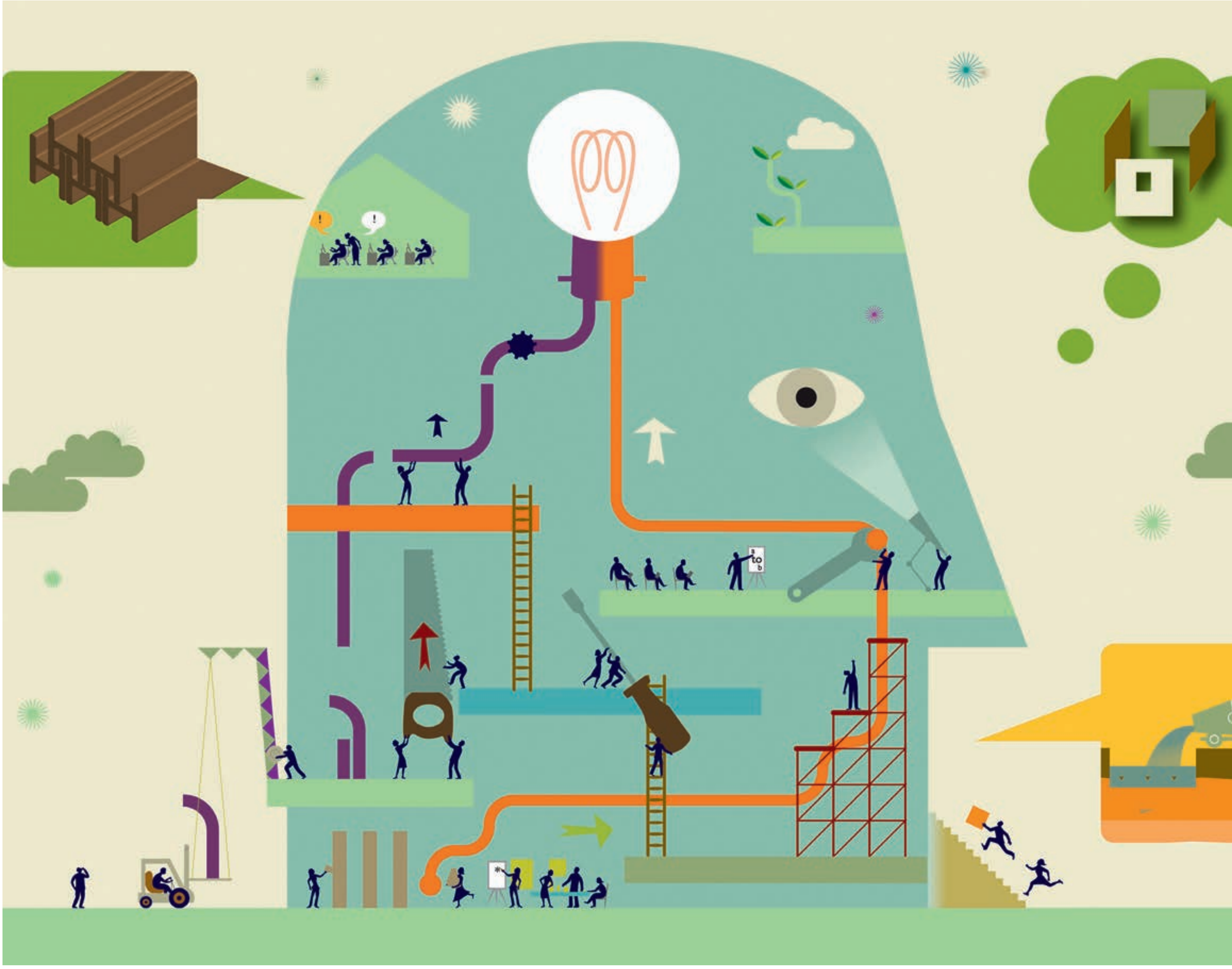
You can nominate yourself or FDs and FCs you think have had an outstanding year in the Private Company, Young FD and FD of the Future categories. Visit fdx.realbusiness.co.uk and click on "Categories" to quick-nominate yourself or someone you know.

Your votes count

Your input is also critical to the awards for suppliers. The FDs' Satisfaction Survey has been recording FDs' views on their banks, auditors, financial software suppliers and other advisers since 2001. Last year, more than 1,000 FDs and other board-level financial decision-makers submitted their views.

These scores determine the winners in seven categories. The survey is open until March, and it only takes a few minutes to fill in, again at fdx.realbusiness.co.uk

Awards for suppliers such as banks and software vendors shouldn't be related to the quality of an entry pack or the size of their business. So the views of real FDs and FCs in the survey really do make a difference. Vote now!



INNOVATION BY NUMBERS

Whatever the economic climate, innovation is one of the keys to company success. **Steve Coomber** explains how keeping one step ahead can give you growth

Innovate or die. It's a blunt message and something of a cliché, but true nevertheless for many. Failure to innovate can leave organisations bankrupt in weeks and whole industries wiped out in a matter of months.

The corporate history books are testimony to the fine lines between innovation success and failure. Take Polaroid and Eastman Kodak, for example, giants in the world of film photography. A picture of success in their markets for decades, both were blindsided by the advance of digital photography, and both have filed for Chapter 11 bankruptcy in the last few years. Other companies, though, have transformed their fortunes through innovation. Nokia famously innovated its business model from a timber and rubber boots business, to telecoms, mobile phones, and internet services. More recently, Apple – with new products such as the iPod, iPhone, and the iPad – has successfully moved from niche personal computer producer to consumer electronics company.

Crowdsourcing number crunch

NETFLIX

$1m given to anyone who could help Netflix improve one of its software algorithms

+50k contestants applied to Netflix – the exercise produced over 7,000 better algorithms

INNOCENTIVE

+1.5k innovation challenges posted

+270k registered problem solvers from nearly 200 countries

The increasing importance of innovation to the growth of organisations and economies is well recognised. "Today the only way to have an advantage is through innovation", observed Michael Porter, Harvard Business School's corporate strategy star. (Porter was commissioned to produce a report on UK competitiveness at the beginning of the 2000s, which informed the DTI's Innovation report published in 2003). Or, as Susan Hockfield, president of Massachusetts Institute of Technology from 2004 to 2012, noted, the 21st century economy is fuelled by competition that is innovation-based, rather than resource-based.

Research shows that innovation and corporate growth are inextricably linked. Take *The vital 6 per cent* report by the National Endowment for Science, Technology and the Arts (NESTA) at the end of 2009. It revealed that between 2002 and 2008 the 6% of UK businesses with the highest growth rates generated half of the new jobs created by existing businesses. These businesses had one important factor in common – they were more likely to be innovative, and that innovation was a source of growth. Innovative firms grow twice as fast, both in employment and sales, as firms that fail to do so.

While innovation may be considered an essential activity for organisations, finance is often seen as a barrier. There are several reasons for this. It is partly to do with finance's governance role – its bean counter image. "Traditionally, finance and accounting have been viewed as controllers; the reason why projects are killed," says George Tovstiga, professor of strategy and innovation management at Henley Business School. "That is the last thing that people in traditional R&D roles want and need."

> "Innovation can be quite disruptive to the business and very risky. It may mean a new business model, or adopting a new model, for example"

Innovation inevitably involves risks that are not easily quantifiable, and this can be an issue for finance. "Innovation can be quite disruptive to the business and very risky. It may mean a new business model, or adopting a new model, for example," says Dr Cathy Garner OBE, from Lancaster University Management School's Institute for Entrepreneurship and Enterprise Development. "What we often hear from a number of the innovators in the company is about the challenge to get the resources to innovate and prove the financial case. Because often the outcome is unknown."

There are also those who view innovation in binary left-brain, right-brain terms. Crudely put, the left side of the brain governs logical thought processing, while the right side of the brain favours creativity. Thus people who are good at maths and finance tend to be left-brained, and less good at creative thinking. There is recent research that refutes this popular notion. But even if there is some truth in it, it should not undermine an essential truth.

AN ESSENTIAL PART OF THE INNOVATION MIX

The reality is that the finance function has very important roles to play, both enabling and generating innovative new ideas to add value to their organisation.

"Traditionally innovation was taken care of by R&D, but innovation goes beyond that," says Tovstiga. "R&D is part of the value chain that runs through the organisation. I think where innovation thinking breaks down typically is failing to realise that innovation is a strategic vehicle for creating value for its stakeholders – not an end in itself. Looking at it from that perspective each and every actor in the organisation should play a role in that. Finance can play an important role in innovation in a number of ways."

That's true even if the left-brain, right-brain dichotomy holds. "The stereotype that financial people aren't innovative makes no sense. What people generally mean is that financial people aren't known for their creative flair. But innovation is a process; the front end demands creative ideas, but for those ideas to become commercially viable, failing to involve financial expertise can be the kiss of death," says Elvin Turner, a senior consultant at organisation and leadership development firm DPA. "Innovation is the pursuit of new value and at the heart of the world's greatest innovators you'll find a synchronicity between commercial and creative ability. We call that capability 'creative pragmatism.'"

Financial expertise and experience can contribute to the innovation process in many different ways. It starts with attracting financing and investment, internal and external. Firms cannot work without money, so finance plays a very important role in putting together a case which tries to support the strategic arguments with actual numbers, notes Tovstiga.

There is the assessment of business models. "Numeracy and confident data processing and analysis are key skills in determining whether a business model will work and provide a return on investment," says Garner.

Metrics and measurement are also an area where the finance function can support

ANDREW BAKER/IKON

Regardless of the obstacles they may face, finance should insist on being included at all stages of the innovation process, given the value that they can add

innovation, as well as developing and championing new thinking in these areas.

So, for example, new and better methods for measuring an organisation's innovation outputs, or the value of its return on innovation, are needed. Other metrics are required too; measures to track innovation as it progresses through the pipeline, for example.

In each of these the solution is probably a mix of financial and non-financial metrics, qualitative and quantitative. "Understanding innovation efficiency is a growing trend that accountants must begin to familiarise themselves with," says Turner. "Ideas such as Eric Ries' Lean Startup advocate measuring the speed with which a team can complete a build-test-learn cycle in a lean innovation process, for example. The faster the learning, the more efficient the process. Of course learning can't be the only metric, but companies ranging from Facebook to pharmaceutical company Sanofi are building it into the heart of their innovation processes."

JOINING THE INNOVATION CONVERSATION

If the finance experts in the business are to play their full part in the innovation process, they must keep up with recent developments in innovation, both inside their organisations and externally.

Part of the challenge will be tracking down innovation. It used to be an activity that, for the most part, was conducted separately from other organisational operations. Thus we had the lone inventor – Henry Ford, inventing the motor car in his shed. Or the research laboratory, where inventors collaborated to create new products, like Thomas Edison's industrial research lab in Menlo Park, New Jersey. And there are hot-housed innovation teams, isolated from the rest of the organisation, free to produce entrepreneurial eureka moments. This concept – known as skunk works – was invented by aircraft manufacturer Lockheed to meet the challenge of designing and manufacturing aircraft during the Second World War.

Today, innovation may be harder to locate; it is increasingly integrated right the way across the organisation's value chain.

Innovation also takes many different forms in modern business. For example, innovation has moved beyond organisational boundaries, pioneered by the work on open innovation by Henry Chesbrough, a professor at the Haas School of Business, University of California, Berkeley. The emergence of new technology has enabled new methods of open innovation such as open collective innovation, a term coined by John Bessant, professor of innovation and entrepreneurship at the University of Exeter business school.

Take the crowdsourcing of ideas for example. In 2006 the film rental firm Netflix launched the Netflix Prize, offering $1m to anyone who could improve the software algorithm it used to develop customers' recommendations by over 10%. 'BellKor's Pragmatic Chaos' were the winners, but more than 50,000 contestants applied, producing over 7,000 better algorithms.

Another example of open collective innovation is the innovation marketplace, where those seeking new ideas can use market mechanisms to reach suppliers. Perhaps the best known is crowdsourcing pioneer InnoCentive. The private firm, launched in 2001 with seed funding from pharmaceutical giant Eli Lilly, has posted over 1,500 innovation challenges, and has registered over 270,000 problem solvers from nearly 200 countries.

While it is essential that finance people are included in the innovation conversation, that may not be so easy to achieve. The organisation's attitude towards innovation should be set at the top by the senior business leaders.

However, a 2011 Cass Business School research report *Innovation: mapping the role of the corporate leader*, commissioned by the Chartered Insurance Institute, revealed that while organisations may have had a business plan and a business budget, there was usually no innovation plan – no process to move from "thinking about innovation" to actually innovating. Worse still, 45% of the business leaders interviewed were unable to identify more than three reasons why their organisation should innovate.

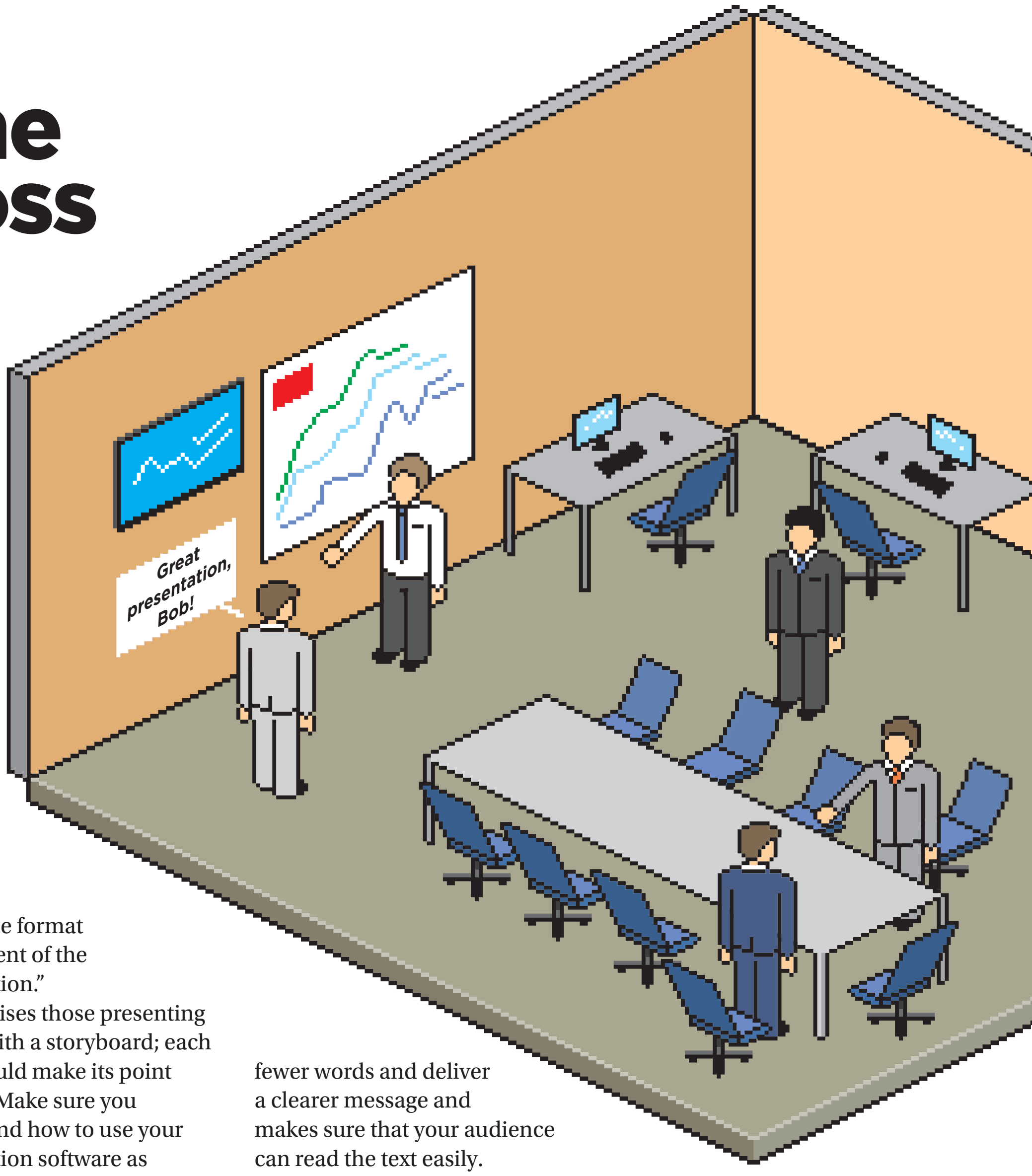
And the business leaders also had a comparatively narrow view of innovation. While the research team identified six different types of innovation integral to an organisation's success – offering, markets, process, distribution, management and customer experience – business leaders thought predominantly in terms of product and process innovation.

But, regardless of the obstacles they may face, finance should insist on being included at all stages of the innovation process, from business model development to performance assessment, given the value that they can add.

"When I was working on innovative ideas in the public sector, the internal audit people were my best friends," says Garner. "I wanted to take them along with me on that journey so that they could see what we were trying to do. Yes it was scary, and risky, but this was essential for development of a new way of doing things which down the line might be cost saving or revenue generating. The input of finance people is critical to the success of innovation."

Getting the point across

PowerPoint can turn a routine presentation into something engaging, but handled incorrectly it can be disastrous. Christian Doherty points us in the right direction



PowerPoint remains by far the most popular presentation software, despite its detractors. But for every whizz bang animated slide illuminating a critical piece of information, there are 20 that bore, baffle and bewilder the audience.

Recently the *Harvard Business Review* asked readers whether their slides passed the 'glance test' – can those watching your presentation immediately grasp the central message of the slides? If they can't, then you probably need to look again at the way the information is being presented.

Vinit Patel of Excel for Business works with companies to develop a better way of presenting. In his view, anyone planning an important presentation must consider a number of elements to ensure they hold their audience's attention and get their message across. He has compiled a list of dos and don'ts.

The list of dos begins with the need to, "consider how the presentation is to be delivered and to whom. The presentation method – data projection on a large screen, viewed interactively on a computer screen and so on should also dictate the format and content of the presentation."

He advises those presenting to start with a storyboard; each slide should make its point clearly. "Make sure you understand how to use your presentation software as efficiently and effectively as possible," Patel says. "For example use a PowerPoint slide master. This allows you to store information about the theme and slide layouts of a presentation, including background, colour, fonts, effects, positioning and placeholder sizes. Any changes you make to the master are reflected in all the other slides, ensuring consistency and saving preparation time.

"Create your own clean, nicely branded slide master", says Patel. "If you are one of a number of presenters, then using one of the built-in templates can risk 'same dress' embarrassment. In terms of details, it helps to use a minimum font size equivalent to Arial 22. It forces you to use fewer words and deliver a clearer message and makes sure that your audience can read the text easily. (Incidentally, it is important to take the time to check your spelling carefully – careless mistakes can destroy the credibility of your presentation).

The critical element here is getting the combination of information sources right. Too many words can create a blizzard of information, gone before it barely touches the cerebral cortex. Too many graphical images or animations can obscure the core message. Research at the College of New Jersey in 2005 (*The Effect of PowerPoint Presentation on Students Learning and Attitudes. Global Perspectives on Accounting Education*, Hossein Nouri and A Shahid) compared the effect on learning of presentations using words-with-picture with those using words-before-picture.

They predicted the words-with-picture group would outperform the words-before-picture group because of referential connections between imagery and verbal representations. The results of their study supported the prediction, and found that when pictures and text are presented together, information retention is improved.

Of course, alongside the dos, there have to be the don'ts. In the course of his work Patel says he's seen many of the same mistakes cropping up again and again. "Don't use too many animations," he says. "An occasional animation can be

useful to make a point or refresh interest, but too many quickly become irritating and distracting."

Also don't overcrowd the slides with text, images, charts – white space can be a good thing but ensure that whatever objects you do include on your slides are large enough to be seen clearly by your audience.

Patel points out another common mistake presenters make is reading a slide's content out loud word for word. "You should just use the slide to emphasise the point you are making and leave it at that."

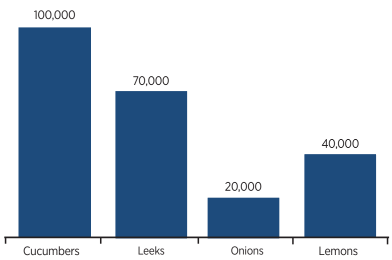
As a final piece of advice, Patel says presenters should ask themselves one key question: Is PowerPoint actually the right tool to use? "Often people use presentation software when a straightforward document or spreadsheet would be better to convey the information they are sharing.

Slide Themes | Slide Layouts | Transitions | Table Styles | Charts | SmartArt Graphics | WordArt

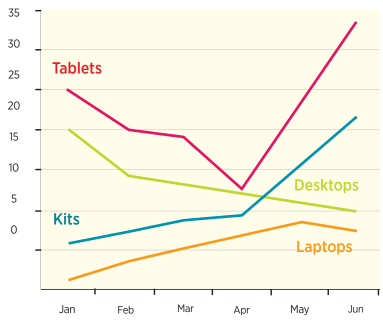
Here are some examples of what works and what to avoid

DOs

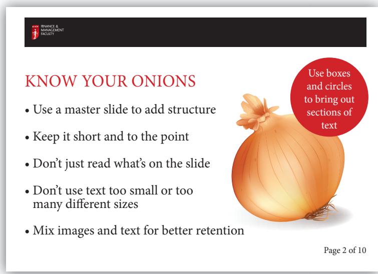
1 Do place priority on information…



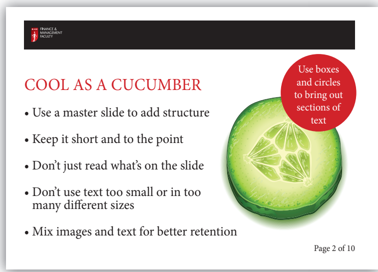
2 Do put labels next to lines…



3 Do highlight points within text and mix images and text for better retention.

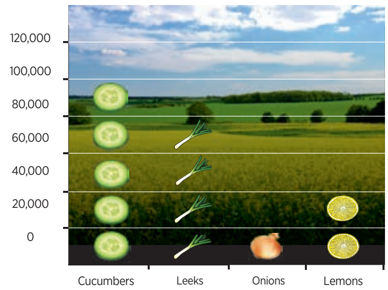


4 Do try and stick to a simple and clear page design…

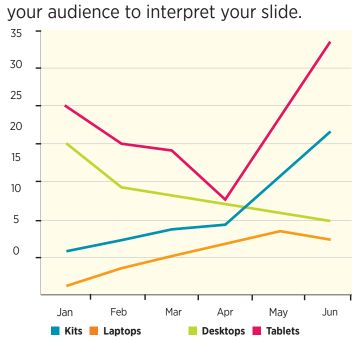


DON'Ts

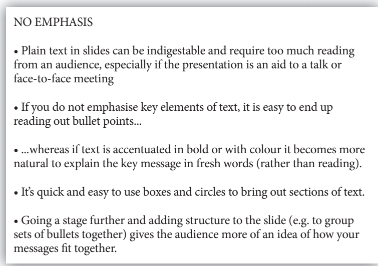
…not on technique. Just because you can, doesn't mean you should.



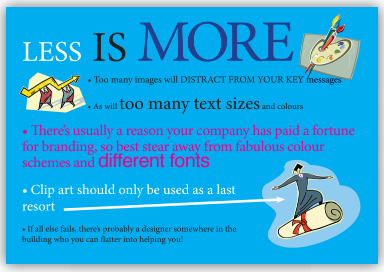
…not at the bottom of graphs. It's easier for your audience to interpret your slide.



Don't have endless bullet-pointed lists that are then just read through.



…as too many animations, colours or sizes of text will lose your message.



Go for growth... carefully, cleverly

Switched-on companies aren't waiting for the economy to improve, says **Andrew Sawers**. They're seizing opportunities for growth by adopting a more entrepreneurial mindset and looking for smarter ways to run their business

It's still pretty grim out there. But are we downhearted? And is there anything we can do about it? A recent survey from Sage Business Index, published in October 2012, showed that British SMEs scored the global economic outlook at 43.71%.

Anything below 50% indicates a decline, so the signs aren't great. As for their views of the UK economy, that was hardly any better, at 45.44%.

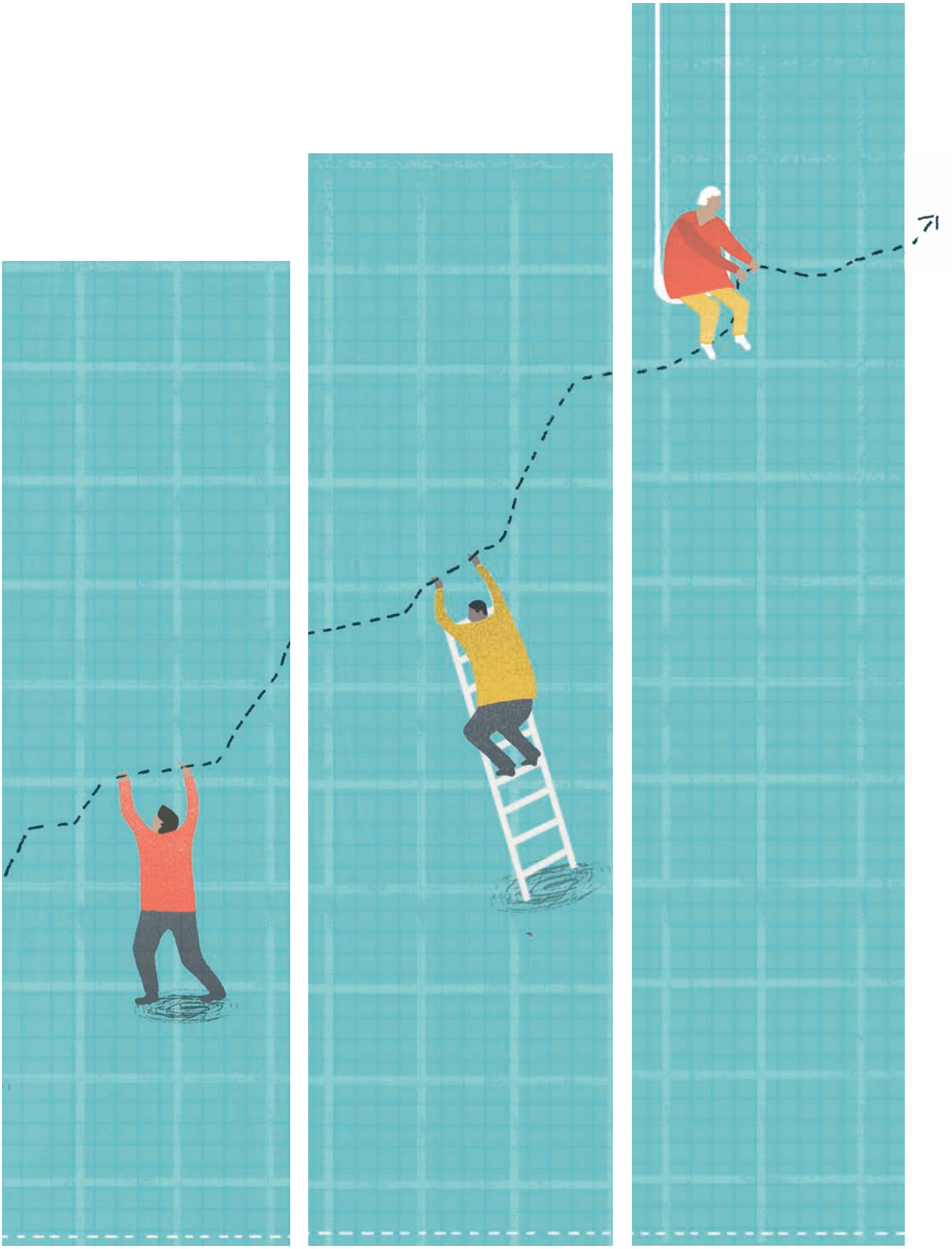
But the survey – which polled more than 10,000 SMEs around the world – had a small but significant glimmer of hope: when asked to score the prospects for their own business, the result was 58.46%. It's not exactly going great guns, but at that level, businesses had a 13% rosier view of their own potential during the coming six months than they had for the economy as a whole, whether at the national or global level. More importantly, perhaps, businesses view their own growth potential as "net positive" even though they think the big picture is "net negative".

In other words, despite the global torrent of bad news, businesses are getting on with it – and planning to grow. They aren't simply waiting for the economy to pick up, or for better news to come out of the Eurozone or the Treasury. Instead, they're growing their top line – even expanding. And while companies are still very keen on controlling costs and making sure they know where their next cash inflow is coming from (and where it's going), simply battening down the hatches isn't the be all and end all of running a business

THE GROWTH MINDSET

Growth requires investment. The funding landscape is not welcoming for the average business. Bank lending – for most finance directors, still the preferred way of financing the business – remains hard to come by for all but the biggest corporates able to access the capital markets; alternative financing options carry cost and risk, while taking on equity finance is fraught with risk.

However, while it's still a difficult environment out there, getting the mindset right could be the most important aspect of being able to grow the business. Paul Smith, a tax partner with accountancy firm Blick Rothenberg, agrees. "It is quite a difficult change. In a way, in a period of recession, cutting costs is easy," he says. "Costs are within the FD's control. You can decide if you want to downsize your operations or reduce the head count. But going out and



MAGGIE LI

looking for new businesses may be more of an entrepreneurial mindset than that of the typical finance director who will generally tend to be more cautious." This is especially true these days.

The chief executive of the Institute of Credit Management, Philip King, knows a thing or two about wringing cash out of businesses. "The cost piece is easy," he says. "You can squeeze customers tighter, you can stop supplies. If you genuinely want to get your debtor book down, it's not difficult to do – unless they genuinely haven't got the money."

But King throws down the gauntlet: "The real challenge is using credit to grow sales and be more effective." There are plenty of tools these days that allow businesses to look at the performance of their debtor book and map that against other data. Quite simply, he says, "That gives you the opportunity to target clients that are performing well and recognise that they are sales opportunities."

By using tools available from the credit reference agencies, companies can target their sales efforts, pre-approving credit limits for potential clients. That means the sales team will be using their time and resources much more effectively, "rather than going out and getting stacks of credit applications to which you then say, 'no.' "

What amazes King is that a company's own credit management department may have the best view of what's happening with its clients. And yet, all too often, "there's insufficient communication between the finance credit operation and the sales function," he says. "Where there is communication, it tends to be, 'This customer isn't paying, can you help us get them to pay?' rather than 'This customer is paying, they are clearly a good risk, can you go and sell more to them?'"

So why is there that communication gap? Why the distance between those corporate silos? "Everybody is too busy trying to collect the cash they can't get rather than thinking about an opportunity they can create," King says.

But however bright-eyed and bushy-tailed a business may be, some of its clients are certain to be having a more difficult time right now. That doesn't mean they need to be cut off entirely. "My view is that the credit department should never say 'no,'" says King. "It's only a question of what the terms will be." He adds that there are safety nets that allow businesses to sell to clients – and distributors in particular – while protecting the debtor book. Using escrow accounts or arranging for an end-user to pay for equipment directly from the supplier – and only paying the distributor for the value-adding services they provide – could be ways of getting business even through riskier avenues

GROWTH AND THE SUPPLIER

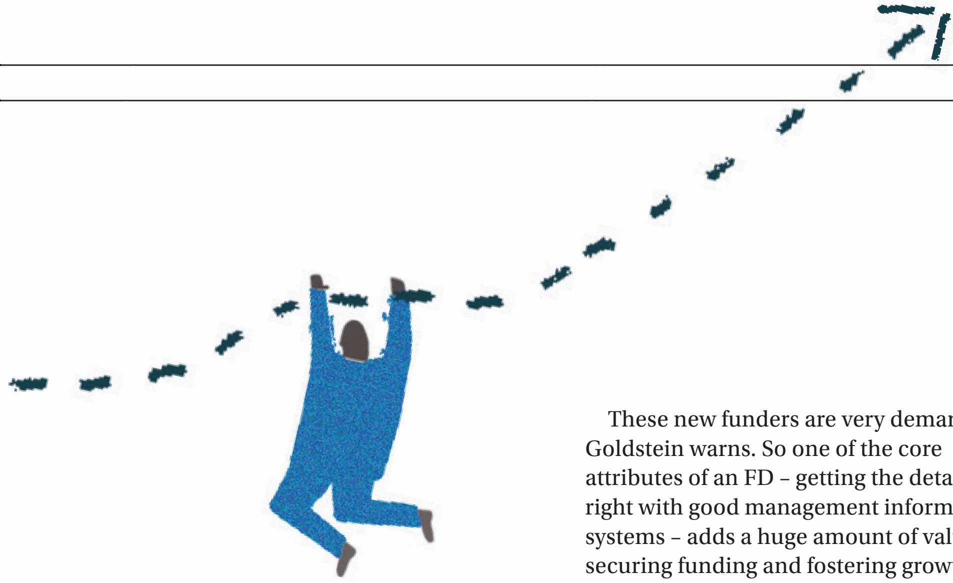
The next time you hear a someone (maybe yourself) say, "Employees are our most valuable assets," take it with a pinch of salt. It's not that they're being disingenuous, or even simply trying to keep up morale without offering pay rises. It's just that they are undervaluing and under-appreciating a much greater asset: their suppliers.

Recent analysis by procurement specialist Proxima calculated that labour costs account, on average, for 12% of revenues at FTSE-350 companies. But the goods and services that they buy make up 68% of revenues.

"Most of their revenue is going on their suppliers," says Proxima's chief client officer Guy Strafford. "The most important relationships companies have are with their suppliers. And yet they haven't got their heads around that."

Sure, taking a bacon slicer to suppliers' costs can eke out savings and even grow the bottom line. But that's not the point – and it's not going to grow the business. Suppliers have their own ongoing product development cycles, their own intellectual capital that they are building on and their own process innovation. "So if you work more closely with suppliers, they can provide you with R&D that can accelerate your speed to market or foster new product innovation," Strafford says. "They can help you be more agile and more flexible. If you want to grow, but without having to make huge capital investment, piggyback on the capital investment that suppliers have made."

The point about that labour cost statistic is only 12% of most of FTSE 350 revenue – expenditure on staff – is typically used to generate innovation and help grow the business. So why not work with suppliers, eating up 68% of your revenue, to do the same? "Really smart businesses seek to bring their suppliers close to helping drive that objective – whatever it might be," Strafford says.



MAGGIE LI

> "Taking a bacon slicer to suppliers can eke out yet more savings. But that's not the point – and it's not going to help grow the business"

Again, it's mindset. "The business is not thinking about how they manage and drive suppliers," he adds. "It's about business not being open, not creating the right relationship where they encourage suppliers to bring innovation to them."

FINANCING GROWTH

We are, of course, in the middle of a financial crisis. So with damaged balance sheets and a regulatory cliff in the form of the looming Basel III requirements, banks have little appetite to provide funding for growth. Michael Goldstein, a partner with accountants BDO, says that funding considerations are taking up a lot of people's time. "We're looking at alternative methods of funding," he says. "That's going to be a more important skillset in terms of the next phase of growth."

Asset-based lenders, who offer funding based on receivables or other assets, may not exactly be new kids on the block. But there are new players coming onto the scene and even new business models – such as web-based receivables trading services such as Marketinvoice.com and Platform Black. Private equity will become much more important, Goldstein adds, in raising capital.

More to the point, he says, "Businesses will become a lot more agile in working with combinations of all these sources because the days of the main clearing banks doing it all are not going to come back quickly."

These new funders are very demanding, Goldstein warns. So one of the core attributes of an FD – getting the detail right with good management information systems – adds a huge amount of value in securing funding and fostering growth. "That's an aspect we are certainly seeing a lot more of," he says. "Technology has benefits, but it also has a way of exposing those who are not ready. There is no longer the excuse that accurate accounts aren't ready within 'x' days of the end of the period. The technology is there, so your funder can have that information almost immediately."

BUYING GROWTH

The macho way to grow is, and always has been, acquisitions. "People have hunkered down [on M&A], but quite a few are beginning to say, 'There must be opportunities now to start taking some risk,'" says Goldstein. He notes that acquirers are typically looking for opportunities to grow by consolidating their industry, taking over weaker rivals. Geographic expansion – within the UK and beyond – is probably the number two reason for M&A activity. Vertical integration and diversification are less common triggers.

Blick Rothenberg's Smith makes the point that companies on the acquisition trail have to be smart as well as brave. "I've seen a lot of companies put a lot of effort into acquisitions, but then don't put a lot of effort into their integration," he says. "And don't over-commit yourself to one particular strategy without having a fallback plan in case it doesn't actually work quite as well as you wanted it to. Build in a Plan B."

But don't let that – or the economy at large – put you off, he adds. "It is the collective responsibility of the board to manage the business through good times and bad times – and to seize the growth opportunities when they arise."

Andrew Sawers is editorial director of *Eurofinance* and former editor of *Financial Director*

RIDING THE OUTDOOR WAVE

Chris Morgan is the FD of leisure retailer Go Outdoors. Christian Doherty asked him about the company's growth strategy.

Go Outdoors has grown rapidly in the past few years, opening around ten stores a year. The growth actually started when the credit crunch hit. The 'staycation' (taking vacations in the UK) became trendy, and people started looking at different holiday options. Go Outdoors rode that wave and made sure its offer played to the needs of the consumers. But FD Chris Morgan is mindful that growth needs to be managed.

"The growth rates are unsustainable long-term – we have 41 stores, having opened 10 a year so you're almost growing at 50-60% per annum. You can't maintain that unless you go down the M&A route. But looking at organic growth, we're opening in the right locations. Will it continue to be 10 a year? Probably not. And it's my job as FD to say, 'We need a degree of prudence'.

"Having built up the estate, the key thing now is the web, and how it links with bricks and mortar. The important element is innovation – how we market the business, how our staff are trained and incentivised to work differently.

"We're not addicted to growth. Cost and stock management, and procurement, are top of my list when it comes to the FD role. We're not going to disregard any of them. But one of the challenges I have is to make sure the operational functions supporting the business are the right size as we grow.

"It's not easy to build the right architecture to support growth. Some back-office functions might be top heavy. It's partly experience as a retail expert, but you do get a rough feel of what's needed.

"I take a detailed interest in supply and IT as they're my areas. In finance you look at KPIs and especially accounts payable – it can be resource heavy if you're not careful. So you need to guard against that growing too much."

The reality of risk

Running a risk register is a thankless task and is not the best solution to addressing risk. In reality, says **Matthew Leitch**, the integrated accountant's role is more likely to help manage uncertainty and may already be creating a revolution

Where accountants support decision-making, should they focus on detailing the best estimate, or provide an understanding of the alternative possible outcomes and their likelihood?

What do you think? It's most likely that you think accountants should provide understanding of the alternative outcomes, which shows you understand the essence of risk management. To understand why this has become vitally important to accountants and risk management, we need to go back in history to understand how risk management has developed, why there's a crisis now, and why the everyday work of accountants may hold the key to a remarkable improvement.

THE ORIGINS OF RISK MANAGEMENT

Perhaps the best place to start is with the first formal work on probabilities, some 350 years ago, by Pierre de Fermat and Blaise Pascal who, in 1654, laid the groundwork for probability theory. Since then, huge strides in understanding uncertainty have been made, especially in the 20th century, and progress still continues. Developments in management science, in particular, have provided techniques to deal with uncertainty in most management activities.

This scientific approach has been, and continues to be, the main thrust of risk management across most disciplines and countries. It informs regulations on banking, insurance, nuclear safety, health, disease control, and many other areas of our lives.

However, in the early 1990s an approach based on making lists of 'risks' came to prominence largely thanks to groups like the Committee of Sponsoring Organizations of the Treadway Commission, and the Australian and New Zealand Standards bodies. In the UK the list of risks is usually referred to as a "risk register".

This risk-listing approach has been promoted heavily by regulators and dominates thinking on risk management in internal audit, corporate governance, project management, and low-end health and safety. The risk register has come to define risk management for many people. Most accountants involved with risk management at work will have come across risk registers and the risk-listing approach.

THE INTEGRATION CRISIS

Despite two decades of promotion, risk-listing remains unloved and often ineffective. Risk registers sit on the shelf gathering dust, compiled and retrieved for audit committee meetings and little else.

The reason lies in the idea of making a list of risks and then managing them. Although almost everyone agrees that risk management should be part of core management activities – a by-product of good management – the reality is that risk-listing remains a separate activity with its own meetings, documents, reports, schedule, experts, and jargon.

Risk-listing faces a crisis because it cannot deliver the integration into management activities that people prefer and want. The act of creating 'risks' and managing them, inevitably, makes this approach something that stands outside normal business planning and decision-making.

THE ROLE OF ACCOUNTANTS

But, while risk-listing has been struggling, accountants have been getting on with a different, more integrated form of risk management. They've been helping colleagues deal with risk in decision-making, planning, monitoring, and other core activities through techniques such as key performance indicators geared towards risk assessment, probabilistic forecasts, analysis of uncertainties, 'what-if' forecasting and many others.

The importance of this can be understood by considering the number of accountants and their roles. There are far more specialist accountants than there are specialist risk managers. Almost every company uses or employs an accountant, but few have a specialist risk manager. ICAEW had more than 138,000 members at the end of 2011, while the two leading organisations for risk managers in the UK, the Institute of Risk Management (IRM) and the Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC), had fewer than 5,000 members between them.

> Accountants are already routinely and deeply involved in decision-making, while specialist risk managers often find themselves battling for influence

Accountants are already routinely and deeply involved in decision-making in the organisations where they work, while specialist risk managers often find themselves battling for influence.

ELLY WALTON/IKON

These practices are not new, but what is new is recognising them as risk management.

The enthusiasm for these practices is consistent with other survey findings. A massive 92% of respondents thought accountants providing decision support should focus on the understanding of alternative outcomes rather than detailing the best estimate. This overwhelming view was common across different countries, roles, sectors, degrees of experience, and between men and women.

Respondents also strongly supported a culture of ethical behaviour, objectivity, and recognition of uncertainty, but not baseless conviction and macho management.

GROUNDBREAKING SURVEY RESULTS

At the end of 2011, I carried out a survey with the Association of Chartered Certified Accountants (ACCA) asking its members about the behaviours they saw at work, and the practices their organisations' accountants used for risk management.

There were no questions about risk registers, risk reports, risk appetite, risk roles – no real 'risk' questions at all. Respondents, however, immediately recognized their role in risk management through their day-to-day activities and practices.

SUPPORT FOR RISK-MANAGING PRACTICES

The full report of results contains more detail than it is possible to repeat here, but the main finding across the 39 practices polled was that they received a strong level of support. Most respondents said they were already using the practices and would continue to use them, use them more, or would start using them. Even the practices involving Monte Carlo simulation – a random sampling technique which assumes that uncertainties form a pattern and which is easily done in a spreadsheet – received majority support once you exclude those who did not know what the simulation was.

The full list of practices included in the survey provides a guide, but not a comprehensive one, to what constitutes integrated management of risk:

- core management activities:
- management accounts;
- regular financial forecasting;
- other decision support;
- reporting process quality; and
- financial compliance and ethics.

They included items such as:

- reporting liquidity statistics;
- analysing past trends, including variability;
- examining the proportion of fixed costs;
- analysing the sensitivity of results to factors such as exchange rates;
- risk-adjusted performance measures;
- documenting assumptions; and
- forecasting for alternative scenarios.

REPORTS OF DYSFUNCTIONAL BEHAVIOUR

Some other findings concerned behaviours that undermine good management of risk. These included behaviours such as:

- understating costs and overstating benefits to get approval for a proposed course of action;
- treating forecasts as targets rather than predictions;
- giving optimistic forecasts to avoid criticism, and pessimistic predictions to manage expectations;
- decision making that was strongly biased by personal interests or derailed by personal power battles; and
- stating expected results from a course of action with unjustified confidence, purely to make it more attractive.

Across the 14 behaviours, on average, most respondents reported that the behaviour occurred in their organisation at least sometimes, usually, or always. Of 1,127 respondents who answered all 14 questions, only eight reported that none of the behaviours ever happened. This prevalence of dysfunctional behaviour was only weakly related to pressure and organisation size. It seems that even small companies suffer from what we think of as big company politics.

These behaviours are not mild issues that people understand and make allowances for. Some were precisely the ones that respondents thought had led to failed strategies and contributed to the credit crunch. One of the questions asked respondents to choose three causes of company strategy failure in the past three

years and the top results were:
- "they underestimated risks"
- "they overestimated their ability to predict and control future events"
- "their decisions were biased by personal interests"

Behaviours similar to these were included in the survey and their reported prevalence is shown in the box (right).

CAUSE OF FAILURE	DYSFUNCTIONAL BEHAVIOUR	NEVER	SOME-TIMES	USUALLY	ALWAYS	DON'T KNOW
"They underestimated risks"	Assessing 'risk' as low to make a course of action more attractive	**26%**	**46%**	**13%**	**4%**	**12%**
"They overestimated their ability to predict and control future events"	Stating expected results from a course of action with unjustified confidence to make it more attractive	**23%**	**46%**	**15%**	**4%**	**12%**
"Their decisions were biased by personal interests"	Significant decisions strongly biased by the personal interests of decision makers	**16%**	**47%**	**21%**	**8%**	**9%**

REDUCING DYSFUNCTIONAL BEHAVIOURS

Good practices and bad behaviour were demonstrably linked. The more respondents reported that good practices were used, the less they reported bad behaviour. And the worse the behaviour they reported, the more respondents wanted to extend their use of good practices. Clearly, respondents thought that good practices could help reduce bad behaviour and its effects.

This link was found by analysing data across all practices, and also by asking specific questions about the impact of accountants on decision-making. Respondents reported that the impact of accountants on behaviour around decisions was more positive when they also reported that many of the good-decision-support practices were in use. It should be remembered that all of these items concern management under uncertainty/risk.

IMPLICATIONS FOR REGULATION

Regulators interested in encouraging good governance have a number of options. One is to continue to press companies and other organisations to work more with risk registers and assurance processes. Perhaps by updating them more frequently, adding further details, or setting clearer policies about risk levels for identified risks already on the register. With extra effort, perhaps the risk-listing ritual might start to add value.

Another approach is to encourage companies – and their accountants in particular – to pursue more of the good practices that they may already be doing – at least partially. These are simply the familiar practices that help boards and managers deal with risk within core activities.

> Although registers have had a lot of attention and have been seen as 'risk management', the reality lies in the assessment of how managers behave

ACCOUNTANTS' OPPORTUNITIES

For most accountants there is already a clear direction: enacting more of the good practices that help their colleagues deal with risk. What practices those are in each case will probably differ and it is vital, of course, to provide the support that people want.

But despite its scope, the survey did not probe the behaviours and preferences of board members and executives who were not accountants. How do they grapple with their jobs in the face of risk? What extra support would they most value?

Recent research by Terry McNulty, Chris Florackis, and Phillip Ormrod – all of them from the University of Liverpool's Management School – contains fascinating extracts from interviews with board members that reveal the reality of risk management at that management level. Once again, risk registers are not the focus of the research. Instead, it is all about everyday behaviours that manage risk.

Their extracts show that members are:
- interested in the risk implications of financing, for example, debating the impact on their gearing;
- examining the possible results of acquisitions, considering the implications of various types of failure;
- renegotiating the price of an acquisition and adjusting the ratio of debt and equity to reflect a higher estimate of the probability of failure;
- using an iterative approach to difficult decisions in which initial information is used to decide whether to investigate further, leading step by step to more formal analysis and, ultimately, to investments; and
- more in favour of investments that pay back sooner.

This is surely just the tip of the iceberg. Look at the conversations people have when tackling business planning and decision-making, and you will see many examples of people responding to their uncertainty (ie, managing risk) in familiar, natural ways.

Although risk registers have had a lot of attention and have been seen as 'risk management' by many in the governance and risk management world, the reality of true risk management lies in the assessment of how managers behave. It does not lie in a separate process with equally separate documents and meetings. Accountants have a key role in risk management and their supportive practices – which are typically objective and auditable – are a promising direction for any regulator or board interested in improving risk management. They should be encouraged.

FURTHER READING

Leitch, M, (2011). *The reality of risk: culture, behaviour, and the role of accountants*. Published by ACCA. Available online at: **bit.ly/UnX5Ps**

McNulty, T; Florackis, C; and Ormrod, P (2012). *Corporate Governance and Risk: A Study of Board Structure and Process*. Published by ACCA.

Matthew Leitch is a chartered accountant, author, researcher, and consultant specialising in how to work more effectively in uncertain conditions. He is a member of the risk management committee of the British Standards Institution and lectures at the University of Southampton's Management School.

EVERY WORD

Read *economia* online, on your iPhone or iPad as well as in print

EVERY WEEK

Subscribe to *economia sevendays*, the weekly email newsletter

EVERY HOUR

Keep up to date with the latest developments in business and practice

economia | print | web | iPad | iPhone

Intelligence and insight delivered how you want it

Available on the App Store

facebook.com/economiamag twitter.com/economiamag linkedIn group: economiamagazine icaew.com/economia

Taking off

When it comes to maximizing profitability, **Philip Varley**, FCA and private pilot, reckons thinking like a flyer and applying this 12-point checklist is the way to soar through unexpected turbulence

What similarities are there between business executives maximising their company's profits, and pilots successfully landing a plane? Pilots use checklists and standardised procedures, perform planning and risk analysis, and constantly monitor their position, to ensure that the unexpected can be dealt with in the air. A CFO should use a similar approach to ensure their business reaches its desired destination intact.

My most unnerving experience as a pilot occurred in a thunderstorm. Strong up- and downdrafts saw the plane rising and falling by 4,000 feet per minute, putting me in serious danger. However, by maintaining a level head, and using ingrained procedures, I was able to land safely.

Most FDs will be able to empathise with that predicament. Negotiating turbulence and dealing with sudden buffeting is all part of the job. For example, in a company, the loss of a major customer or withdrawal of a line of credit is the equivalent of a catastrophic loss of power. But navigating through turbulent times equates to successful profits growth. This article provides a 12-step checklist to avoid the worst conditions and maximize your profits.

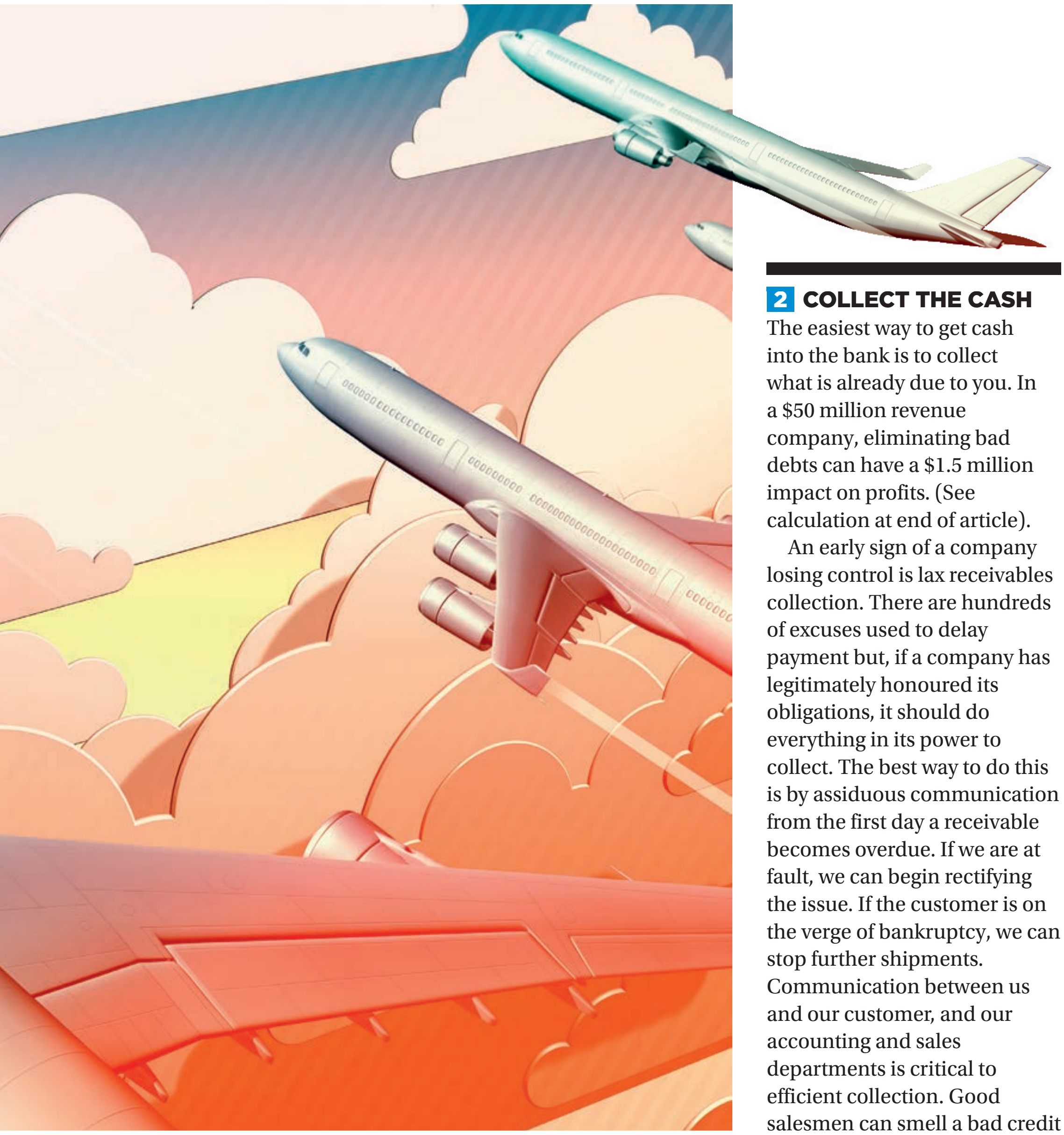
1 PLANNING AND PLOTTING A COURSE – THE 13-WEEK CASH FLOW FORECAST

Flight plans include direction, altitude, and duration. The route is plotted on a chart with selected way points and the estimated arrival time identified. For a company this flight plan takes the form of the annual budget, which is a distillation of the strategic plan into numbers. The way points are identified in the 13-week cash flow forecast, the most critical document a company needs, since numbers don't lie. Flying along the route requires constantly monitoring the flight instruments on the dashboard. FDs must constantly monitor their company's key indicators on a financial dashboard.

None of the corporate turnarounds for which I have been engaged had paid much attention to cash flow forecasting. Indeed, it's fair to say that was the major reason for their underperformance. This is hardly surprising: in the same way that a plane cannot be flown by the seat of one's pants, neither can a company be managed without a robust strategy – combining clearly stated goals and plans to achieve them through their budgets and comparisons of actual to forecast.

A cash flow forecast is the most critical financial document a company possesses. It is a real time "living" document, and should be reviewed and revised at least weekly, to reflect new information, changed commitments, staff reductions, and actual cash inflows and outflows for the prior week. Reasons for unexpected variances should be identified, and corrective actions begun. After all, no business exists in a vacuum, and changes to both internal and external conditions can have serious implications.

The size of the company will determine the level of detail presented, but key data points must be easily identified. Cash is the fuel that powers any business. Without any planning for cash requirements, a company will go bankrupt. So, just as on an aircraft flight, where fuel consumption must be monitored, so in a company, cash must be monitored so the FD understands its true condition. No pilot wants to repeat the famous Air Transat Flight 236 that, because of a faulty fuel gauge, found itself running out of fuel over the Atlantic. Thanks to the pilot's flying skills, it landed safely, setting a world record 80-mile glide before touching down in the Azores. A terrifying lesson for a pilot. And for a company



MAGICTORCH/IKON

In the same way that a plane cannot be flown by the seat of one's pants, neither can a company be managed without a robust strategy — combining clear goals and plans

FD, the moral is just as clear: expenses must be monitored critically and consistently to avoid running out of cash. Enron is a case in point – its reported profits in year 2000 were less than the sum of its "unrealised gains". When the markets unravelled, there was no cash behind the company.

So, to be useful, the cash flow forecast will identify expense line items by category, so that the largest ones can be prioritised. Benefits can be obtained by the CFO authorising every material payment to understand who is spending the money and where it is going.

The forecast also enables the CFO to understand where the money is coming from, and leads to the next most important action in maximizing profitability.

2 COLLECT THE CASH

The easiest way to get cash into the bank is to collect what is already due to you. In a $50 million revenue company, eliminating bad debts can have a $1.5 million impact on profits. (See calculation at end of article).

An early sign of a company losing control is lax receivables collection. There are hundreds of excuses used to delay payment but, if a company has legitimately honoured its obligations, it should do everything in its power to collect. The best way to do this is by assiduous communication from the first day a receivable becomes overdue. If we are at fault, we can begin rectifying the issue. If the customer is on the verge of bankruptcy, we can stop further shipments. Communication between us and our customer, and our accounting and sales departments is critical to efficient collection. Good salesmen can smell a bad credit risk far better than any ratings agency, and with a sales commission policy tied to cash collections, not simply to customer orders, a company should never have to write off a receivable again.

If a company fails to prevent bad debts, further costs have to be incurred in generating new business to offset the lost profits. The cost of generating one new customer can be 20 times more expensive than keeping an existing one. Not allowing receivables to go bad is probably the simplest, and one of the biggest contributors to maximising profits. In many cases, a 15% increase in sales would be required to have the same profit impact as eliminating bad debts.

3 MANAGING EMPLOYMENT COSTS THROUGH THE ORGANISATION CHART DU JOUR

Staff costs are usually the largest single expense within a company – often as much as 70%. Jack Welch uses his book *Straight From The Gut* to explain why a 20/70/10 mentality must be part of a successful company's HR management, to identify and reward star performers, and eliminate underperformers. Identifying the changes must be recorded on the second most important living document a company needs, the "Organisation Chart Du Jour", (OCDJ), so called because in the early stages of a turnaround, it might alter every day.

Because ultimately all costs in a company are tied to headcount, efforts to reduce costs must by definition include this area. And the best way to reduce staff costs is to encourage underperforming people to leave of their own volition, by introducing policies to promote top performance.

4 REDUCING EMPLOYMENT COSTS BY 20% WITHOUT FIRING ANYONE

The best way to reduce overall costs is to cut employment costs, but to do so without having to get rid of anyone, thus avoiding claims of unfair dismissal. A weakness which underperforming companies frequently exhibit is to pay for significant amounts of overtime, because it is often seen as an entitlement in non-salaried positions. Weak management in underperforming companies is often afraid to challenge the status quo. Yet incurring two hours per day of overtime, paid at time-and-a-half increases the wage bill by 37%. Restricting the amount of paid overtime forces work to be prioritised and performed more efficiently.

All positions also require quantifiable objectives. For a financial controller, closing the books within six days of the month end may be appropriate. Management by objectives may come as a shock to some employees whose last "grading" was at school, but by introducing objectives, underperformers may leave rather than subject themselves to meeting quantifiable objectives.

Implementation of the above policies is much fairer than any arbitrary "across the board" cuts, as it is likely that the poor performers will self-select and resign, avoiding any discrimination lawsuits.

5 TRAVELLING MORE – FOR 50% LESS

The second largest controllable expense is often travel and entertainment (T&E). Beyond the obvious political fallout, the recent parliamentary expenses scandal and chancellor George Osborne's train ticket imbroglio were salutary reminders of what badly policed T&E policies can lead to. Whether or not the chancellor intended to pay for his first-class train upgrade on a trip from Wilmslow to London will be the subject of political debate, but one of the key issues of relevance to all corporate travellers is that if he had planned his trip in advance, he may well have obtained a first-class ticket for about half of the full price.

Most companies' T&E policies focus incorrectly on specifying in detail the minutiae such as how much can be spent on lunch, rather than recognizing the macro savings obtainable by planning ahead, which will cut your travel budget in half. Looked at another way, you can travel twice as much for the same price. But it demands a mindset that plans meetings to fit into a schedule, rather than allowing meetings to dictate the schedule.

All T&E policies need teeth, and the CFO should review all T&E reports. By finding egregious spending at the macro level, and patterns of abuse, word will travel through the company that T&E can no longer be abused. Changing that culture must come from the top.

6 FLYING UNDER THE RADAR SCREEN: EASY SAVINGS, PROFESSIONAL FEES

Audit, tax preparation, legal and marketing professional fees are frequently overlooked in the quest to save costs. Are your own staff producing all the schedules your auditors need, or are you paying expensive professionals to do so? Is your company law firm providing basic administrative functions that could be performed in house? Can the tax returns be prepared by you and simply reviewed by your accountant? Is marketing expense held to the same ROI standards that an investment in physical plant would require? If not, why not?

It is no longer a truism that you don't know which 50% of your marketing is wasted – information is available to assist you track everything. Any web-based marketing can now be tracked down to micro-levels of detail via Google AdSense and other tools. PR and advertising agencies are all now expected to provide clear metrics on ROI.

7 RISK MANAGEMENT

Insurance should only be used to cover significant losses. Maximize deductibles, and self-insure for small risks. Focus on safety by having a written safety policy, a drug-free policy, and make reduction of accidents a primary goal with clear accountability built in. Require employees to be responsible for vehicle damage, and perform credit checks on employees with fiduciary responsibilities.

8 REDUCING INTEREST EXPENSES

Reduce the number of bank accounts, consolidate loans, and renegotiate interest rates. Set up a sweep account to reduce your net debt. Gain an immediate 36% ROI by prompt payments. Normal payment terms on invoices in manufacturing in the US are "2/10 net 30" which means payment is expected 30 days after invoice date, but a 2% discount is offered for prompt payment within 10 days. So either pay 98% of the invoice in 10 days or 100% of the invoice in 30 days. Delaying payment by 20 days costs 2%, equivalent to EARNING 2% in 20 days, or 36% in 360 days (one year).

9 PURCHASING AND INVENTORY

Do not assume buying in bulk at a lower price is a good deal – demand can change, making inventory obsolete, or your supplier may prefer making more frequent smaller deliveries. High levels of inventory incur high storage and insurance costs, and capital is tied up, all amounting to perhaps 20% of the value of inventory per year.

In manufacturing, large costs occur when a production line is stopped to change from one model to another. Planning to minimise down time can do more to keep costs down than the activities identified above.

10 GROSS MARGIN ANALYSIS TO PREVENT THEFT AND LOSSES

When landing a plane, the margin for error is pretty small. In a business, the margin for error is the difference between what it costs you to make something and the price at which you sell it. Ergo, the greater the margin, the greater the profit.

Gross margin analysis is not just an academic exercise. In the course of my career as a turnaround expert, it has enabled me to identify one incidence of fraud and another of malfunctioning equipment.

The fraud occurred at a company that did not perform reconciliations between bulk inputs and retail outputs. But with sales prices increasing, and purchasing costs decreasing, gross margins were going down when they should have been going up. The reason was because a number of employees were selling the retail products for cash under the table.

The second scenario occurred when new "state of the art" flow meters were installed on a bulk fluid pipeline, readings from which the supplier used to bill my client every six months. We billed retail clients monthly based on their volumes. Performing gross margin analysis, by month, using 12-month moving averages for both the period before and after installation of the meters indicated an overcharge from our supplier of about 7%. It took two years to resolve that situation, but our margin analysis figures were the key to identifying the error.

11 DON'T BE TAKEN FOR A RIDE. LOWER DELIVERY COSTS BY 20%

Delivery costs can be reduced by 50% using simple techniques requiring no capital investment. Examples include turning engines off when trucks are not moving, or, as UPS has done in the US, route planning to minimise left-hand turns (it would be right turns in the UK), which can save 15% of costs merely by cutting waiting times to cross the traffic flow.

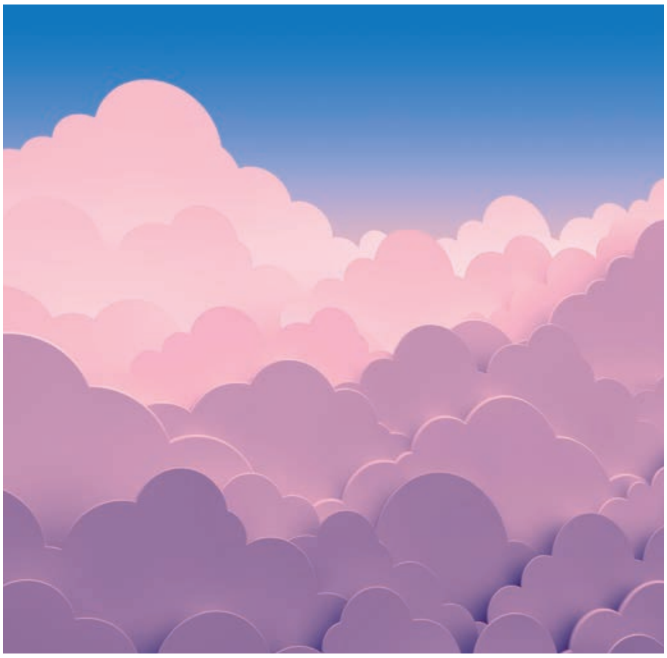
Providing fuel cards and requiring mileage to be entered at every fill up, and reviewing fuel consumption by a driver can save another 20%. Sending drivers on safe driving courses, holding employees responsible for damage they cause to vehicles, and requiring clean driving records all create insurance savings.

Capital investment that can deliver savings might include mobile GPS reporting, and route planning software. And the biggest single cost saving comes from buying vehicles which are one to two years old, letting someone else absorb the first 50% of depreciation. Think carefully before entering in to any leasing arrangements – you have to take delivery of new vehicles, and return them when they still have many years of useful life left in them.

12 TAX-FREE MONEY IS YOURS FOR THE ASKING

Use tax laws for your best advantage. Don't set up subsidiaries if you expect a loss if, by using a branch instead, you could flow losses up to offset some profits elsewhere. The worst situation a multinational can find itself in is to make a worldwide pre-tax consolidated profit, but an after-tax loss, because of trapped tax benefits. Ensure that you use the flexibility in transfer pricing rules to choose the most favourable accepted methodology.

Other tax benefits often overlooked (especially by American firms operating in Europe) include not understanding that VAT on purchases is a receivable at the company level is able to be offset against the payable due to the government from the taxes charged on sales.



Most T&E policies focus incorrectly on minutiae such as how much can be spent on lunch, rather than recognising the macro savings obtainable by planning ahead

In conclusion, to maximise profits, the company's CEO and CFO, acting as pilot and first officer, use two critical checklists, the 13-week cashflow forecast and the OCDJ. They collect receivables and control expenses by maintaining a sense of order throughout their company. By planning in advance and knowing where they are, by not losing control and focusing on the outcome – maximum profitability of all actions – they arrive and land successfully.

* Calculation of $1.5m profit increase by eliminating bad debts in a $50m revenue company. This uses data averages from my eight turnarounds:

1. Days sales outstanding (DSO) reduced from 90 to 42 days, a reduction of 48 days.
2. Write offs of 2% of revenues are eliminated, an increase in cash, and profits, of $1m.
3. Interest rate on borrowings in loss-making companies is 8.5%

Daily revenues are $137,000, 365 days per year. ($50m/365)

The capital tied up by these EXCESS receivables is $6.6m ($137,000 per day multiplied by 48 days)

Annual interest savings will be $561,000. ($6.6m x 8.5%)

Average bad debt write-offs in poorly managed companies are 2% of revenues. Therefore, additional annual savings of $1 million will be achieved by eliminating bad debts.

And in today's bumpy conditions that can give a company the lift it needs.

Philip G Varley FCA. Turnaround CFO and private pilot. His book *Failure is Not an Option*, £15.62, is published by Mile High Press

From the faculties

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


AUDIT & BEYOND

VALUE OF AUDIT

Don't let this be goodbye

More than 100,000 additional companies can make a commercial decision about whether or not to have a statutory audit, but its value should not be underestimated, and making the right choice will not be an easy judgement call, as Rachel Fielding discovers

FS FOCUS

PROTECTING THE WHISTLEBLOWER

Few industries over recent years have faced a harsher spotlight than the financial services. The internal culture and politics of banks and other financial institutions has been central to the debate on the very future of capitalism. So it's no surprise that the industry's approach to whistleblowers has come under scrutiny, too.

But when as many as half of companies don't have a documented response plan for regulatory breaches, it's a wonder there aren't a lot more of them. The other driver? Rewards. UBS whistleblower Bradley Birkenfeld reaped $104m – a percentage of a massive fine against the Swiss bank for aiding tax evasion – earlier in 2012.

Obviously, handling ethics and regulatory breaches properly is the first defence. But having a considered and constrictive whistleblower policy is also a big plus. In the UK, whistleblowers are protected by the Employment Rights Act 1996 – but there's no requirement for employers to spell out their policy. It's better to articulate it, so staff know where they stand.

That means real clarity on legal definitions – "whistleblowing" and the acts it might legitimately expose need to be explained – and opportunities to disclose legally should be set out. Above all, confidentiality is a must – employee and employer must feel that identities will be appropriately protected.

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

AUDIT & BEYOND

DON'T LET THIS BE GOODBYE

The statutory audit exemption threshold is changing, meaning more than 100,000 UK companies (including subsidiaries) will soon be able to choose not to be audited. *Audit & Beyond* looked in more detail at the impact of the change – and why clients might still buy audit services.

It's clear that there is intangible value in an audit – mainly the confidence it creates around a business – beyond ticking a compliance box. But some commentators argue that this threshold change will mean relatively little to many practices, especially when the bigger impact of the Accounting Directive next year is factored in.

But the biggest argument for keeping audit on board is access to finance. With banks and investors risk-averse, having a third-party accreditation on accounts and the processes behind them could be valuable for SMEs.

If clients do decide to give it up though, progressive firms are already working out how to replace audit fees with billings in other areas – such as broader advice, particularly tax planning.

Rufus Rottenberg from the Department for Business, Innovation and Skills explains the threshold raise decision, Wragge and Co partner Stuart Young explores the pitfalls of the parent company guarantee that may now replace subsidiary audits, and faculty assurance expert Ruth Ward looks at what non-audit services firms can offer departing statutory audit clients.

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

TAXline

TAXING INTERNATIONAL BUSINESS

Just how should multinational corporations (MNCs) be taxed? With the news and Parliamentary Select Committees focused on the low UK corporate taxes paid by companies such as Starbucks, Google and Amazon, the question is topical. So the Tax Faculty's Ian Young has tried to tease out the arguments.

He points out this isn't a UK problem – many governments are wrestling with it. And a major cause is changing business models. E-commerce and outsourcing, for example, fundamentally change the way companies access markets and apportion costs. 'Internal trade' by MNCs further clouds the issue and raises the spectre of transfer pricing – where agreements between states are undermined because many MNCs have a unique approach that defies conventional notions of, for instance, 'arm's length' trading and pricing.

National tax regimes are simply ill-suited to this new, largely international approach to business. So it's not surprising that the National Audit Office found that HMRC's more ad hoc deals with multinationals were reasonable (providing its internal processes were robust). Meanwhile, the OECD is continuing to look at 'profit shifting' – although in a world where value is increasingly ascribed to knowledge and intellectual property, accounting for the location of profits and taxes could prove almost impossible.

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

Technical updates

Our regular round-up of legal and regulatory changes

TAX

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

RTI "IMPOSSIBLE"

Many businesses will find the new PAYE reporting system Real Time Information (RTI) impossible, according to ICAEW. This is despite HMRC publishing proposals explaining when employers will be allowed extra time to send in information to HMRC.

Frank Haskew, head of Tax Faculty, said: "We are particularly concerned about the impact this will have on smaller businesses, which are the lifeblood of the UK economy and essential if the UK is to continue to grow." For instance, an employer who advances low-paid workers a portion of salary to make ends meet, or a pub landlord who calls in some extra help for a busy night, will have to submit an RTI return within seven days of it being paid, regardless of their standard payroll arrangements.

These examples show that the "on or before" requirement – even with the relaxation to "within seven days" - will not work for many businesses. And it's not yet clear what HRMC will do if faced with widespread non-compliance by employers. ICAEW has called for employers to be required to file monthly.

VAT GROUPS: REVERSE CHARGES

The law on how reverse charges payable by VAT groups should be valued was updated in the Finance Act 2012 to bring a concession into law. The new law (s200, FA 2012) and the former concession (ESC 3.2.2) relate to the valuation of the reverse charge on an intra-group supply. It applies where a partly exempt VAT group buys in services through an overseas group member.

HMRC has written new guidance on the updated charges, with assistance from business. The new law operates in a specialised area of VAT so that the new guidance will only be relevant to taxpayers that are VAT groups, have group members that have overseas establishments, make charges to the UK from those overseas establishments and/or are partly exempt.

HMRC has not published the guidance but taxpayers can obtain a copy by emailing HMRC's Phil Mattacks at hmrc.gov.uk/news/new-guid-reverse-vat.htm

HMRC's guidance on how supplies should be valued for VAT is currently being updated and this new guidance on reverse charges will be incorporated into that valuation guidance when it is relaunched on the HMRC website.

HMRC: ADR STILL AVAILABLE

HMRC has been testing the use of Alternative Dispute Resolution (ADR) to sort out tax disputes. The trial for SMEs ended on 30 November 2012 and the results will be evaluated to consider whether and how ADR will be rolled out permanently. The trial has so far attracted over 200 applications, nearly 70% of which have been accepted into the trial. In many cases ADR has been successful in settling the dispute, or failing that, in making some progress in clarifying the points at issue and what the next step should be.

In the meantime, HMRC will continue to offer the ADR service to cater for growing interest in it as a means of resolving disputes.

EMPLOYEE SHARES BULLETIN

HMRC has published its latest Employment-Related Shares & Securities Bulletin (hmrc.gov.uk/shareschemes/erss-bulletin4.pdf). As well as advertising the new telephone number for the scheme enquiries team in Nottingham (0845 600 2622), the bulletin gives updates on scheme approvals – looking at company resolutions and process, notices to participants of Share Incentive Plans, and information on RTI and PAYE deadlines.

AUTUMN STATEMENT RECAP

Was the Autumn Statement good for business? Against a backdrop of sluggish growth and weak economic data the chancellor's Autumn Statement was clearly aimed at encouraging and supporting business growth through investment. The key headlines for business are:

- Main rate corporation tax reduced to 21% from April 2014. Small company rate remains unchanged at 20%.
- The Annual Government Investment allowance increased from £25,000, to £250,000. This will cover most capital investment for SMEs, although it is time-limited to two years from 1 January 2013.
- £5bn in capital investment projects, including £1bn in roads and 120,000 new homes.
- A new form of PFI, which should share profits with the public sector.
- HMRC's budget has been ring-fenced, though it still faces 15% budget cuts by 2015.

What is less clear is whether any of this will be enough to get the £720bn sitting on UK company balance sheets invested in growing UK businesses, and whether it will be enough to offset new business burdens coming next year, like RTI for PAYE.

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

UK GAAP VIDEO

Find out why the new UK GAAP regime matters to you by watching our short video where Andy Simmonds, member of the Accounting Council and Financial Reporting Faculty chair, outlines the implications of the two new standards – FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework.

You can download the video at vimeo.com/54005816

You can also find out more by attending the webinar on 23 January – it's free for Financial Reporting Faculty members and £40 to non-members.

Meanwhile, the Financial Reporting Council (FRC) has updated its *Foreword to Accounting Standards*, which explains the authority, scope and application of accounting standards issued by the FRC.

ANNUAL IMPROVEMENTS TO IFRSs

The International Accounting Standards Board (IASB) has published for public comment an exposure draft, ED/2012/2, of proposed amendments to four IFRSs under its annual improvements project. The amendments are:

- Meaning of effective IFRSs – IFRS 1 First-time Adoption of IFRSs.
- Scope exceptions for joint ventures – IFRS 3 Business Combinations.
- Scope of paragraph 52 (portfolio exception) – IFRS 13 Fair Value Measurement.
- Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 when classifying property as investment property or owner-occupied property – IAS 40 Investment Property.

Comments are due by 18 February. The proposed effective date for the amendments is for annual periods beginning on or after 1 January 2014.

AMENDMENTS TO IAS 28

The IASB has also published ED/2012/3 – proposed amendments to IAS 28 Investments in Associates and Joint Ventures.

The objective is to provide additional guidance to IAS 28 on the application of the equity method. Specifically, it aims to clarify how investors should recognise their share of what it refers to as "other net asset changes" – the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and that are not distributions received.

The IASB proposes that investors should recognise in the investors' equity their share of the investee's other net asset changes. Comments are due by 22 March 2013.

IFRS UPDATE WEBINAR

On 26 February the Financial Reporting Faculty will be hosting an IFRS update. It will also include an update on the IASB's ongoing major projects on revenue recognition, leases and financial instruments.

JOIN US IN 2013

Financial Reporting Faculty members enjoy full access to eIFRS – the faculty's unique standards tracker – webinars and factsheets. We've just added a new membership benefit, too – complimentary access to Company Reporting, a primary source of best practice research in IFRSs for professional and corporate accountants. With the new UK regime now published, it has never been more important to keep abreast with the changes in financial reporting and benefit from the help that the faculty can provide. Membership starts at £105 for ICAEW members. Find out more at icaew.com/frf

EMPLOYMENT LAW

This section is summarised from the bulletins of various law firms – find out more at the web addresses supplied. None of the information in this update should be treated as legal advice.

EMPLOYEE OWNERS

The government's plan to allow more flexible employment rights in exchange for shares in the employer company are to go ahead. In exchange for giving up certain employment rights, new and existing employees of any size of company may be given between £2,000 and £50,000 of shares that are exempt from CGT. Other amendments following a consultation include extending the scheme to foreign owned businesses, allowing the issue of shares in parent companies, and clarifying that shares must be awarded fully paid-up and free of charge. The new type of employee-owner contract can be used from April 2013.

The Bill provides that employee-owners would have the same employment rights as an employee except for:

- Unfair dismissal (apart from where this is automatically unfair or relates to anti-discrimination law).
- Certain rights to request flexible working and training.
- Statutory redundancy pay.
- Employee shareholders would also need to give more notice to return from maternity or adoption leave.

The scheme remains controversial among employment experts and some tax advisers have warned that despite the removal of CGT on awards up to £50,000, there may be income tax consequences to share awards.

More at ion.icaew.com/TaxFaculty/25613

BLACKLISTING? NO, SAY EAT

The Employment Appeals Tribunal (EAT) has held that an employer did not breach trades union discrimination rules when refusing to hire staff suggested by UNITE.

In *Miller v Interserve Industrial Services*, the EAT heard that a highly unionised employer faced pressure from a full-time trade union official to recruit three named employees with a view to their acting as shop stewards. This official's approach annoyed the employer – who regarded him as having a combative manner – and as a result, the named staff were not hired.

The employment tribunal found that this was because he resented being bullied. Because of this motivation, it was held that he had not contravened section 137(1) of TULR(C)A 1992 – refused employment on the grounds of union membership. The EAT agreed, but it emphasised that each case of this kind has unique aspects and employers' explanations should be scrutinised closely.

More at danielbarnett employmentlaw.blogspot.co.uk

GENDER DIVERSITY

The European Commission has published a draft Directive which sets a 40% minimum objective for the proportion of female non-executive directors on the boards of EU-listed companies. It also requires them to publish targets for female representation among executive directors, but without setting a minimum objective. Women currently hold just 13.5% of seats on the boards of affected companies.

The revised proposals have been welcomed by the UK Government as a step away from mandatory quotas. The policy would not apply to unlisted EU companies or to listed SMEs – those with fewer than 250 employees and an annual worldwide turnover of less than €50m.

Member states may exempt listed companies from the 40% NED target if women make up less than 10% of the workforce, or if a third of all directors on the company's board are women.

More from Herbert Smith Freehills at snipurl.com/hsfreehills1

PERSONAL DEVICES AT WORK

So-called bring your own device (BYOD) policies allow employee access to company resources and data on their own smartphones and tablet computers. There are clear advantages, explains ACAS, the disputes resolution service. Employers get to portray their organisation as forward-thinking and flexible, and save the cost of equipping staff. Employees get greater convenience and some analysts claim that BYOD boosts productivity, morale and engagement.

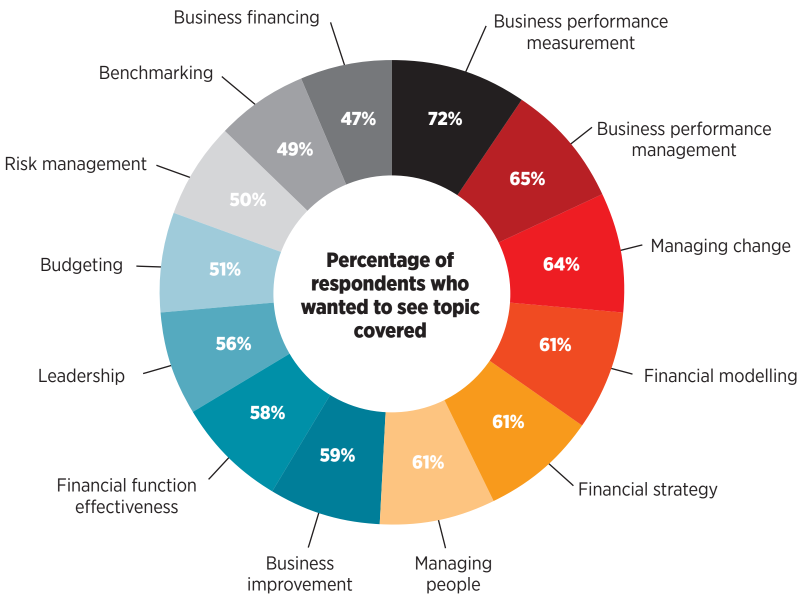
But there are risks, with data security topping the list. For example, phones are easily lost, which could compromise confidential company data. And employees' personal use of devices could unintentionally infect their device with malware that could provide a backdoor for hackers into company systems. Then there's the issue of leavers, and how company data or services is expunged from their devices.

Analysts recommend that well-managed BYOD policies should isolate business use from personal use. Employers should consider making provisions for remotely deleting sensitive data from devices that belong to ex-employees or that have gone missing. Employees should also make sure they protect their devices with a password.

For more advice, check out ACAS resources on social networking at work (snipurl.com/acas_social) – and don't miss the advice on separating personal and work views on social media platforms such as Facebook and Twitter (snipurl.com/acas_media1).

Technical needs survey - 2012

Back in October the faculty asked for the wish list of articles you'd like to see in *F&M* magazine. Thank you to everyone who responded. Overall, the top finance and management topics are as follows.



There is no strong unanimity across business size on requests for topics, with one exception – more than 60% of respondents in every size of business requested more business performance management topics. We will use your feedback to drive ideas for articles throughout the coming year.

We are always keen to hear from readers. Please send your ideas for topics you feel we should include in *F&M* to **robert.russell@icaew.com**

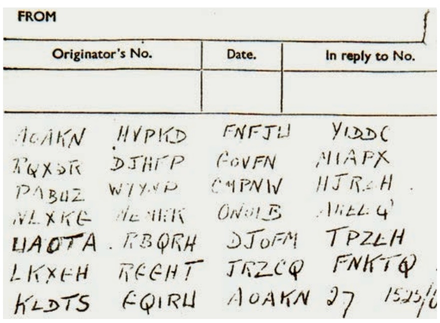
EXCEL BLOOPERS

We asked you for any Excel errors in November's magazine. Here are a couple of stories

You may recall the baggage handling system failure of the Terminal 5 opening day back in 2008. One of the contributing factors was that all staff were locked out of the system because before emailing the login details to all concerned, someone had added a new line to the column containing usernames, but not the passwords, with the result that each password referred to the user on the line below.
Stephen Carter

Some years ago, in my first week as European FD of a manufacturing business, I spent a cold weekend in the Czech Republic working on a presentation comparing the divisional performance with the consolidated position, when I stumbled across a material anomaly. The $5m depreciation charge from the subsidiaries had failed to consolidate as it had been merged into the wrong column.
Michael Pay

CARRIER PIGEON MESSAGING



Experts at Government Code and Cypher School Headquarters (GCHQ) have been left baffled by a WWII message recently found attached to the skeleton of carrier pigeon in a bricked-up chimney. Each of the 27 blocks of five letters conveys a phrase which might only be found in a code book, now missing. The blocks themselves have been encrypted using a code generator. Some 250,000 pigeons were used for military operation messages during the war, most of which hopefully made it safely to their destinations. **More information at tinyurl.com/cfllpvx**

SWEDISH ERGONOMICS.
BRITISH ECONOMICS.
INTRODUCING THE VOLVO BUSINESS EDITION.
VOLVO
THE VOLVO S60, V60 AND V70 BUSINESS EDITION FROM £19,995 OTR*
• Integrated Satellite Navigation
• Bluetooth
• High Performance Audio
• Rear Park Assist
• City Safety
We thought about the things that matter to you when we created the new Volvo Business Edition. Useful things like Satellite Navigation and Bluetooth. Helpful things like Rear Park Assist. And important things, like a lower retail price to keep costs and BIK down. So don't be too British about it, it makes total business sense. Enjoy all the well-earned perks of the Volvo Business Edition. It's designed around you.
T 08457 300 140
VOLVOCARS.CO.UK
Official fuel consumption for the Volvo Business Edition range in mpg (l/100km): Urban 28.5 (9.9) – 57.7 (4.9), Extra Urban 47.9 (5.9) – 72.4 (3.9), Combined 38.2 (7.4) – 65.7 (4.3). CO_2 Emissions 171 – 114g/km.
MEMBER REWARDS PARTNER
ICAEW
COMPANY CAR DRIVER INFO: Benefit In Kind rate for the 2012/2013 tax year on the Volvo Business Edition range from 16% to 26%. By way of example company car tax payable being £55.17 to £125.69 per month for a 20% taxpayer and £110.35 to £251.38 per month for a 40% taxpayer. Monthly amounts are a guide only. Final car tax payable may be lower or higher and will depend on other factors including final list price of car with accessories and options and any employee capital contributions or payments made towards private use. Excludes private fuel. Advice should be taken.
*S60 T3 Manual Business Edition.
Image shows Volvo S60 with optional metallic paint, BLIS (Blind Spot Information System), Winter Pack and Accessory Front Skid Plate.