

Finance & Management



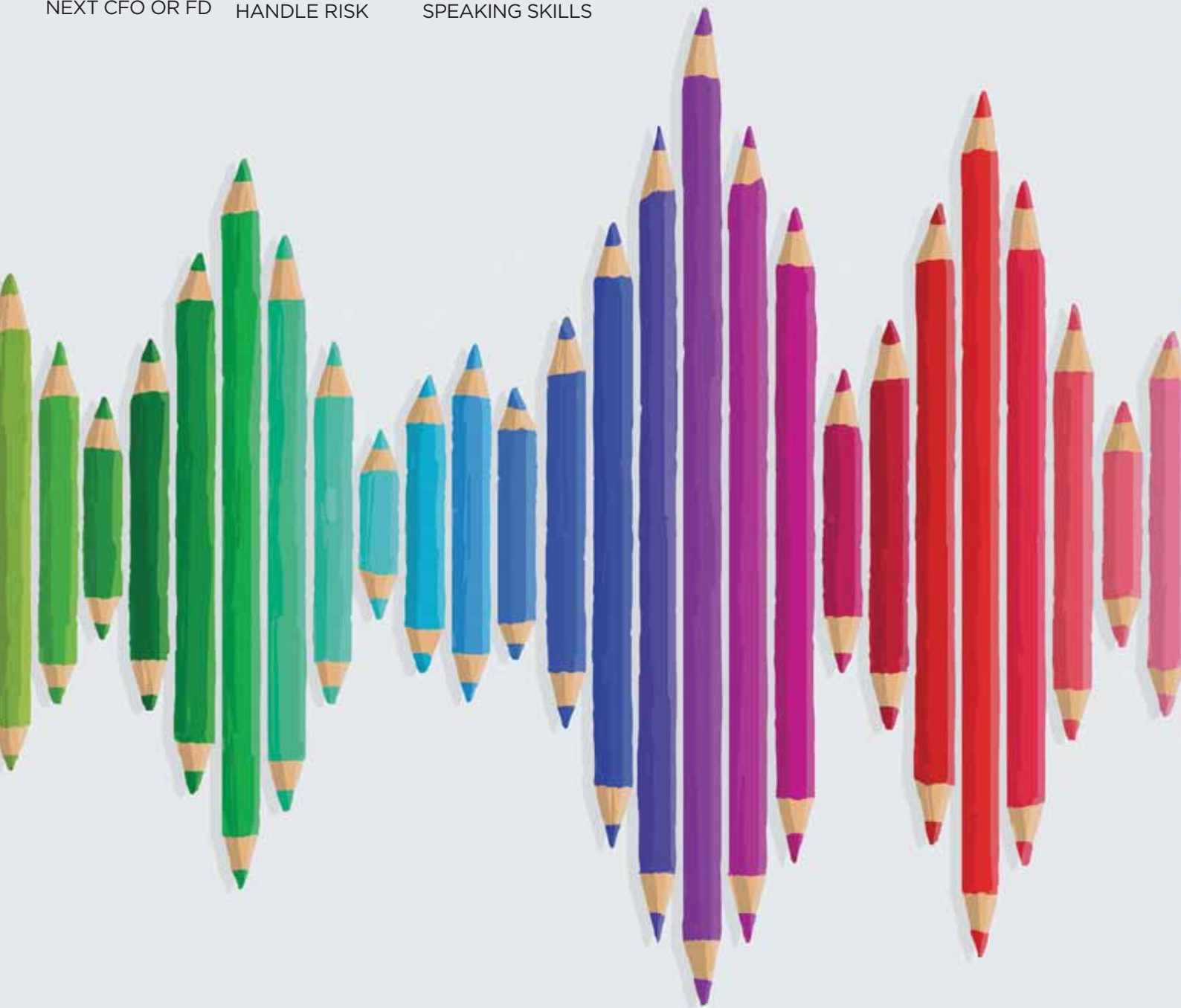
FINANCE &
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ISSUE 234
JULY/AUGUST 2015
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A HIRING MIND**
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NEXT CFO OR FD

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PEUGEOT 308

MOTION & EMOTION



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COVER: TANG YAU HOONG / IKON



"We identified spare capacity on the Scotland route, and we quickly pulled together a campaign. We doubled our target within the first week"

Natalie Cowen, head of marketing, East Coast Main Line



A question of trust



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Politicians can afford to be much more honest once they have stood down from Parliament or the council. This is when they are generally more interesting to listen to. William Hague was at ICAEW



the other week, and *Finance & Management* was there to listen to his reminiscences. He suggested five ways that politicians answer questions.

1. Sidestep: no answering the question at all, but answering another one entirely to which the respondent knows the answer.
2. Obfuscation: quoting so much data and information that the questioner isn't sure if the question has been answered or not.
3. Diversion: referring to another matter entirely, eg, "How can you ask me that question when there is a crisis in Greece?"
4. Agreement: agree but blame someone else.
5. Flattery: say nice things about the questioner so that they don't push back for an answer.

When Alan Clark admitted during the Matrix Churchill trial that he had been "economical with the actualité" in Parliament when answering questions about export licences to Iraq in 1992, it was the admission of misrepresenting the position that caused the shock and not the fact that he had misrepresented.

These techniques enable politicians to stay in power for longer than they might do otherwise, but have earned them the general mistrust of the people they represent. Ipsos Mori conducts an annual Veracity Index for those in the public sector in which politicians generally finish last. The most recent poll from December 2014 (at bit.ly/1RScuBK), showed no more than 16% of people trust politicians against 90% who trust doctors.

Similar results are seen in an Australian poll in 2013 (conducted by Roy Morgan Research) that also asked about finance. No more than half of respondents (49%) felt that company accountants were "ethical and honest" - a fairly poor showing - but placed finance as the most trusted in the corporate field. No more than 26% felt chief executives of listed companies were ethical and honest, so finance is perceived as relatively significantly stronger.

Organisations and businesses expect finance to be ruthlessly honest, to say nothing of ICAEW itself (as exemplified by the Code of Ethics at bit.ly/QEbQiD), but as our careers progress and become more strategic (and political), we may find that using the tactics above for answering questions may come in useful! I hope that you enjoy this month's magazine and your summer break. If you have any suggestions for the faculty, please let us know.

Robert Russell
Technical Manager

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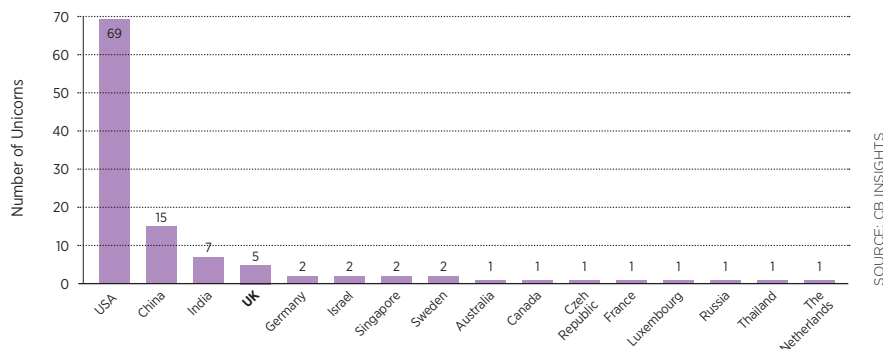
ISSN 1471-1818 TECPLM13529

Printed in the UK by Sterling Solutions



News

NUMBER OF UNICORNS BY COUNTRY



HOW TO BECOME A UNICORN

More than half of Europe's "unicorns" – start-ups with \$1bn+ valuations – came from Britain in the past year, says investment banking firm GP Bullhound.

In a report *European Unicorns: Do They Have Legs?* issued last month, the firm

outlined the key factors most likely to catapult a start-up into the mythical unicorn category: start in your thirties, use the UK (preferably London) as the company base, and keep all the founders on board.

DRONES TO HELP KEEP AIRCRAFT FLYING

Budget airline easyJet intends to use drones to carry out safety inspections on its aircraft, the company announced last month. The company believes the technology will help cut the number of hours aircraft are out of service.

Ian Davies, easyJet's head of engineering, said: "The use of these emerging technologies frees our engineering teams to undertake more skilled tasks."

It is also trialling the use of 3D printers to create replacement aircraft parts, including fuel nozzles and fan blades.



MASTERING MATHS QUICKER

Supporters of Mathematics Mastery – a Singaporean-inspired programme – claim it is a more effective way of teaching maths to children than the existing approach.

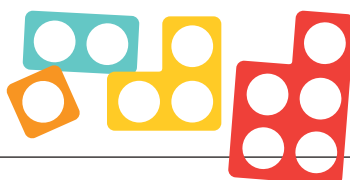
Research conducted by UCL Institute of Education and the University of Cambridge demonstrated that schools using the programme showed the equivalent of one extra month of progress during an academic year, when compared with pupils in other schools.

The programme was tested in 90 English primary and 50 secondary schools where it

was taught to more than 10,000 pupils in year one (aged five to six) and year seven (aged 11-12).

The researchers also found that a small improvement in age 10 maths skills would translate into an average wage increase of between £100 to £200 a year.

mathematicsmastery.org/



PENSIONS ARE SEEN AS SAFE, BUT PROPERTY COMES OUT TOPS

Property is still seen as the method most likely to "make the most of your money", according to the latest *ONS Wealth and Assets Survey*, released last month. However, 40% of those surveyed felt that workplace pensions were the safest way to save money for retirement.

More from: bit.ly/1RwK2p8



GOLD RESERVES ARE ON THE MOVE

Austria has become the latest European country to announce plans to repatriate some of the gold it stores overseas, aiming to hold half of its reserves domestically. Germany – which has the second largest gold reserves in the world – and the Netherlands have already announced similar repatriation plans. After the US Federal Reserve, the Bank of England is the world's second largest gold custodian, and holds 80% of Austria's reserves. However, the UK owns only 310 tons of the 4,600 tons of gold it holds.

310 tons

amount of gold owned by the UK of the 4,600 tons of gold it holds

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WEBINARS

All webinars are **FREE** for F&M members, and from £25 plus VAT for non-members. Webinars last no longer than an hour

IMPROVING TEAM PERFORMANCE THROUGH ENERGISING PEOPLE

15 September, 10:00

FREE for F&M members

Without the buzz of energy in the workplace, it's hard to succeed today. There's a big difference between putting time into a job and putting energy into it. During the past 12 years, John Niland has worked with more than 500 professionals to energise more successful business collaboration. John joins us from Belgium to deliver practical advice on how to create team energy to better manage your teams and improve their overall performance.

Book your free place at icaew.com/fmfseptwebinar



AUTOMATING YOUR MONTH END

30 October, 10:00

FREE for F&M members

Closing month end can be an arduous and time consuming process, involving a long checklist of processes for those who use Excel to ease the process. You only need a couple of errors found in review to have to repeat much of the original work. The time invested in automating as much of this procedure as possible provides a return in team efficiency and accuracy. In this webinar, John Tennent will show how Excel processes can be used to bridge your accounting system and Excel to automate much routine reporting.

Sign up for your free place at icaew.com/fmfoctwebinar

EVENTS CALENDAR

All events are **FREE** for F&M members (from £45 plus VAT for non-members) and are held at Chartered Accountants' Hall, Moorgate, London

ECONOMIC UPDATE WITH THE INSTITUTE OF FISCAL STUDIES

13 October
18:30-20:30

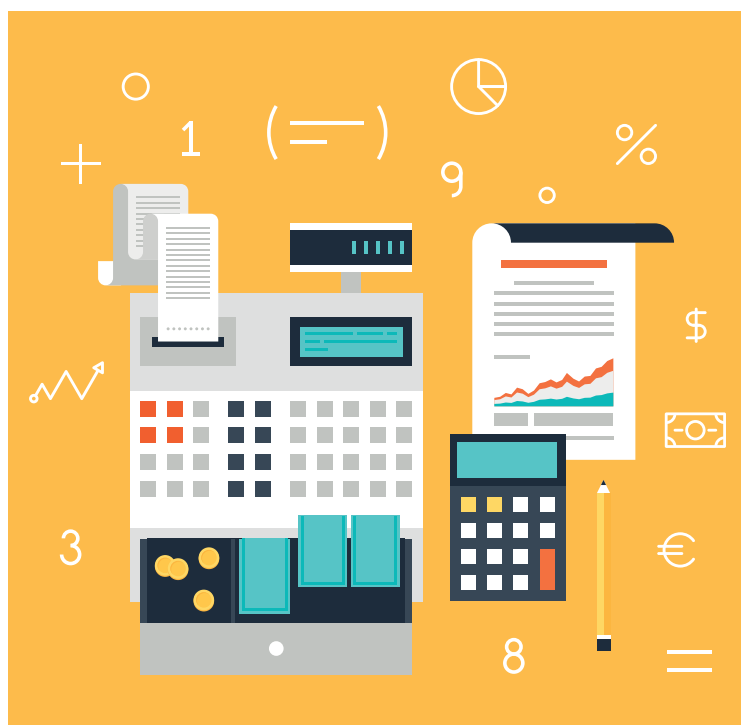
Carl Emmerson, deputy director of the Institute for Fiscal Studies, will cover the challenges for UK fiscal policymakers five months after the summer budget. The £90bn gap between income raised through taxation and the level of government spending will require radical decisions that the government will find challenging. Join us for this evening event to better understand how the numbers work. We'll follow the event as always with networking. Book your free place at icaew.com/fmfocetevent

GROWING YOUR BUSINESS: MARKETING AND ADVERTISING

SAVE THE DATE
18 November, 18:00-20:00

Advertising and marketing are some of the most challenging areas in which finance can be involved, but it may play an important part in business growth.

In this evening event, we'll hear frank assessments from three speakers on the merits of marketing and advertising and which spending is most productive for new businesses and those looking for ways to grow.



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Channelling grants and incentives

Alistair Davies highlights the R&D grants and benefits available for companies on either side of the English Channel

Grants and incentives are available in many countries to encourage economic activity. Here we focus on recent developments in the area of R&D tax that enhance the benefits available in the UK and France. An important distinction between grants and R&D tax is that grants typically need to be secured before any firm commitment is made to a project while R&D tax benefits are generally claimed after the event through the tax return.

UK: R&D TAX RELIEF CHANGES **Budget 2015 measures**

In his March Budget, chancellor George Osborne announced a restriction on the types of consumable expenditure that qualify for relief. From 1 April 2015, the UK government has restricted the cost of materials incorporated into products which are subsequently sold under the R&D tax credit arrangements. The impact of these changes will be different for varying industry sectors depending on how prototypes and the output from trials are used, but is applicable to both the SME and large company reliefs.

PREVIOUSLY ANNOUNCED MEASURES – CHANGES TO RATES

The super deduction rate increased from 225% to 230% of qualifying revenue expenditure for SMEs for expenditure incurred on or after 1 April 2015. Coupled with the change in the main corporation tax rate to 20%, the relief now reduces the corporation tax liability of an SME by up to 26% of the R&D spend. Loss-making SMEs can claim a cash credit which is worth up to 33.35% of R&D revenue expenditure.

Also from 1 April 2015, the R&D expenditure credit (RDEC), which is available to large companies and SMEs for certain expenditure that is excluded from the SME regime, increased from 10% to 11% of qualifying revenue expenditure. At the current corporation tax rate of 20%, this results in a net benefit of 8.8% of the R&D spend for companies submitting an R&D claim under this regime. This benefit will either reduce the company's corporation tax liability (and in some cases other tax liabilities due to HMRC) or, for loss-making companies, is available as a tax credit.

The applicable deadline for a claim for R&D tax relief is two years from the end of a company's accounting period.

R&D ACCESS FOR SMALL BUSINESS

The UK government continues to focus on increasing the awareness of R&D tax relief among smaller businesses. After a period of consultation, the government announced that new guidance and measures will be introduced in the summer of 2015. These include the introduction of a voluntary advance assurance scheme for smaller businesses making their first R&D claim, a reduction in the time taken to process a claim for such companies from 2016 and a publicity campaign to increase awareness of the relief.

It is estimated that, when taken together, the above measures will cost the Treasury a net £80m in further support for R&D by April 2020.

FRANCE: TEMPORARY SUPER-DEDUCTION **Tax savings for new industrial/ research investments**

This is an opportunity for companies that are subject to corporate income tax to deduct from their taxable income 40% of the original cost (excluding financial expenses) of eligible assets bought or manufactured between 15 April 2015 and 14 April 2016. This scheme is limited to equipment eligible for reducing-balance depreciation and for certain activities (including materials and tools used for scientific and technical research). The extra deductions will be spread, on a straight-line basis, over the normal life of the assets. ■



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HIRE ORDER

What's the best way to find your next FD? Will you recognise the ideal candidate when you meet them? The faculty spoke to a variety of recruitment experts about how to find the perfect fit

If statistics and surveys are to be believed, recruitment in finance is on the rise. Office for National Statistics figures from 2014 showed the UK entering pre-2007 levels of growth. The knock-on effect, according to the Robert Half 2015 Salary Survey, is that accounting and finance recruitment is also returning to these levels. Only a year earlier, Robert Half found 95% of board level executives feared the imminent exit of their CFO.

How do you find the perfect head of finance for your business in an overheated recruitment environment?

1 DEFINE THE JOB

It's important to flesh out the job within a team that's already in place. The MD, CEO, chairman, audit chairman and HR director are obvious choices to do this. In a small firm, sales or operations directors might be more appropriate.

This is the time to redefine the FD role if the business needs it. Mark Freebairn, head of financial management practice at Odgers Berndtson, believes that everyone who has an vested interest in the success of the finance role needs input into defining the job: "They'll know how that individual is going to make the difference that the role and function is supposed to make."

2 DON'T RELY ON AN ADVERT

It's tempting to place an advert and wait for the candidates to apply. But Chris Harrington, a regional manager for Reed Finance & Banking, feels that consultants and recruitment agencies bring advantages only available through the networks they already have - contacts, clients and candidates already open to the idea of moving on. "We've got scope to find people," says Harrington. "It's difficult for an SME to go out on their own. If you don't have a recognisable brand, you can't just advertise a role and expect to fill it."

Aside from the time involved, tackling recruitment directly can put candidates off applying. "Candidates might ask about the culture of a firm and benefits," says Harrington. "You wouldn't necessarily want to go into your first interview with an MD and ask about a benefits package."

Freebairn describes going it alone as a gamble: "You can try and, if you succeed, it'll be the smartest decision you ever made. If you fail, then you've wasted time and money. My gut says you're better off outsourcing."

Tracey Alper, director of Marks Sattin Executive Search, highlights another point: "Managing a candidate out of their current role is one less burden for the client."

3 CHOOSE THE RIGHT CONSULTANT

If you're going to use a consultant, what should they look like? Reed's Harrington says: "You need someone who takes the time to come and see you, understands the role and the drivers behind it. It's important we know our candidates, but it's vital we know the job."

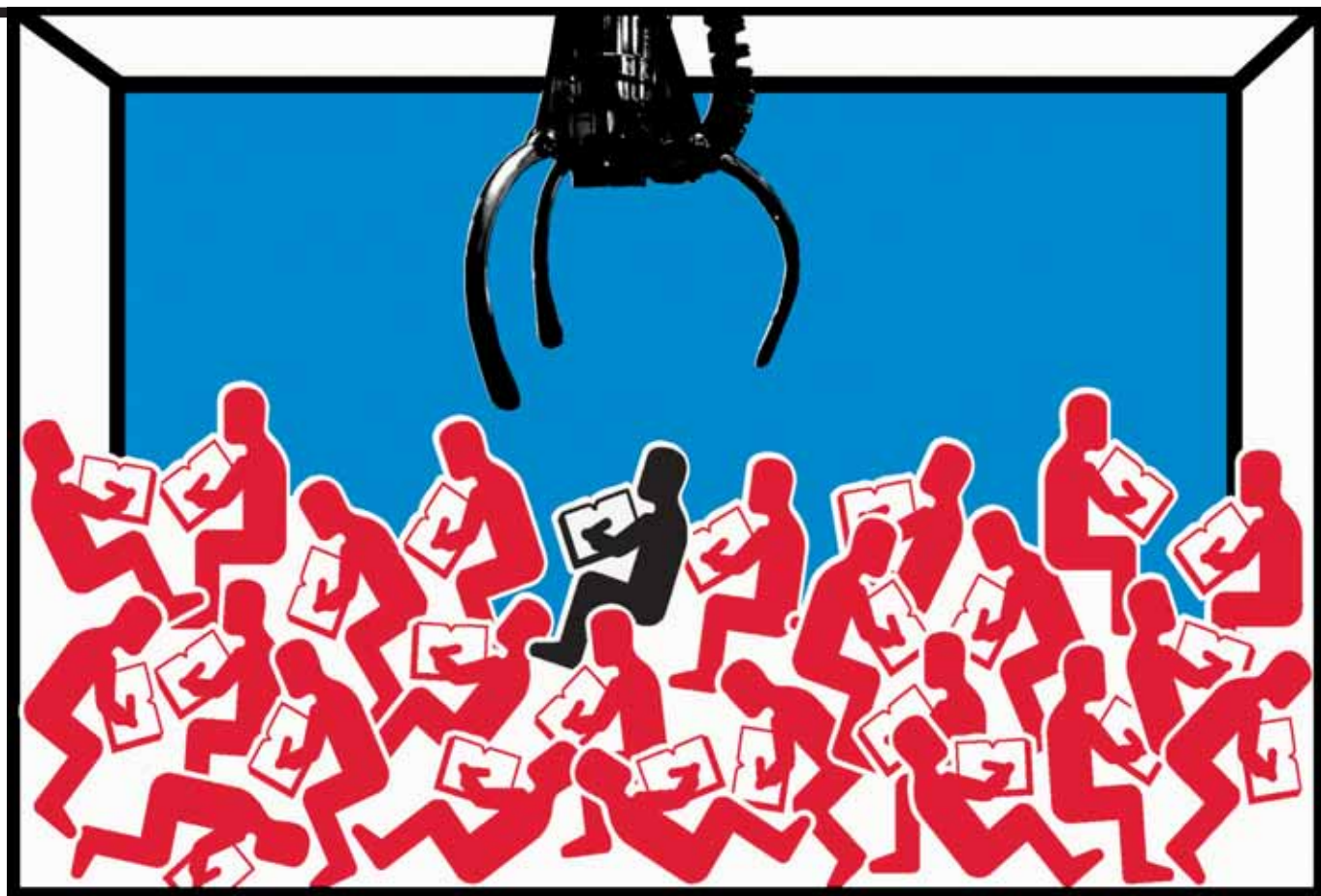
Freebairn also welcomes a little dissent: "You want someone who will challenge you. For that to work, you've got to respect them, and you've got to like them."

4 SPOT KEY ATTRIBUTES

Finance recruitment specialists are firm about the skills and experience you should expect for a key finance role. Alper says: "A decade ago, candidates were judged by their ability to produce robust and comprehensive financial reporting mechanisms. Today, greater commerciality is required."

In a smaller business, she adds: "The ability to manage non-finance functions is a common requirement, for example overseeing IT, legal and HR."

Freebairn and Harrington both cite adaptability and an everyman quality for a hire, especially in an SME, where business partnering and flexibility is key. Freebairn



says: "If the controller's ill, then you're doing the P&L and the monthly accounts. If you've got an ego about that, then you don't want to be in that environment."

Karen Young, director at Hays Accountancy and Finance, would expect to see professional qualifications, along with training in leadership and management on CVs, but not always university attendance. Referring to Hays' *DNA of an FD* report, Young says: "More than a third of our survey respondents had not studied for a degree before training as an accountant."

5 DECIDE IF YOU'RE A RISK TAKER

Seeing where a candidate's experience has added impact and value will tell you volumes - even when they're being screened for their first FD role. Is your business geared to spot potential?

Freebairn says it's worth thinking about talent spotting early: "You want to look at a spectrum of candidates so you can see the up-and-coming individuals against more mature ones. You're looking for examples where they have had to do something above and beyond what could have been expected of them - and they delivered it."

Confidence plays a part too - for the business and the candidate, Freebairn

"The ability to manage non-finance functions is a common requirement, for example overseeing IT, legal and HR"

adds: "It's about making sure the business has a culture that will support someone with that sort of background." Young believes a robust process should allay any fears about choosing new talent. Having a potential first-time FD emerge as the strongest candidate is a sign of thorough due diligence in the selection process, she adds, "giving you the confidence to back them".

Harrington explains that some agencies, like Reed, also have schemes where the hiring firm can take a risk-reducing guarantee, with a one-year rebate on fees if the hire doesn't work out.

6 AND LOOK WITHIN YOUR BUSINESS

But what of the potential for hiring from within? EY's *Finance Forte: the future of finance leadership* report - based on a

survey of 530 group CFOs - concluded that external recruitment for the top job was more common mostly because the route for internal succession was lacking. Despite the finding, 82% of respondents also agreed that CFOs had a duty to coach the next generation from within.

And schemes exist to address this issue. ICAEW's F-Ten programme is a business leadership and mentoring scheme offering peer-to-peer networking over 10 months. Mentees are matched with suitable mentors based on skills, experience and goals. Some 175 delegates from 98 organisations have completed the programme since it began in 2009. The next intake is in spring 2016.

Helped by this kind of programme, Young believes candidates should be able to demonstrate the qualities needed in senior finance roles. "FDs often show an appetite for continuous professional development and use this to set themselves apart from their peers," she says.

"But it is also an individual's capacity for hard work that can take them to the top of a finance team. Three-quarters of FDs who responded to our survey noted this as the personal characteristic that has most helped them succeed in their career." ■



NUMBER CRUNCHING

The very power of statistics has led some to dismiss them as damned lies.

Robert Russell talks to **Dr Ioannis Kyriakou** about how to use them to analyse business performance

Assessing divisional performance may be easy with limited data to look at, but finance executives comparing sizable sets of data – also known as populations – may want to consider using statistics to quickly carry out their analysis. To do this, it's useful to have a quick reminder of some basic stats.

MEASURES OF CENTRAL TENDENCY – MODE, MEDIAN AND MEAN

A good start is finding the average of the data being looked at. When assessing one piece of datum against the entire population of data we need to have a midpoint against which we can determine its relative performance. We call this the measure of central tendency – a single value which is representative in some way of the data as a whole. Measures of central tendency in common use include the mode, the median and the mean.

MEASURES OF SPREAD – STANDARD DEVIATION AND VARIANCE

Comparing a specific point of data to the mean of the entire population allows you to appraise the performance in terms of the average, but this reference is lacking in detail as the mean would not reveal the extent of range of the data. The standard deviation quantifies the spread of data around the mean; it is a useful measure to use as a quick idea of the spread of numbers and helps to better understand how the results fit around this mean. A low standard deviation will approach zero and imply a low spread of results around the mean; a large standard deviation would imply a wide spread of results around the mean along with a lack of conformity in results. The standard deviation is calculated by taking the square root of the variance, which is the weighted sum of the squared differences of the data points from the mean.

DISTRIBUTION

Numbers in a population are said to be distributed across a spectrum of values – we call this pattern of results the distribution. This can take many forms, but we are focusing on continuous data sets. It would be unusual for any data sets that finance would be working with to fall within the definition of a “normal distribution”, but the concept creates a useful base for comparison.

A distribution is considered to be “normal” if the median, mode and mean are all equal; another aspect to them is

that you can say with absolute certainty that some 68% of the population's values within a normal distribution will be within one standard deviation from the mean; 95% of the values will fall within two standard deviations; and 99.7% lie within three standard deviations, which gives the distribution a symmetrical pattern around the mean.

This sounds fine, but how does it help me when all my data sets fall outside the definition of a "normal population"? This is where Chebyshev's theorem comes in.

CHEBYSHEV'S THEOREM

Chebyshev's inequality is the most popular and often used theory in statistics. It promises that $1/x^2$ of the population will be outside x standard deviations from the mean in any data set, ie, $1/4$ of a data set will be within two standard deviations of the mean, 11% will be within three standard deviations of the mean, etc. This statistical fact enables a us to know with absolute certainty that in any data set, 11% of the data will always be outside three standard deviations of the mean. This rapidly identifies the weakest (and strongest) in a population. The beauty of this theory is that it applies to all data sets, irrespective of their standard deviation or distribution.

Applying this to, say, the profitability of businesses would enable us to produce a relative performance score enabling us to identify underperforming divisions. Businesses would be able to say with confidence that 89% of any population would lie inside three standard deviations of the mean. In an audit of output or performance-related pay exercise, a business would be able to better reassure itself of the range of output or to estimate the costs of a programme in advance.

Excel can even work out all of these formulae - listed in the example below.

EXAMPLE

Acorn Limited packages cement for retail sale in 50kg bags. Acorn audited all of its production during a 10-minute period from each production line and gathered the weights in a table as below.

The mean of these results is 49.965 - the Excel formula is `@average(a:z)`

ACORN LIMITED AUDIT				
50.150	49.970	49.250	50.070	50.050
49.850	49.920	49.750	50.080	49.990
49.950	50.040	50.100	50.090	50.050
49.900	50.081	50.005	49.951	50.060

Finance executives comparing sizable sets of data may want to use statistics to quickly carry out their analysis

where a:z is the data set. The median score is 50.02 - the Excel formula is `@median(a:z)` - and the mode is 50.05. Like most data sets this is not a normal distribution.

All three are measures of the "average" weight of a bag of cement, and the company can choose which of them to publish. Reports to customers may want to include all three measures, but there would be nothing statistically wrong about quoting the average weight of each bag as being 50.02kg - the mean bag weight is marginally below 50kg.

We should look at the next step to discover more about the population.

The standard deviation is the square root of the average deviation from the mean, and this is 0.188981 for this population - the Excel formula `@stdevp(a:z)`, where a:z is the data set. Please note that `@stdev(a:z)` will work out the standard deviation as if the set were only a sample and the result will be different. You should use `@stdevp` for full data sets.

The mean of 49.965 and the standard deviation of 0.189 (to three decimal points) imply that any weight between 49.776 and 50.154 would be within one standard deviation of the mean, and those between 49.587 and 50.343 would be within two standard deviations of the mean.

What we know with absolute certainty

MODE

This is the value seen most often in a population. For unordered qualitative (descriptive, non-numerical) data - such as the types of vehicles passing a census point - the mode is the only representative value. For continuous quantitative (numerical) data, which is that we will be using more frequently, the mode may be meaningless.

MEDIAN

Numerical data sets can be rearranged in order - normally ascending. The middle of the set is the median, and this point can represent the data set, although it is a physical mid-point in a re-ordered population.

MEAN

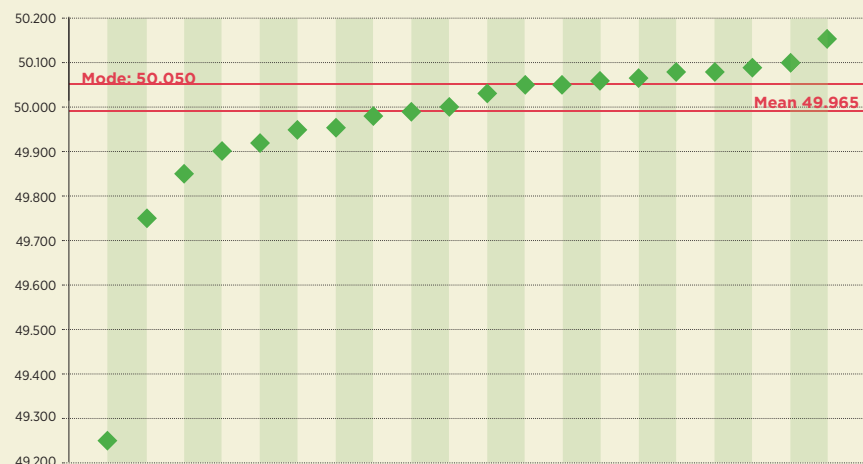
This is the numerical mid-point of a population and is normally referred to as the average. Although the mean and the median each define, in some sense, the centre of the data, the mean is sensitive to the magnitude of the values on either side of it, whereas the median is sensitive only to the number of values on either side of it. Unusually large or small values affect the mean more than the median.

from Chebyshev's theorem is that 75% of all bagged cement produced will be between 49.587kg and 50.154kg a bag.

The visual form can be seen in Figure 2. Please note that this example is limited for simplicity. We would normally expect any population to have thousands of data points. ■

Dr Ioannis Kyriakou is a senior lecturer in actuarial science, the Cass Business School, City University

FIGURE 2: A SERIES OF VALUES BASED ON ACORN LIMITED AUDIT





SPEAKING UP

We have something to say, but the prospect of facing an audience makes us break out into a sweat. Yet fear of public speaking doesn't have to hijack your career, says **Paul Ryan**, as he shares ways to grapple with our demons

Fear of public speaking is known, with good reason, as the phobia that stalls careers. It's possible to avoid it for a while, but the higher we go up the promotional ladder, the more likely it is that we will be called upon to perform this most hated of professional disciplines.

We've probably all seen a few "naturals" who seem to take centre stage without breaking into a sweat. They are personable, relaxed, audible and amusing. They make public speaking look easy.

For most of us, it's a nightmare. We shake, we sweat, go red and feel our heart thumping. We feel nauseous, our voice becomes weak and may even dry up. We freeze.

Why on earth would we put ourselves through something that brings on such anxiety? The answer is simple: avoiding making presentations, addressing board meetings, running training sessions for colleagues and other forms of public speaking imposes limits on how much we can influence and motivate others. If we want to continue expanding our careers, we will have to grapple with the demon that's holding us back.

At least we're in good company. This is a fear thought to strike three out of four of us. And yet, a lack of confidence when faced with giving a presentation is understandable; indeed, it's completely natural.

The most primitive part of our brain – the fight or flight system – is designed to look out for situations we find threatening, and then push us to react accordingly. When we feel that familiar burst of adrenaline, blood rushes to our limbs, preparing us to flee a perceived threat. We begin to shallow breathe to oxygenate the blood in our arms and legs – helping us to run like hell or fight like crazy. On top of that, our neocortex – the thinking part of the brain – goes into shutdown mode to stop rational thought because we want our protective instincts to take over.

So why do some of us react as if facing an audience was the same as confronting a herd of marauding elephants, while others happily take charge of the room? Well, all of us are individuals and will inevitably react differently.

But our ancient fight-or-flight defence also helped us to live as part of a social group where our strength lies in collaboration. When we face an audience, we're on our own, risking failure, or ostracism – fears that take us far beyond being embarrassed or judged. Anything that threatens our status in the group feels like a great risk because we feel less able to protect ourselves when we're outside our social group.

The good news is that you can take control of these fears and learn how to put yourself in a state of mind where you feel able to communicate with focus and confidence. A great deal of what I teach as part of combatting public speaking anxiety has little or nothing to do with the "speaking" part of

HOW TO TACKLE YOUR TALK

- 1 Prepare your topic. Make sure you know in depth the material you intend to cover: it will build your confidence. Make a detailed outline and break it into individual points that you can memorise.
- 2 Get ready for questions. Anticipate audience reaction and prepare answers to any questions you think might be thrown at you. Being fully prepared will combat your nerves.
- 3 Practice. Stand in front of a mirror and deliver your talk, or record yourself. You may feel foolish, but it's useful to notice your facial expressions, body language and how welcoming you seem.
- 4 Record yourself. Make notes about where you can do better. Try to get into a speaking rhythm. Keep your sentences short and remember to include short pauses – they can add moments of anticipation about what's coming next.
- 5 Avoid talking too quickly. Remember to breathe. Talking fast will hijack your breathing, which may lead to panic.
- 6 Remember that it's not about you. Your talk is about what you can share with your audience.
- 7 Think of how to engage your audience. People aren't waiting for you to fail, they actively want to enjoy your talk. Look for ways in which you can involve them. But don't overthink their reactions.
- 8 Avoid "death by Powerpoint". Slides can be useful or your worst enemy. Use them sparingly and try to make them visual.
- 9 Channel your nervous energy, and smile. Remember that you won't look as nervous as you feel. After a few moments, you may even start to enjoy the experience. Try not to think of it as an ordeal that has to be endured.
- 10 Try to have fun. The more you give talks, the more chance there is that you'll start to enjoy them. You don't get rid of your anxiety and then start to give talks. It's the other way round. You'll learn how to connect with your audience and forget your fears.

public speaking at all. And most of the benefits come into play before you utter a word.

While there are many tactics for building your public speaking expertise (see box, How to tackle your talk) one simple exercise works on many levels. It will calm and energise you, and help you think clearly before you get up to speak – forgetting what we are supposed to be saying invariably comes up as part of our public speaking anxieties.

Remember the shallow breathing that happens in moments of stress? It dries your mouth, stops clear thought and may even make you light-headed. Well, this breathing exercise is a way to bring the amount of oxygen in your blood stream back to normal, and

One simple exercise works on many levels. It will calm and energise you, and help you think clearly before you get up to speak



replace that light-headed nervousness with an almost instant sense of “can-do” tranquillity.

It banishes our butterflies and helps keep our minds focused. And the good news is that it's easy. Just follow these instructions.

- Stand up.
- Exhale, as you prepare for your next breath.
- Inhale deeply to a count of seven, raising your arms up so that your hands are above your head by the time you reach seven.
- Exhale to a count of eleven, using the whole count to slowly empty your lungs while lowering your arms down to your sides.

Repeat this two or three times and you will notice that a sense of calm has come over you. Your butterflies will have gone and your fuzzy mind

will be replaced by a secure sense of consciousness.

You may feel a sense of bliss and then, due to the deep breaths of air that you have slowly brought into your system, you will feel energised and at ease. This deep breathing approach is a great way to banish any sense of rising dread before you go into your presentation, board meeting or training session. For me, this is helpful before I have to stand and give my

When we breathe deeply and efficiently, we calm our emotions, focus our minds and this enables us to speak with greater confidence

BECOME A MASTER OF THE TOAST

Making oration look easy isn't easy at all – it takes practice to make speeches flow from your notes to a conference floor; that's to say nothing of the confidence required to deliver your speech in a controlled manner. It's no wonder glossophobia – the fear of public speaking – is rife. Here are some resources to help you hone your speaking skills.

Toastmasters International

The need to excel at public speaking in business is no new concept – Ralph C Smedley, director of education for the YMCA in the US, spotted this gap in the market in 1905. To help men plan and deliver effective meetings, Smedley organised a speaking skills group that he named the Toastmasters Club, after the person who traditionally officiated at banquets. That first toastmasters' gathering, held in Bloomington, Illinois, blossomed into Toastmasters International in 1924 – and

steadily grew into an organisation with 313,000 members attending 14,650 clubs in 126 countries. The organisation now helps men and women develop as leaders through a tailored curriculum based on the same guiding principles it had 90 years ago. toastmasters.org

Guild of International Professional Toastmasters

Once you've managed to do away with the sweaty palms of public speaking fear, you might begin to enjoy it. You may even relish the idea of an additional career as a traditional toastmaster. The Guild of International Professional Toastmasters is one of several UK organisations that offers a training programme to give speakers the confidence to act at high-profile formal events, such as civic receptions and even royal occasions.

Toastmasters are expected to excel in customer service, have great organisational ability, employ tact and diplomacy and present themselves impeccably. Many people who make a second career of being a toastmaster move across from the police, armed forces or industry. guildoftoastmasters.co.uk

TED talks

TED is a great place to look for a flavour and mix of public

speaking approaches across a range of fascinating topics. TED stands for Technology, Entertainment, Design, and is the name for a group of global conferences run by the Sapling Foundation based in Vancouver, Canada and New York City.

While the organisation's origins date back to 1984, its “ideas worth spreading” philosophy has grown to include the highly-popular TED Talks. Almost 2,000 talks are free to view online – and they've been watched more than a billion times. Podcasts can be downloaded too.

Speakers across business, the arts, science and technology offer inspiration, insight, humour and enthusiasm. Speakers have included Microsoft founder Bill Gates, Google founders Larry Page and Sergey Brin, and former US president Bill Clinton.

ted.com

YouTube

Many people and organisations run their own channel on YouTube; it's packed with how-to guides on almost any topic – including public speaking.

Plough through more than four million instructional videos and tutorials to find the gems, including clips from the World Championship of Public Speaking organised by Toastmasters International.

youtube.com





60-second pitch. When you try this for the first time, remember these tips.

- Breathe in and out from your mouth with your lips pursed as though you are blowing/sucking through a straw. This will help you make the exhalation and inhalation last for the full counts of seven and eleven.
- For the first few times you use this technique, please do raise your arms. This makes sure that you take long, deep breaths that reach right down to the bottom of your lungs to calm and nourish you. With practice, you will be able to do this without the arm movements. Ultimately, you will learn how to do this kind of deep breathing in a room full of people without anyone knowing.

When we breathe deeply and efficiently, we calm our emotions, focus our minds and this enables us to speak with greater confidence.

Move beyond the career-stalling paralysis that public speaking can induce and you can become one of the few able to take charge of any room, leading discussion and sharing what you know. ■

This article follows a talk about managing public speaking anxieties given by communications expert Paul Ryan in June at Chartered Accountants' Hall.

MEASURING MARKETING EFFECTIVENESS

Spending money on marketing is a start – but was the money well spent? Jane Simms investigates how to weigh up the tangible and intangible benefits



N

o marketer or marketing agency today is likely to get away with the kind of one-line invoice reputedly presented by Saatchi & Saatchi to British Airways for its Manhattan commercial back in the 1980s: "TV commercial - £1m". Squeezed budgets, the influence of purchasing and the advent of quarterly reporting (at least for listed companies) means marketers are increasingly accountable for what they spend, how they spend it and the results they achieve.

Marketers certainly talk a good game. But as far as some business people are concerned, many speak a language that's largely unintelligible, laced as it is with acronyms - such as CPC (cost per click), CPA (cost per action) and CTR (click through rate) - that have been spawned in a digital age where everything, supposedly, can be measured.

WORTH EVERY PENNY?

"Too many executives have bought into things like social media - and, 10 years ago, customer relationship management - without really looking at how they would work. In many companies such initiatives have proved to be money sinks," says Mike Sommers, a former marketing director and non-executive director of many organisations, and former audit committee chairman at the Department for Work and Pensions. "The FD has to act as gatekeeper and question marketers' methods and the evidence that they work. If they're not satisfied, they should stop spending."

Most FDs understand the role marketing plays in creating sustainable competitive advantage, so clearly shouldn't dismiss marketing or requests for marketing expenditure out of hand. But "they should insist on the logic of the value chain", says Sommers.

He suggests that digital has made marketers less, not more accountable. Others agree. Robert Shaw, honorary professor of marketing analytics at Cass Business School, for example, claims that in recent years marketers have become "obsessed" with what is a very small part of the marketing mix: "It takes a disproportionate amount of their attention, yet is not proven and, in the meantime, many of the bread-and-butter aspects of marketing are being neglected."

In their rush to embrace new things, it seems, many marketers (and others in the business) have forgotten the basic principle of marketing, which is, according to the Chartered Institute of Marketing, "the management process responsible for identifying, anticipating and satisfying customer requirements profitably".

Viewed through this lens, questions about whether marketing is an art, a science, or even an act of faith, become irrelevant, points out London Business School's Professor Patrick Barwise: "Marketing should be based on metrics so that you can make an informed judgement about things - and this is particularly the case when it comes to long-term brand building."

LONG-TERM MEASURES

While long-term value creation has become a business mantra, the long-term aspects of brand building remain the most difficult to measure. Digital media oozes data, which is why it has many marketers hooked - short-term effects, from awareness to sales, are easy to quantify. But while you won't have a long-term business without short-term sales, the opposite applies too, points out Simon Carter, executive director of marketing, UK & Ireland, at Fujitsu.

When Carter first became marketing director in 2011 (he had previously held board roles in companies including Virgin, the Post Office and Thomas Cook), his brief was to differentiate Fujitsu from its competitors. He had to "sell" marketing in a company where, in common with many in the business-to-business (B2B) arena at the time, it was a largely alien concept.

"We've worked hard on measurement because I recognised that to get the FD on board with my plans, I had to be able to justify everything," he says.

During the past three years the FD has signed off all 391 business cases Carter has presented to him. "He's confident in the process and knows that the ideas I take to him have been thoroughly tested. Getting to that stage can be hard work, and lots of ideas will have crashed and burned along the way. But it's no more than the proper due diligence and governance you would expect to do if you were spending your own money."

But while everything needs a tangible outcome, it doesn't have to be financial, continues Carter. "It might be revenue, but it might equally be reputation, getting closer to the customer (which, in the B2B world, is very important), increases in Twitter followers, attendees at events and so on. The important thing is to agree strategic and marketing objectives up front, and ensure that everything we do can be measured against those."

But while Carter admits to being "a bit OCD" about measuring things, you shouldn't measure everything - something that's all too easy in the digital world, he



warns. "Facebook likes are not a meaningful measure," he says. Likewise, a marketer might need to manage the FD's expectation that a marketing pound spent today will yield a return tomorrow. But that doesn't obviate the need for constant monitoring.

"After every piece of marketing activity, we conduct an independent review to see if we have delivered on our objectives for that particular piece of work and what we have learned. Every business case takes into account what happened last year, which limits the element of 'faith' in a lot of what we do, but you have to take risks or you would never move forward, and that means mistakes will happen. Sometimes we trial things first, but the most important thing is to learn from mistakes."

Winning a seat on the board last year - an increasingly rare occurrence in marketing circles - was testimony to Carter's contribution, which is also reflected in a record financial performance in 2014/15 and growth for 19 quarters running.

LEADING FROM THE TOP

Barwise regrets the dearth of board level marketing directors, because he believes the most successful business strategies are conceived through "intelligent dialogue between finance, marketing and technology to arrive at balanced, evidence-based conclusions".

Indeed, agrees Sommers, the role of marketing should not be merely to extrapolate marketing strategy from business strategy and then execute it, but also to inform the business strategy itself by helping the CEO to make the right choices, based on market knowledge. This, in itself, prevents some of the "oil and water" type of discussions that have traditionally characterised many relationships between finance and marketing directors.

As head of marketing at East Coast Main Line, Natalie Cowen worked hard to balance short-term passenger targets with longer-term brand building. The results of this became obvious for all to see when the government-owned train company returned to the private sector in February. It returned £1.1bn to the government early in premium and profit payments

"It's worth remembering that not everything that can be measured counts, and that not everything that counts can be measured"

during its five years in public ownership. In addition, the government secured a £3.3bn franchise premium from the new franchisee Inter City Railways (a consortium of Virgin and Stagecoach).

Cowen was helped in her work by the organisational structure: the marketing team sat with the revenue team, and both were part of the commercial and customer service team.

"Sometimes we had to be reactive, and my team would work with the revenue team to pull together a price promotion or specific messaging for a particular region," recalls Cowen (see case study, page 21).

When it comes to marketing measurement, it seems that most FDs are on a journey too. Many are starting from a low base, often for good reason: they may work in a B2B company that has succeeded on the basis of strong long-term relationships with a few key clients. But growing competition means that few can ignore marketing.

Bouygues Energies and Services (ES) UK, for example, has a strategic objective to get into two new markets - local government and the commercial building sector. The top team, led by David Carr, deputy chief executive and a former FD, believes the way to crack these markets is through positioning the business and its leaders as "thought leaders".

"In that sense the business strategy and the marketing strategy are the same thing, and at that level we regard marketing as 'strategic business investment'," says Carr. The strategic development director - the closest thing Bouygues ES has to a marketing director - has spearheaded a social media campaign and a stepping up of attendance at industry events and conferences.

TOP TIPS FOR FDs

Factual foundations

"In other words: 'Explain to me, as an idiot, why this particular piece of activity will get X number of people to try the brand, the evidence you have that 40% of them will then repeat purchase and how that will then meet our financial objectives'. You also need to ask 'How are we going to monitor it?' You don't want to be sitting there at the end of the year and say: 'How did we mess up?'"

- Mike Sommers, former marketing director

Unified process

"We have a process whereby every single piece of activity has to have a business case,

signed off by the 'head' of the particular business we are trying to support (laptops, computers, infrastructure and so on). Because they all own their own profit and loss statements, revenue and sales, I can then take those proposed marketing activities to the FD and say: 'This is directly aligned with required business outcomes'."

- Simon Carter, executive director of marketing, Fujitsu

Quick-thinking

"Helped by a very sophisticated revenue management system, we had identified spare capacity on the Scotland route around midday on Tuesdays and Wednesdays, and we quickly pulled together a campaign with

The Guardian, Visit Scotland and Classic FM called 'Hidden Gems', aimed at older people, who tend to have flexibility about when they can travel. We doubled our target within the first week."

- Natalie Cowen, head of marketing, East Coast Main Line

Causation or correlation

"To take a crude example, an ice cream brand that launches an advertising campaign may experience a profitable jump in sales. Closer inspection may show that the increase was mostly due to new distribution in stores, revamped packaging or a spell of hot weather - and not the advertising at all."

- Carlos Grande, Effectiveness editor, IPA

“In our market, companies are bringing products to market three or four years down the line, so we need to get in at the beginning of that process or we are just playing catch-up with competitors,” says Carr. “Obviously you can’t monitor the pounds, shillings and pence impact of what you do today, but you can build data over time and look at core non-financial metrics - like brand awareness - as you go along, and adjust your approach accordingly.”

But at this stage Carr believes in “keeping metrics simple”. The team benchmarks events to gauge which deliver the most leads or afford the greatest opportunities to showcase Bouygues’s thought leadership, and canvases conference attendees and new and prospective customers about their awareness of the company and perceptions of the brand.

MARKETING ACT OF FAITH

Over at online games developer Space Ape Games, FD Joe Adams is excited by the precisely measurable “performance marketing” - essentially tactics to get gamers to download his company’s games app and then go on to make in-app purchases - but he seems to view the company’s more traditional general marketing as something of a black hole. “It is an act of faith,” he admits.

FDs who would like to know more about what they could reasonably expect their marketing to deliver could do worse than turn to the Institute of Practitioners in Advertising (IPA), which has built a database of marketing effectiveness case studies over more than 30 years. The learnings are distilled in a 2013 paper called *The Long and the Short of It*, which focuses on how to balance long- and short-term marketing strategies, and which builds on a 2007 report, *Marketing in the Era of Accountability*.

“Return on marketing investment (ROMI) is different from traditional ROI in that the effectiveness of a marketing campaign can be demonstrated in multiple ways, including sales increases, new customer growth, improved or protected profit margins and/or cost savings,” says Carlos Grande, who edits the effectiveness learning hub at the IPA.

ARE PROMOTIONS REALLY FREE?

If some FDs are naive about measurement in the digital space, many are also misguided about the value of traditional sales and marketing techniques. Sales promotions - BOGOFs and other deep price offers - may drive short-term volume sales at the cost of profits and brand value, while remaining a regular feature on supermarket shelves, points out Professor Robert Shaw.

“Most companies’ sales promotions budgets are at least four times the marcoms budget, but they are not analysed properly,” he says. Supermarkets put pressure on suppliers to pump more money into promotions, and the FD is often cowed by the sales director, who is bonused on sales volumes, he points out. “Someone needs to get a grip.”

CASE STUDY: HOW TO MONITOR MARKETING

Aside from the obvious sales lift that short, targeted campaigns were designed to generate at the East Coast Main Line, head of marketing Natalie Cowen and her team used three main tools to monitor marketing effectiveness.

Cowen’s team conducted a monthly “abstraction survey” among customers who had booked tickets during the previous few weeks to find out whether they had seen any advertising, where they’d seen it, the extent to which it had influenced them, and so on. This data was cross-referenced with how much people paid for their tickets, which allowed the team to work out a rough return on investment and see monthly fluctuations.

They also monitored the Net Promoter Score (NPS), which was developed as a measure of customer satisfaction and advocacy by Bain & Company in the 1990s and which is a proven leading indicator of revenue growth.

Cowen says: “We could break down NPS by type of customer, journey, region, etc, and the information not only helped us prove the value of what we were doing, but helped us drive more of that value by doing more of the things that we could see drove higher NPS.”

The team also used “softer” measures, such as a brand tracking study, after every major campaign, typically four times a year, to test brand and advertising awareness, and “consideration”, basically people’s propensity to buy the brand.

In Cowen’s experience, it is the FD who gets most excited about what measures you can track. “For example, there are a host of factors that influence a sale, not just people clicking on ads, so we started to do attribution modelling, where you attribute a value to each stage of the customer’s digital journey.”

“But whatever area you measure, to evaluate it you are going to need to compare it to target, and ideally to the best practice for comparable sectors and/or objectives,” he says. “One of the challenges of calculating ROMI lies in ensuring that the costs and benefits have been fully captured and correctly attributed across a brand’s marketing activities.”

For instance, he explains, a brand may register an e-commerce sale after a consumer searches online for the brand and buys from its website. However, the consumer’s interest may have been triggered to search online by seeing a specific TV advert, or by general awareness of the brand created by TV advertising over many years. “Unless this is understood and incorporated into any assessment, there is a risk that that impact of individual channels on consumer behaviour may be under- or over-estimated.”

IPA finance director Tom Lewis thinks effective marketing measurement requires a cross-functional approach, including finance, marketing and procurement, using a balanced scorecard made up of a blend of short-term financial measures and longer-term “softer” ones. This cross-functional requirement may in itself be the reason why measurement “lacks traction”, as he puts it, in so many companies.

Clearly, every company is different and has different marketing requirements. “There is no one-size-fits-all approach, but the key thing is to align business and marketing strategy, set objectives that you can measure, and then measure them,” says Lewis. “It’s also worth remembering that not everything that can be measured counts, and not everything that counts can be measured.” ■





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BEACON OF GROWTH

For Netherlands-based FD **Stephen Huyton**, the euro crisis is the backdrop to a more encouraging story of growth and careful expansion, as Christian Doherty reports

With everyone's attention gripped of late by the uncertainty surrounding Greece, the EU and the euro, it is perhaps all too easy to lose sight of the fact that parts of Europe are forging ahead. Countless European FDs have put the financial crisis of 2008 behind them and ploughed on regardless. The result is some companies are beacons of stability amid all the EU angst.

Stephen Huyton, a Liverpool-born ICAEW member, is

one such FD. For the past 15 years, he's had a ringside seat in the heart of Europe at Thermopatch, where he is group FD. The Netherlands-based company makes branded clothing and transfers for sports clubs and organisations. Now, Huyton is challenging the myths about the ongoing impact of the financial crisis on businesses, and driving growth from the FD's office.

SELF-RELIANT GROWTH

Huyton arrived in the Netherlands in 2005 with the brief to take Thermopatch public, preferably on the AIM in London. But the financial crisis of 2008 stopped that from happening. He says: "The company had ambitions, or the private equity owners in the US did, to go to the stock market when everything was going great guns in the early 2000s. But things got waylaid a bit and, since then, that's rather gone off the agenda.

"Our growth has been in Europe, and we have been very much focused on our own endeavours and efforts. By legal definitions under IFRS in terms of our total turnover we're an SME - or if you're in and around the Netherlands, *midden en klein bedrijf* (MKB). Group turnover is about €25m (£17.7m). And we operate with about 160 employees across the group."

Huyton has steered the company through the choppy waters of European retail. He has been helped by the Netherlands largely avoiding the worst of the fallout from the financial crisis.

"We weren't hit hard by the various recessions," says Huyton. "We've not had the cycles of recessions that the UK has had. In my time in the Netherlands, I've seen probably four cycles in the UK. And in that time we've had only one cycle here and that's been the last and the current one. However, what I have seen in this recent cycle is a definite decoupling from the country's relationship to Germany.

"The Netherlands used to hang onto the shirt tails of Germany. If Germany prospered, so did The Netherlands. But that virtuous circle has definitely been broken with the last recession. Germany prospered very well and the Netherlands has struggled to keep pace, and has seen pathetic growth in the past few years, hardly keeping itself in positive territory."

CASH IS KING

Given sluggish domestic rates, how is Huyton maintaining growth? "The problem with the recovery in Europe over the past few years is that it has been weak and sporadic. This makes planning very hard. So my focus - even before the 2008 crisis - has been to reduce the company's dependence on bank financing. The adage that 'cash is king' has never been more apt than in today's environment. And even though mainland European banks are often more flexible than their UK equivalents, even they have their own constraints."

In Huyton's view, the changing requirements that banks face over their capital ratios has meant that unused facilities are being cut back, as it counts against the banks total lending. As a result, the theory goes, even well managed companies lack the flexibility to respond rapidly to changes in demand without producing a great deal of financial information by way of forecasts.

"The problem with the recovery in Europe over the past few years is that it has been weak and sporadic. So my focus has been to reduce the company's dependence on bank financing"

And it's not only the banks' reluctance to fund growth that irks Huyton. His other annoyance is the perspective of UK bank managers towards the pressures facing exporters. Thermopatch exports close to 70% of what it produces to over 60 countries around the world at the moment. For a small business, that's a substantial proportion.

A DIFFERENCE OF ATTITUDE

"It's my bugbear," he says. "From my experience in the MKB sector, the biggest difference that I see between the UK and almost everywhere else that I have dealings with is this attitude towards exports and risk. It's not helped by the fact that the government has an export credit guarantee scheme, which for small companies is almost unworkable in terms of the administration.

"In my banking arrangements, and this goes for most of what the UK would consider its European peers, such as Germany, France and the Netherlands, the first and most important difference is your credit book.



“In the UK, when the banks look at the debtor book, they tend to take a different view about financing. If you’re a company with quite a lot of overseas clients, and you are looking for finance and the debtor ledger is part of that package deal, the banks’ weighting in terms of how it looks at debts from UK companies or companies from abroad is quite different. The banks in the UK are looking for you to then have things like insurance or factoring. Or you have the option of the government’s export credit guarantee scheme. Whereas here, it’s much less complicated. The banks’ view is that I simply discount debts that are over 90 days. It disregards where they are actually from. The banks do not say, ‘well, you’re exporting to Saudi Arabia. We don’t value that debt at 100%. We only value that debt at 50%.’ And that makes a huge difference and makes it easier to export from European countries.”

CAUTIOUS EXPANSION

For Huyton, the focus is now firmly on ramping up Thermopatch’s capacity to grow. That means growing the order book and reaching out to new customers. Having recently won a new contract with a major European football club, he is determined to build on that success, but is cautious about financing expansion in what is still a relatively fragile economic climate.

“Having been successful with a new contract this year, we’ve had to rapidly increase our capacity by as much as 50%. Now, I was only able to do that because, in the last years when life has not been so good, we’ve had a

conservative approach to our funding and financing. That has meant that the cash resources have been available to make that decision without having to go to the bank cap in hand, or to a lease company for instance. I may still do that, or may still ask about leasing, but I know that if I need to put an investment in I am not waiting on the bank to make a decision, or somebody else. That’s the point.”

In addition, Huyton’s advice, as the FD of a business emerging from recession, is to prioritise stability. “Rapid expansion can destabilise a business just as easily as rapid contraction,” he explains.

“Taking on any and every contract that comes your way will cause its own problems. For instance, the company’s internal systems have to be able to cope with such expansion and that most obviously means your IT systems. Even the humble bookkeeping system is now an integral part of the effective management of the company. A good integrated management information system (MIS) will make a huge contribution to the effective management of the business.”

INTEGRATED IT

Huyton agrees that the challenge for small businesses is to design and run integrated IT systems, and not operate as isolated islands. By way of illustration, he says: “In my case, as a practical example, 80% of one of our key product lines - 25% of our business - is driven entirely through the internet.

“So that means everything that comes in online, all the artwork for the studios, everything is from the clients. Because we’re a classic B2B business, and have very little to do with the consumer, the internet in that respect is a critical part of our business model.”

The challenge for a business of Thermopatch’s size with a disparate operating model is to link the e-commerce offering through to the business’s accounting system. It’s a critical aspect, Huyton says, given the labour costs in the Netherlands, which run somewhere around a third higher than the UK.

“Therefore, we have to avoid the double entry process of entering an invoice in one, and then entering the same invoice, or an order. We have five sales operations, and if an order is entered in Germany, it goes all the way through to our production location, whether that’s in Poland or the UK. Nobody does anything other than hit an ‘accept’ button, on a localised basis.”

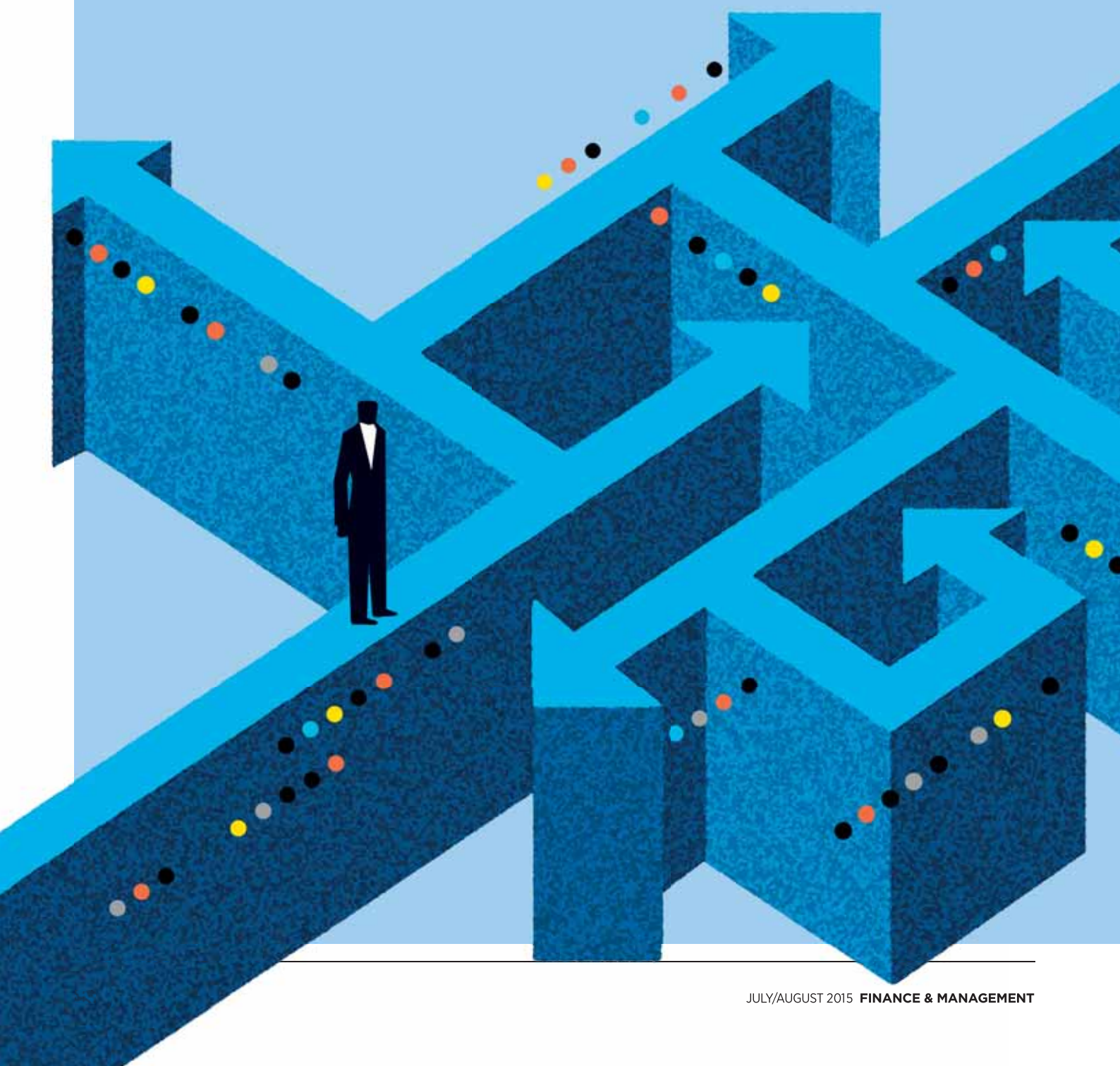
Under the Thermopatch system, the production is generated, the orders are dealt with, the process is done, and as the orders go out the door it is scanned and the invoices are sent back through the intercompany system. “And, by another touch of a button, out pops an invoice in Germany, or an email to the client with the invoice,” says Huyton.

“This focus on using that technology to make your process as streamlined as possible is so important. The Dutch have a very nice phrase for it, which is ‘company critical’ - because it enables you to take on expansion without having to keep adding people.” ■



THE REALITY OF RISK

Managing risk can be a tough nut to crack, no matter what business you're in. A panel discussion in Los Angeles, led by the Finance & Management Faculty's **Rick Payne**, brought together leading business minds, who set out some ideas for dealing with risk



Effective risk management is hard to achieve. However, some practical ideas emerged recently during a panel discussion at the American Accounting Association, Management Accounting Section Conference in Los Angeles. I chaired the panel, which comprised Professors Chris Ittner (Wharton University of Pennsylvania), Bob Kaplan (Harvard Business School) and Margaret Woods (Aston Business School) together with Ian Eddleston, partner at EY and James Dibbo, CFO of PF Chang's.

RISK OWNERSHIP MATTERS

CFOs often have overall responsibility for risk in organisations. However, as Ittner highlighted, based on survey evidence, this can result in a narrow focus on compliance and financial risks, such as credit and liquidity. The over emphasis on

compliance risks was something all panellists had observed, maybe because they are non-negotiable and relatively easy to manage. Ittner also raised concerns that many CFOs are not driving cross-functional working on risk, a pre-requisite of Enterprise Risk Management, which aims to bring together risks in a holistic and integrated way. Alternative homes, such as internal audit, were not necessarily a better option given the difficulty in finding the necessary range of skills in any one discipline.

Kaplan pointed out that key elements of risk management need to be carried out on the ground where risk continually arises, rather than in a centralised HQ, distant from daily operations. He referenced a case study of a travel company where local guides were seen as the most important risk managers. Only those with local knowledge and

language skills could anticipate risks to travellers and deal effectively with them as they arose.

What was clear was that effective risk management needs to draw on a wide range of expertise and be tailored to the organisation, its industry and the nature of the risks concerned.

RISK CLASSIFICATION IS A PRE-REQUISITE FOR EFFECTIVE RISK MANAGEMENT

There was some consensus on the need to classify risks to manage them. Kaplan, with his collaborator Anette Mikes, have developed the following categories.

- Preventable risks: arising from within the organisation, are controllable and ought to be eliminated or avoided, eg, breakdowns in compliance, internal controls and routine operational processes.
- Strategy risks: a company voluntarily assumes certain risk-related policies in pursuit of superior returns.
- External risks: arising from events outside the company and beyond its influence or control, eg, geo-political disruptions and natural disasters (from Kaplan & Mikes 2012).

Although Dibbo's split between business, financial, and legal, safety and compliance risk is somewhat different, he agreed that when you try to manage different risks in the same way, problems inevitably arise. In a restaurant business, attention to food safety is embedded in day-to-day processes, the risks are stable and understood and compliance with industry standards signifies that the risks are being well managed. On the other hand, the growing threats of cyber risk require a more adaptive response as the risks evolve rapidly, require specialist skills to cope with them and standards will never be able to keep up.

CONNECTING RISK, PERFORMANCE AND STRATEGY

Managing the relationships between risk, performance and strategy is a complex challenge. For a start, risk is hard to quantify, with subjective estimates of likelihood and impact being the best that can be done in most areas except perhaps for financial risk. Management discussions of an organisation's risk appetite may be useful but are unlikely to result in an unambiguous consensus.

Partly for these reasons, Wood's



findings from a series of case studies show organisations are struggling to assimilate risk into operations so that managers and staff can incorporate risk considerations into their work. The exception was a UK city council where every risk was tied to a performance measure, all staff targets were linked to risk and six-monthly staff performance reviews included risk discussions. Ittner's survey findings reinforce the message that this is unusual; 71% of companies do not incorporate risk-based return into budget and risk allocation decisions.

Kaplan argued that risk management should be distinct from performance and strategy management. Managing strategy risks is an "unnatural act". It requires accepting that bad things can happen to good strategies, focusing on negatives rather than opportunities, and investing resources to guard against hard-to-predict events that may never occur.

Moreover, strategy requires an organisation to focus a disproportionate level of resources where it wants to achieve competitive advantage, whereas risk management often mandates diversification to spread risk. Only at board level can these tensions be effectively managed.

PROCESS, INTRUSIVENESS AND POWER

While processes such as the production of risk registers, filling out checklists on compliance and internal controls, and regular board risk reviews have a significant part to play in risk management, the panellists placed more emphasis on intrusive, interactive and wide-ranging engagement risk across organisations.

Kaplan gave an example of NASA's Jet Propulsion Laboratory, the systems manager for unmanned solar system missions, where a senior engineer set up

Discussions of an organisation's risk are useful, but unlikely to result in unambiguous consensus

independent review boards for all major missions. Review board members, during annual meetings, forced project engineers to defend design decisions under confrontational questioning.

These intensive meetings ensured project engineers embedded risk mitigation options in equipment and software decisions, identified project vulnerabilities, and then allocated time and money to their mitigation.

Woods was also concerned that risk managers often lack the power to make a difference on major decisions involving risk. For example, one bank had failed to bring risk managers into discussions over a significant acquisition that later went sour.

RESPONDING TO THE INEVITABLE

Some risks will inevitably materialise at some point. It has been argued that all organisations have had their computers hacked, it's just that some don't know it.

Dibbo pointed out that the sophistication of hackers was improving daily and that even large businesses struggle to protect data. While prevention and mitigation remain important, firms also have to respond quickly, showing integrity with their values - such as putting customers first.

Eddleston agreed, saying that boards were asking executives to look at crisis management and to implement and test company-wide playbooks about issues, such as who will speak to the media, how customers will be contacted in an emergency and what actions will be taken. Such playbooks were necessary to ensure speedy responses to stop problems escalating out of control.

RISK MANAGEMENT, PEOPLE, CULTURE AND INCENTIVES

All panellists agreed that employing the right people and developing the right culture were essential for effective risk management. However, it was not clear how organisations were going about this. Organisational culture is an ambiguous concept, one hard to measure and

KEY LESSONS FROM THE DISCUSSION

- Tailor risk management to the nature of the risks involved and organisational circumstances.
- The board is best placed to balance the tensions between strategy, performance and risk.
- Drive intrusive, interactive engagement to manage major strategic risks.
- Involve all levels in risk management, drawing on diverse views and expertise.
- Be careful in allocating risk responsibilities to avoid blind spots.
- Ensure checks and balances are in place to counter risk-inducing incentives.
- Give risk managers the appropriate authority to influence key organisational decisions.

manage. Even so, Dibbo admitted being a convert to investing resources to develop and embed values in organisations through mission statements, ongoing communication and leading by example.

Eddleston was also pleased that boards were being more rigorous in identifying and filling skills gaps. Yet this was not universal, and Woods had observed investment banks where the knowledge gaps between traders and finance functions exposed significant risks.

Incentives are important in hiring and in staff behaviours. Eddleston noted that it would always be a concern if a CFO's bonus was tied to net income or EBITDA, since the temptation to bias accounting judgements to increase reported financial performance would remain.

Woods pointed out that it's about more than board level behaviour, and that sales incentives led to the mis-selling of payment protection insurance in the UK.

Board oversight, strong non-executive directors and the separation of the role of chairman and CEO were all seen as important in managing these and other risks. Further dialogue, collaboration and research involving risk practitioners, academics and other stakeholders is required to advance our thinking and improve risk management practices. ■



Rick Payne, finance direction programme, Finance & Management Faculty

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has raised and managed
more than \$3 billion in
private equity.”



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BAIRD

From the faculties

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YOU ARE WHAT YOU EAT

Food and drinks businesses globally are undergoing wide-ranging changes, from portfolio trimming to expansion into new markets. Despite this, M&A in the UK remains subdued. Vicky Meek finds out why.

TECHNOLOGY

READY TO MOVE

The UK has seen a lot of M&A activity in the food and drink sector in the past few years, but is it still a hot market? Vicky Meek finds out why.

DEWET FOR FOCUS

This year's annual conference will focus on the challenges facing the food and drink sector. Vicky Meek finds out why.

FOOD & BEVERAGES M&A STATISTICS WORLDWIDE

A bar chart showing M&A statistics worldwide for food and beverages. The chart shows a significant increase in M&A activity in the UK, particularly in the food and drink sector, over the past few years.

ON THE DEFENSIVE

CHARTeCH

The number and severity of security breaches affecting businesses is on the rise, but organisations are not well enough prepared to deal with the fallout.

Those are the findings of the PwC and Department for Business, Innovation & Skills' latest *Information Security Breaches Survey*, which is covered in the latest edition of *CharteCH*.

In the past year, the report found, 90% of large organisations and 74% of small businesses had experienced an attack, up on the previous year. The worst attacks could cost businesses up to £3.1m.

Worryingly, while 69% of large and 38% of small organisations had been hit from the outside, 50% of large firms said breaches occurred as a result of inadvertent human error - with 75% of large firms experiencing breaches internally, compared with 28% of small companies.

The advent of the Bring Your Own Device culture may have played a part in determining where data holes are opening up within companies: large firms reported that 13% of breaches came via use of social media, and 15% via smartphones or tablets.

Companies could improve their cyber hygiene by adhering to standards such as Cyber Essentials, or the more rigorous ISO27001.

For more from the IT Faculty, visit icaew.com/itfac

YOU ARE WHAT YOU EAT

CORPORATE FINANCIER

Why is one of the world's most mature food and drink markets, the UK, falling behind on M&A? That's a question being posed in this issue of *Corporate Financier*.

The UK market fell below \$2bn in 2014 (not including the undisclosed sum paid by Yildiz for United Biscuits), while US and European values have remained stable.

Despite several high-profile assets changing hands, such as Ella's Kitchen, there are geographies where scope for growth is less competitive. Multinationals are also trimming their brand portfolios.

"Many are asking: are we deploying our capital where we will get the best returns?" says David Murray, partner at EY. "They are exiting those they see as underperforming to reinvest the proceeds in higher growth parts of the world."

Certain niche brands retain appeal. Meat substitute brand Quorn, owned by Exponent Private Equity, is currently on the block for a slated £300m to £400m.

There is also appetite among Asian companies to acquire UK brands. Lion Capital is selling its remaining 40% stake in Weetabix to Barings Asia.

Over the longer term, most believe deal activity will stabilise in the UK. Those close to the sector expect there to be interest from some of the larger European family-owned businesses looking to the UK mid-market.

For more from the Corporate Finance Faculty, visit icaew.com/cff

HMRC IN THE SPOTLIGHT

TAXline

In light of the 10th anniversary of HMRC, the Tax Faculty has published an editorial explaining why there is a need for an independent review into its performance.

In July's *TAXline*, Paul Aplin explains that HMRC has been subject to cuts in its budget and headcount since it was formed. Staff levels, expressed as full-time equivalent posts, fell from 97,073 in April 2005 to 66,992 in November 2010.

Aplin asks if HMRC now has sufficient resources in terms of staff or funding, or the right people with the right level of training and skills.

An independent review, he believes, might usefully guide HMRC on the service levels it should be delivering and set some goals and a timetable for achieving them.

Aplin remarks on the outcome of the Carter Review, which mean HMRC's new IT infrastructure enabled digital delivery to be improved. A review, he says, could look at lessons learned and even give HMRC reassurance on its current digital agenda.

Other issues that could be brought to attention include HMRC's governance and powers, management and structure.

A review that has the confidence of taxpayers, other stakeholders and those who work at HMRC, says Aplin, could give HMRC some chance of putting bad media headlines in the past.

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

Technical updates

Our regular round-up of legal and regulatory change

TAX

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

HMRC SWITCHES OFF ITS 0845 NUMBERS

The old HMRC 0845 numbers will no longer work from 30 June.

If you phone an 0845 number after 30 June, you will get a dead line tone. Prior to this date, callers heard a message that the 0845 line was no longer operational and providing details of the alternative 03 number.

We reported the end of the 0845 lines in our news story *A reminder that HMRC is withdrawing its 0845 numbers*, which is at bit.ly/1SNCT9j. Anyone wanting to talk to HMRC should use the latest version of *TAXtools 1*, last updated in March 2015, to find the relevant 03 numbers. *TAXtools 1* lists useful telephone numbers, addresses and online methods of communication. It is available at bit.ly/1LrQAWt

Getting through to HMRC by phone can be difficult. If you experience problems, please post to our forum *Getting through to HMRC on the telephone* at bit.ly/1HPPRKv. We have sent the link to HMRC to highlight our site visitors' concerns: we have had nearly 15,000 hits and nearly 250 comments at the time of writing.

PAYE RTI LATE FILING PENALTY NOTICES

HMRC is issuing late filing notices to employers it believes have submitted PAYE real-time information (RTI) returns late or who have not filed the

expected number of full payment submissions (FPS). HMRC is adopting a 'risk based' approach to identify which employers are liable.

The penalty notices do not cite specific reasons why penalties have been charged. Generic notification notices (GNN) should have been issued for defaults before the penalty notices were sent. It is difficult, however, to reconcile the two, especially where GNNs are sent to payroll agents with penalty notices going to employers. We fear the lack of detail on the penalty notices will lead to time being wasted not only by employers and agents, but also by HMRC's helpline operators.

HMRC has confirmed that employers who are in the penalty regime from 6 October will have any defaults that they may have made in earlier periods ignored. However, if an FPS for the tax month starting 6 September 2014 was submitted in the tax month commencing 6 October 2014, it will count as an October default, as it is the date of receipt by HMRC, not the period to which it relates, that counts. Note that employers of fewer than 50 employees and annual schemes have no penalty-free default.

Employers who think they have filed all their RTI returns properly and on time should appeal. Such compliant employers will be those:

- which have filed within three days

of payday (see our news items dated 17 February 2015 *RTI filing will not incur automatic penalties* bit.ly/1R1m1vo and 10 March 2015 *RTI filing penalties for in-year delays* at bit.ly/1J7VDZF; or

- are covered by a relaxation, such as for employers in existence on 6 April 2014 which have nine or fewer employees, and cited a late reporting reason on the FPS (see HMRC's guidance *Sending an FPS after payday* at bit.ly/1DfQai3); or
- have a reasonable excuse for having filed late - see HMRC's guidance on reasonable excuses at bit.ly/1Nf9Kgy

HMRC has issued guidance on *What happens if you don't report payroll information on time* at bit.ly/1AxOhbu listing the reasons which constitute grounds for an appeal. Instructions on how to appeal should be on any HMRC penalty notice and are in guidance *Appeal against a tax penalty* at bit.ly/1HYt1ix but please note that:

- when making an appeal, print a copy of your submission to prove an appeal has been made; and
- you need not pay the penalty before making your appeal. To avoid seeking a refund if HMRC cancels the penalty, we suggest that if you believe your appeal is justified, do not pay the penalty despite HMRC's guidance telling you to do so within 30 days.

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

ABRIDGED ACCOUNTS

New regulations approved in April 2015 introduce major changes to the information that small and medium-sized companies are required to file at Companies House.

The new regulations, including the revised rules for filing, generally come into effect for financial years beginning on or after 1 January 2016, although early adoption is permitted for financial years beginning on or after 1 January 2015.

ACCOUNTS FOR MEMBERS

Under the new regulations, small companies (excluding charities) will have the option to prepare for members' abridged, rather than full, accounts. Small companies can choose to abridge the balance sheet, the profit and loss account, or both.

If choosing to abridge the accounts (whatever the combination), the directors must obtain approval from every shareholder each year.

COMPANIES HOUSE

Under the new rules, there will no longer be an option for small or medium-sized companies to file an abbreviated version of their full accounts at Companies House.

Generally speaking, this means that SMEs will be required to file the version of the accounts as prepared for their members. Small companies will, however, still have the option,

regardless of whether the accounts prepared for members are full or abridged, not to file the profit and loss account and/or the directors' report at Companies House.

One new requirement is that small companies choosing to abridge the balance sheet and/or the P&L account will have to deliver to Companies House a statement that all the members of the company agreed to the abridgement. For more detail, read our blog *The end of abbreviated accounts (sort of)* at bit.ly/1HjwGuO

SMALLER QUOTED COMPANIES

The Financial Reporting Council (FRC) last year initiated a project to discover whether the quality of financial reporting by smaller listed and AIM quoted companies mattered to investors, and if so, whether the FRC could better support these companies to improve the quality of their reporting.

Since then, the FRC has been gathering and assessing evidence from stakeholders and has set out key findings and proposals in its discussion paper *Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies*.

In response to the findings, the FRC proposes various measures. Examples include: providing focused annual reminders on the key areas of focus for investors; discussing with professional bodies ways of providing

more training to finance staff; providing practical guidance for audit committees and boards; and promoting options for reduced disclosures in the financial statements.

Comments are due by 31 July 2015. Read our blog *UK smaller quoted company reporting in the spotlight* at bit.ly/1Kd5wqy

PENSIONS ACCOUNTING

The IASB has also published proposed narrow-scope amendments to its pension accounting requirements designed to improve information to investors and address some diversity in practice.

When a defined benefit plan is amended, curtailed or settled during a reporting period, the entity needs to update the assumptions about its obligation and fair value of its plan assets to calculate costs related to these changes. The proposed amendments

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EMPLOYMENT LAW

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

to IAS 19 *Employee Benefits* specify that the entity is required to use the updated information to determine current service cost and net interest for the period followed by these changes.

The proposed amendments to IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* address how the powers of other parties, such as the trustees of a plan, affect an entity's right to a refund of a surplus from the plan.

The deadline for comments on the exposure draft is 19 October. For more information visit bit.ly/1SrFGlx

CONCEPTUAL FRAMEWORK

The International Accounting Standards Board (IASB) has published an Exposure Draft proposing a revised Conceptual Framework for Financial Reporting. The proposals aim to improve financial reporting by providing a more complete, clearer and updated set of concepts that can be used by:

- a) the IASB when it develops International Financial Reporting Standards (IFRS); and
- b) others to help them understand and apply those Standards.

Comments are due by 26 October 2015. For more information visit bit.ly/1J4nRqD

DRIVE TO GET STAY-AT-HOME MUMS BACK TO WORK

The British government has promised to increase spending by £2m a year to encourage more mothers back into the workplace.

British women are nearly twice as likely to remain at home with their children as their continental counterparts, according to a European Council report.

It estimates that 12.5% of British women are either not working or working part-time due to family responsibilities, compared with a 6.3% EU average.

The extra government spending would include more free childcare of up to 30 hours a week for three to four year olds.

The findings were presented to chancellor George Osborne during a finance ministers' meeting in June.

WHAT COUNTS AS WORKING TIME?

A European Court of Justice (ECJ) decision is due to clarify when travel between customers by mobile workers - such as sales staff and engineers - constitutes work time.

The decision will clarify a point under the Working Time Regulations 1998. The issue was referred to the ECJ by a Spanish court, in a case involving technicians employed by a security systems company - *Federación de Servicios Privados*

del sindicato Comisiones Obreras v Tyco Integrated Security SL and another (C-266/14).

The technicians claimed their employer was in breach of working-time rules because they excluded the time taken to travel to their first client and from their last client of the day as part of their working day. The employer counted them as part of the rest period between shifts.

Advocate General Yves Bot said employers must treat journeys by workers between customers or clients as working time. His opinion is not binding. A final ECJ judgement is expected later this year.

MENTAL HEALTH ISSUES AMONG STAFF: A CONCERN FOR MANUFACTURERS

Only 10% of manufacturing firms give managers training on mental health issues, and 2% have an open policy on mental health disclosures, found manufacturers' organisation EEF's *2015 Sickness Absence Survey*.

In addition, 40% of manufacturing employers experienced a rise in the number of working days lost through long-term sickness absence. Although this was low at 5.1 days (2.2%), it was the largest for five years.

Back pain and musculoskeletal disorders remained the main cause of long-term absence. Stress and other mental health disorders ranked as the third, with surgery second. ■

On a lighter note...

CHEESE HOLES MYSTERY SOLVED

Agroscope, a research body funded by Switzerland's government, has been studying the cause of holes in Swiss cheese, like Emmental and Appenzeller, since the First World War. And it has finally cracked the hole story along with the reason why the holes are getting smaller. The culprits are microscopic particles of hay in the milk and not, as previously thought, CO₂ released by bacteria in the milk. The holes have shrunk as milk collection methods have become cleaner. "It's due to the disappearance of the traditional bucket," said spokesman Regis Nyffeler.



MARIA'S EBAY ROW HOTS UP

A Spanish court is to decide this month if eBay should pay €10,000 in compensation for blocking Maria Duran from selling off parts of the sun through the online site.

Duran, from Vigo, in the Spanish region of Galicia registered the sun in her name in 2010 through a local notary. Shortly afterwards, she started selling square metre plots on the sun's hostile surface for €1 each. The company locked her eBay account for being in breach of its ban on the sale of intangible assets, prompting Ms Duran to launch a civil case against the online retailer for breach of contract. The hearing was scheduled for mid-July.



STATE V FEDERAL LAW: RULING CONFUSES ANTI-DRUGS POLICY

The Colorado Supreme Court ruled last month that an employee can legally be sacked for failing a drug test at work, even if their drug use is legal in the state, consumed off duty, and the drug level in their blood is low. The case has implications for employers in US states where marijuana is legal for medical and recreational use - Colorado being one of them.

Dish Network fired quadriplegic Brandon Coats after he failed a drug test in 2010. Coats, who used marijuana following a car crash, argued for protection under a law that prohibited employees from being fired for off-duty activities the state considers legal. The court ruled that Dish Network was entitled to sack Coats because its zero-tolerance drugs policy was in his employment contract. Marijuana's active constituent, THC, can stay in the bloodstream for weeks.



€10,000

COMPENSATION EBAY MAY HAVE TO PAY TO MARIA DURAN FOR BLOCKING HER FROM SELLING PLOTS ON THE SUN VIA THE ONLINE MARKETPLACE



ENJOY A PIZZA THE MOVIE ACTION

Pizza Hut launched a novel idea last month, trialling a pizza box that doubles as a film projector. The makeshift movie theatre works by using the box's pizza table - which normally stops the lid from touching the food - and a lens to turn your smartphone into a projector. A Hong Kong trial was successful enough for Pizza Hut to look into expanding the idea. "In creating this campaign, we wanted a fresh and innovative way to engage and delight our customers," said Richard Leong, CEO of Pizza Hut Hong Kong.

DO IT!

BE POSITIVE AND DO IT

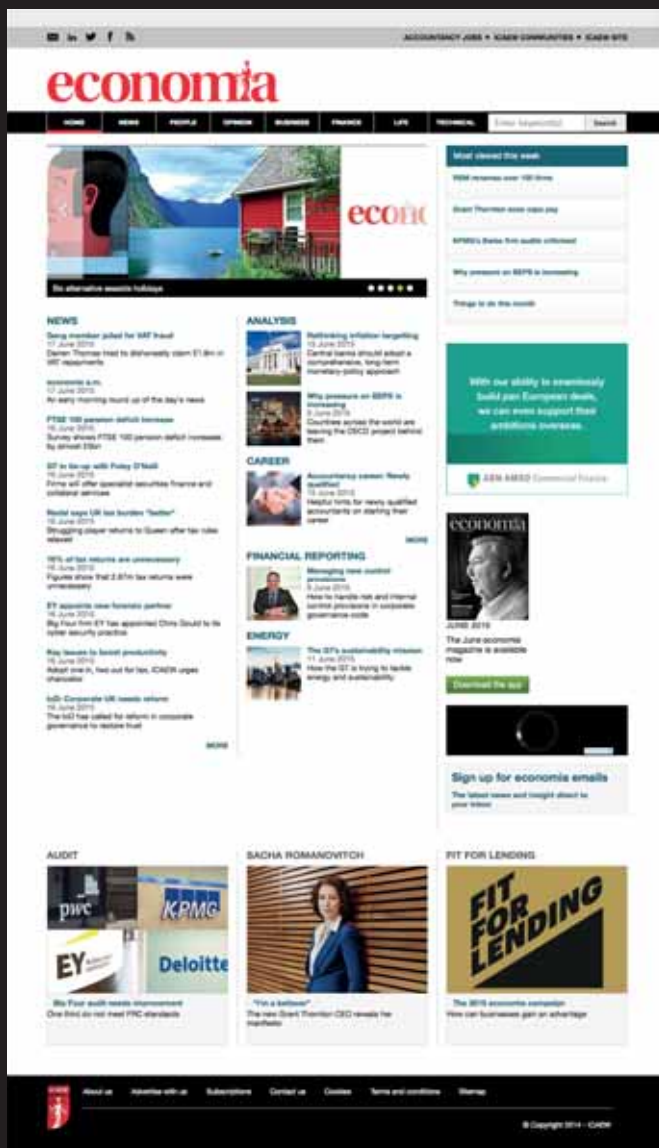
Richard Branson, founder of the Virgin Group, shared his top tips for success in an interview with the Renaissance Foundation.

1. **Be positive about other people**
"I think if people can just be positive about each other then they'll bring out the best in other people."
2. **Find people who are better than you:** "If you can get great people around you, I think you can achieve anything. Inspire people with what you're trying to do."

This is in contrast with Stanford professor Robert Sutton's research in 2011. He found "a disconcerting number of Silicon Valley leaders who believed Steve Jobs was living proof that being an asshole boss was integral to building a great company".

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500X CHANGE IS GOOD



CO₂ from 109 g/km, up to 68.9 mpg, BIK from 19%

The new Fiat 500X will change the way you drive, with features* like a Uconnect™ Radio LIVE 5" touchscreen navigation and Bluetooth, 4x2 with Traction+ or 4x4, Cruise Control, Drive Mood Selector and 18" alloy wheels.

To find out more and to book a test drive go to fiat.co.uk/fleet or call our business centre on **01753 519442**.



THE NEW ITALIAN CROSSOVER

Fuel consumption figures for Fiat 500X range, available at launch in mpg (l/100km): Urban 36.2 (7.8) – 60.1 (4.7); Extra Urban 56.5 (5.0) – 74.3 (3.8); Combined 47.1 (6.0) – 68.9 (4.1). CO₂ emissions 144 - 109 g/km. Fuel consumption and CO₂ figures based on standard EU tests for comparative purposes and may not reflect real driving results. *Features standard on model shown, Fiat 500X Cross Plus.