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ICAEW FINANCE & MANAGEMENT FACULTY

FINANCE & MANAGEMENT

BUSINESS MEMBERS' MAGAZINE

THE SEVEN HATS OF THE FD

The different duties of the FD role and how to master them

PLUS

Big data

Handling conflict

Successful tender process

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FROM THE FACULTY

PERFORMING AT YOUR BEST

With 2012 on the horizon, and all the motivation that the 2012 Olympic Games inspires, many of us will soon be dusting off our shot puts, trainers, or (as in my case) remote controls. Wherever you are in the world, here's hoping your team performs to the best of its ability!

But whilst the world's athletes are performing in London, what about our businesses? How can we ensure we're getting the best possible results and meeting the strategic objectives that we have set?

The fact that business performance management/measurement (BPM) has come top of our annual technical needs survey for the past four years indicates that a lot of faculty members are asking themselves this very question. In response to this we will be focusing extra attention on this topic during 2012.

Your detailed replies to the survey indicate that you are interested in practical guidance and real-life examples in this area. So in order to make sure our services meet your needs I would really value any feedback on the following:

- what products, services or guidance you would find valuable in the area of BPM;
- any BPM resources that you have used in the past and have found useful;
- any BPM groups or online networks you belong to, what they provide and where they fall short;
- whether you would be willing to speak to one of the faculty team about your BPM successes, failures and learning points; and
- any templates or case studies that you have and would be willing to share.

As well as these specifics please do get in touch with any other thoughts. I look forward to hearing from you.

EMMA RIDDELL

FINANCE & MANAGEMENT

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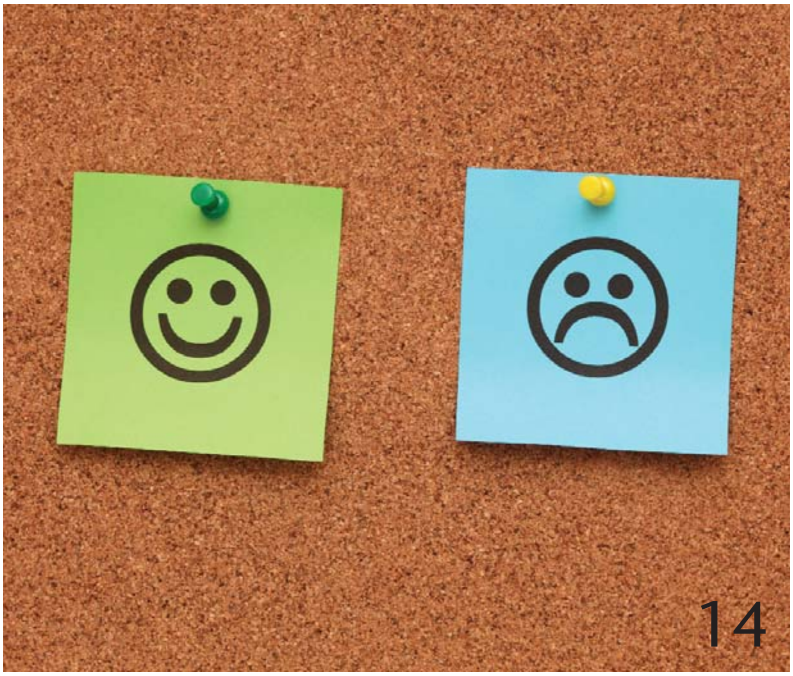
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UK SERVICE SECTOR GROWTH SLIPS BACK IN OCTOBER

UK service sector activity fell in October from the previous month, but there was a marked improvement in business confidence, the Markit/Cips services purchasing managers' index (PMI) suggests.

The PMI fell to 51.3 in October, down from 52.9 in September. Any figure above 50 indicates growth.

But confidence hit its highest level since May, while input price inflation hit its lowest level for almost a year. Employment in the sector showed a 'fractional decline' in October, the survey said.

'Another rather disappointing survey adds to fears that the UK recovery continued to lose momentum at the start of the fourth quarter,' said Markit's chief economist Chris Williamson.

'Growth in the vast service sector slowed to a worryingly lacklustre pace in October. The sector made a strong contribution to economic growth in the third quarter, but this looks set to wane in the final quarter of the year.'

For more and to see the full survey results visit www.markiteconomics.com/Survey

FINANCE FOR THE FUTURE AWARDS

Recognising, valuing and rewarding those who embed financial sustainability into businesses and organisations are the reasons NatWest, The Prince's Accounting for Sustainability Project and ICAEW are launching the Finance for the Future Awards.

The awards will recognise how vital financial leadership is in creating business sustainability, highlighting organisations that have excelled in the field.

Winners will be organisations where their financial leadership has had a measureable impact on decision-making, risk management and capital investment long-term and has encouraged a shift in corporate behaviour.

For more information on the awards visit www.financeforthefuture.co.uk

NEWS IN BRIEF

PERSONAL INSOLVENCIES FALL

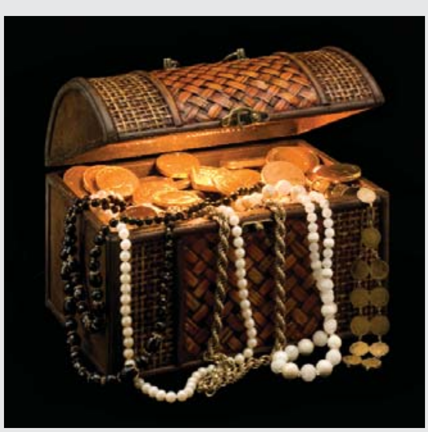
The number of people being declared insolvent in England and Wales fell slightly in the third quarter of 2011, according to the Insolvency Service. There was a small rise in corporate insolvency. Personal insolvencies dropped by 1% to 30,219, while company insolvencies rose by 2% to 1,253. See www.insolvency.gov.uk

REGIONAL GROWTH FUND

The Department for Business, Innovation and Skills (BIS) has announced the successful bidders in round two of its Regional Growth Fund (RGF). The RGF is a £1.4bn fund operating across England in 2011-2014, supporting projects that lever private investment to help combat the loss of public sector spending and jobs in regions of the UK. 119 medium-sized businesses have been awarded funding in this round. See www.bis.gov.uk/RGF

THE GURUS
'The internet is just a world passing around notes in a classroom.'
JON STEWART, presenter and comedian

RENEW YOUR FACULTY MEMBERSHIP FOR 2012



We hope you have enjoyed your faculty membership during 2011. We look forward to continuing to help you perform at your best in 2012.

When you renew your membership you will have access to your:
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- in depth regular special reports;
- monthly electronic newsletter;
- free online access to any article or report published by the faculty;
- regular events with discounted rates for faculty members;
- opportunities to network with your peers through our two LinkedIn groups;
- women in finance network; and
- chance to be part of our thought leadership project.

Plus new during 2012:
- a practical focus on business performance management; and
- coverage of the hot topics selected by you in our annual survey.

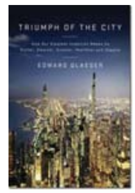
Information on all of these services can be found on our website **icaew.com/fmfac**

THE BEST BUSINESS BOOKS OF 2011

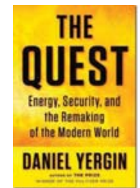
The *Financial Times* and Goldman Sachs Business Book of the Year award recognises the most compelling writing on issues in business. Here we provide summaries of the recently-announced winning entry for 2011 and each of the shortlisted books.

WINNER!

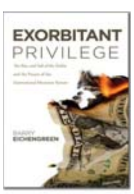
Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty
by Abhijit V Banerjee and Esther Duflo
Hardcover, 320pp, PublicAffairs Books
ISBN: 978-1586487980 £15.99
For over 15 years, Banerjee and Duflo have worked with the poor across five continents, trying to understand the specific problems that come with poverty and to find proven solutions. They argue that much of anti-poverty policy has failed because of an inadequate understanding of poverty and explain why the poor need to borrow in order to save, why they start many businesses but do not grow them, and many other puzzling facts about living on under 99 cents per day.



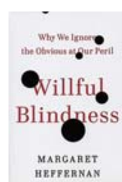
Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier and Happier
by Edward L Glaeser
Hardcover, 456pp, Macmillan
ISBN: 978-0230709386 £25.00
In 2009, for the first time in history, over half the world's population lived in cities. In order to understand the modern city and the powerful forces within it, Glaeser takes us around the world and into the mind of the modern city, to reveal how cities think, why they behave in the manner that they do, and what wisdom they share with the people who inhabit them.



The Quest: Energy, Security, and the Remaking of the Modern World
by Daniel Yergin
Hardcover, 816pp, Allen Lane ISBN: 978-1846145421 £30.00
Yergin reveals the ongoing quest to meet the world's energy needs – and the power and riches that come with it, to prove that energy is truly the engine of global political and economic change. From the jammed streets of Beijing and the conflicts in the Middle East, to Capitol Hill and Silicon Valley, Yergin tells the inside stories of the oil market and takes on the toughest questions.



Exorbitant Privilege: The Rise and Fall of the Dollar
by Barry Eichengreen
Hardcover, 224pp, OUP
ISBN: 978-0199596713 £14.99
The dollar, the world's international reserve currency for over 80 years, has been a pillar of US economic hegemony. Eichengreen explains how the dollar rose to the top, then looks at the strains placed on it by the current crisis and the rise of competing currencies, suggesting that predictions of the dollar's demise are greatly exaggerated. He argues that the most likely outcome is that the dollar will be supplanted by other currencies in a gradual transition that will resemble the relatively stable situation that prevailed before World War I.



Willful Blindness: Why We Ignore the Obvious at Our Peril
by Margaret Heffernan
Hardcover, 294pp, Walker & Company
ISBN: 978-0802719980 £16.25
In this book Heffernan argues that the biggest threats and dangers we face are the ones we don't see – not because they're secret or invisible, but because we're willfully blind. She examines the phenomenon and traces its imprint in our private and working lives, and within governments and organisations, and asks: What makes us prefer ignorance? What are we so afraid of? Why do some people see more than others? And how can we change?

Good Strategy/Bad Strategy: The Difference and Why it Matters
by Richard Rumelt
Hardcover, 288pp, Profile Books
ISBN: 978-1846684807 £12.99
Developing and implementing a strategy is the central task of a leader, whether a CEO, an entrepreneur, the head of a school, or a government official. Rumelt shows that there has been an increasing tendency to equate buzzwords, motivational slogans and financial goals with 'strategy'. He debunks these elements of 'bad strategy' and awakens an understanding of the power of a 'good strategy'.

NEW ICAEW MEMBER MAGAZINE FROM FEBRUARY 2012

The new ICAEW member magazine will bring you the latest analysis and commentary on financial accountancy news and technical updates, as well as the most up-to-date business, management and economic trends. Whatever sector you work in, you'll be prepared for the challenges ahead.

From February 2012, this new member magazine will replace *accountancy* and you will receive a monthly copy as part of your annual ICAEW membership.

No action from you is required to receive a copy. For more details visit icaew.com/magazine

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2. Risk-based investment appraisal.
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FINANCE FUNCTION EFFECTIVENESS

THE SEVEN HATS OF THE FD

More open business cultures, a faster pace of change and new technologies have highlighted the importance of the many different hats a finance leader has to wear. In the first of a three-part series, **Richard Young** talks to finance directors (FDs) about two of the seven key facets of the FD role.

FEATURES

First, a statement of the obvious: every FD faces a huge variety of issues. In smaller businesses they can be a jack of all trades, managing a range of support services. In quoted companies, they're spokespeople with the power to move markets. And every FD has fiduciary duties that require much more than accounting skills.

In order to explore the roles these various situations demand, we spoke to seven FDs about different aspects of their work. Each of them fulfils all of the roles in some shape or form. But by interviewing different types of FD – from FTSE CFOs to start-up FDs – we've been able to explore some of the nuances of the finance director role in modern business.

It starts with finance

All the FDs agreed that even in the age of the technocratic finance chief, where communication skills and leadership ability are more important than ever, you can't take a seat at the table without outstanding core finance skills, no matter how well you wear the seven hats we discussed.

That's as much about credibility as it is duty. 'You can never stand for your internal customers saying the numbers are wrong,' says Colin Bramall, CFO at James Hull Associates. 'They have to be right and the processes behind them must be as good as possible – certainly enough to make an overwhelming case when you're evaluating people's performance.' That trust others place in the FD is crucial to their ability to play the role of 'magistrate' – the arbiter, the evaluator of decisions.

The value of relationships

Even the best FD relies on teamwork. The relationships they build with board colleagues and senior managers are a platform for real effectiveness. 'It comes down to being a confidant(e) and an advisor – but also a challenger and someone who can help correct problems wherever they crop up,' says Stuart Bridges, CFO of FTSE 250 insurance giant Hiscox. 'You have to be able to tell people when their actions are wrong.' So the best FDs become the equivalent of a mafia family's 'consigliere', a trusted advisor whose counsel is essential in the face of big decisions.

Perhaps the most important relationship an FD has is with the chief executive. A really effective FD is a natural 'co-pilot', sharing all the burdens of steering the business. 'Most CEOs will have strong commercial instincts, but every other part of an organisation needs to function well, too,' explains Jim Buckle, CFO-turned-COO of video rental and streaming business LoveFilm. 'Planning, forecasting and management of processes need to be part of the strategic whole. Otherwise it's impossible to tell if you're

In association with

THE SEVEN HATS OF THE FD

Storyteller – creator of a clear narrative for internal and external audiences.
Co-pilot – partner to the CEO with a complementary skill set.
Magistrate – arbiter of disputes and enforcer of the law.
Consigliere – trusted counsel offering advice at the highest level.
Engineer – master of processes and systems; architect of business models.
Muse – promoter of fresh thinking and value-enhancing decisions.
Rescue service – identifier of problems and presenter of solutions.

heading in the right direction, or which levers to pull if you're not.'

Who's got your back?

The finance function provides a different kind of platform for the FD. 'There are very few people in the organisation who can do those finance essentials,' says Andrew Lewis, CFO at Avon Rubber. 'You have to have a team that can support you.' Given Avon's successful turnaround since he joined (2008 losses of £4.3m becoming a £9.3m profit two years later), Lewis knows that you can't devote time to the real value-adding parts of the role – like being an organisational 'rescue service' – unless you have a great FC keeping the ship steady.

Developing the systems that support great management requires a command of the machinery of business, too. FDs must be 'engineers', able to see how the organisation's cogs fit together. 'You have to get your head around all the processes that come together to create value,' says Zoe Tindall, the FD at restaurant chain Pho. 'And it's knowing that your back is covered – that all the parts of the machine, your processes, have been done right.'

Reaching out

Strong relationships and a great team are crucial to an FD's ability to operate internally. But the role requires them to be an outstanding 'storyteller', too. 'Communicating complexity has always been part of the role,' says Richard Pennycook, FD of supermarket giant Morrisons. 'You have to be able to explain what's happening to internal audiences, from the shop floor to the top floor, and then out into the market.'

Influence inside the business goes way beyond sharing the numbers. So our final hat, 'muse', emphasises the role that FDs have in pushing the business into new areas. 'There's a very clear shift from the FD being the score-keeper to scoring the runs,' says Lewis. 'It's no good just analysing everything after the fact – an FD has to influence what's happening now and next.'

We start our look at these seven hats with the co-pilot and the storyteller – two very different aspects of the FD's role, but both involving a huge step-up for any ambitious junior finance executive looking for a seat on the board. Next month, we'll be looking at the engineer and the magistrate – the two hats demanding the most discipline from FDs; and the consigliere, the wise counsel.

The co-pilot

Jim Buckle, COO of LoveFilm

Calling an FD the 'number two' on the board misses the point. The CEO and CFO must be co-pilots, able to mix-and-match their skills in order to provide consistent strategic guidance, set a strong organisational culture and manage both internal and external expectations.

Each of the seven hats is a metaphor. The term 'co-pilot' suggests that the FD not only sits alongside the CEO sharing the key decisions, but that they're ready to take over any aspect of that role if the need arises.

On the flight deck, the co-pilot has another important function – providing checks and balances to the captain. 'Investors want to feel that the FD has a degree of independence from the CEO,' says Buckle. 'Of course, they have to be supportive and share a view of the strategic direction. But they have to give their own view on decisions and offer corrections where necessary.'

That demands all the discipline and rigour that training in accountancy and a career in the finance function offers. 'FDs have an ability to offer opinions based on facts and a robust understanding of the business,' Buckle explains. 'There's no point having a co-pilot who shoots from the hip the whole time. And there's a world of difference between coming to the board with a set of options and asking for a decision – and presenting a well-worked preference from a set of possible choices.'

Like a co-pilot reviewing a captain's decisions for the safety of an aircraft, being able to influence a change in those decisions is also vital. 'The worst outcome is that the

‘The storyteller role has changed... now, you have to talk much more about what the business hopes to deliver in the future and what’s going to happen along the way.’
Richard Pennycook

organisation runs into trouble and the CFO says, “I knew all along that something was wrong,”’ says Buckle. ‘If they haven’t found a way to express concerns or lay out the rationale for a re-evaluation of a particular direction, that’s a clear failure.’

That means the relationship must be finely balanced. To steward the business successfully, the two leaders should work closely together, even if they don’t need to be bosom buddies. ‘Ideally, you want a balance – so you don’t have two people who are too alike in how they operate,’ he says. Where the CEO is more details-orientated, the CFO might need to deliver the big picture to key stakeholders.

So how has the switch to COO changed Buckle’s view of the CFO role? ‘As CFO, I was responsible for the support functions – legal, finance, HR,’ he explains. ‘That allows you to take a more dispassionate view of the business. As CFO you can be tougher and more critical. As COO, I have ultimate responsibility for both finance and for the commercial side.’ So it’s even more of a co-pilot position – but one that demands still greater self-discipline.

And the fact that he’s made the move – like many CFOs switching to operating and CEO roles – demonstrates that being a co-pilot can solve succession issues.

‘With their broader view of the business, the CFO probably does find it easier to make the transition to CEO,’ Buckle concludes. ‘It’s true that for a CFO, job one is always finance – that’s a given. But even after a relatively short period of time, both personally and in terms of the business, you develop a deeper appreciation for how things work.’

The storyteller

The markets want FDs confident in telling their business’s story – not just in numbers, but in a context for value creation. Private equity owners – and even owner-managers and family firms – also look to them for narratives that underpin strategy. And employees look to the FD for reassurance and guidance.


Richard Pennycook, FD of Morrisons

In the pantheon of clichés about accountants, perhaps the most irksome is that they are quiet, retiring types with their noses buried in ledgers. Morrisons FD, Richard Pennycook (the 2011 FTSE 100 FD of the Year), is under no such illusions. The ability to tell a good story sits at the heart of his role.

‘The way you communicate as finance director has a direct bearing on how your company’s message gets across,’ he says. ‘And that can affect your cost of capital, for example.’

But he’s also keen to stress that this hat can’t be worn in isolation. ‘Spending time inside the business is very important to the storyteller role,’ Pennycook explains. ‘You need to find the right balance between framing and communicating the story and building up your knowledge of it, and creating it, internally.’

Being FD of a FTSE 100 company clearly makes a huge difference to the time spent on creating and relating the narrative. Interacting with shareholders, analysts and the media is central to the job. ‘You have to judge the forum carefully,’ says Pennycook. ‘You need to spend just the right amount of time on different parts of the story – and it must be slick and well-rehearsed. We live in a media-driven world now, especially for brand-name businesses, so the storyteller role must be polished.’

Naturally, the FD isn’t alone in this role. On the big occasions, the chairman and CEO share the burden – and most businesses now retain some kind of investor relations or PR expertise to help with the delivery of their stories.

That’s crucial in the 21st century. ‘The complexity of the environment grows year by year,’ explains Pennycook. ‘Social media is the latest thing – so in results announcements, journalists are not just taking notes to write something up when they’re heard the whole story, they’re tweeting as they go along. It’s real-time.’

An additional challenge for the FD is that their part of the story can be complicated. And while the non-executive directors on the board have a sophisticated understanding of the numbers, some of those nuances may be lost to other audiences.

‘Storytelling is multi-layered, then, but it needs to be consistent, too,’ Pennycook insists. ‘For example, the first audience for our interims is the senior management group – 90 people in a conference call. Then radio coverage kicks in, and we’re telling that story to a public audience. Then you have to cascade the message right through the organisation, tailoring it for each group – while never leaving them feeling they’re getting a different story from the other versions they’ve heard.’

Pennycook also stresses the value of his team in creating the right narratives. ‘Becoming adept at storytelling is part of the training you need to offer future CFOs,’ he adds. ‘It’s certainly valuable experience for my divisional FDs when they’re looking at bigger roles.

‘And the storyteller role has changed,’ Pennycook concludes. ‘The CFO of old would have presented their results and explained what had been and why. Now, you have to talk much more about what the business hopes to deliver in the future and what’s going to happen along the way. It’s much more about creating a shared sense of purpose and helping colleagues buy into it.’

SAVE THE DATE
The Annual FD Conference is on 16 May 2012 in London and will reflect the content of this article.

PURCHASING

HOW TO RUN A SUCCESSFUL TENDER PROCESS

The tender process can seem complicated and time-consuming from a buyer's perspective, but it is essential to manage it as efficiently as possible. **David Noble** offers his advice on how to succeed.

A long and winding road with delays along the way, mountains to climb and barriers to overcome… is that your perception of the tender process? It shouldn't be. The metaphorical journey is smoothed enormously if you understand that preparation, communication and relationship development are fundamental for success in any tender process. (See Box 1, right, for some of the professionals' tips on this.)

As a concept, tendering is a simple undertaking in which everyone involved understands where tenders come from, what information must be made available, and when and how each stage of the process is dependent on the other (see Box 2, below right, 'A typical tendering process').

True, suppliers often dread the tender process as it can take a considerable amount of time and expense. But it does offer an open and transparent process to ensure the best supplier wins the contract. And – if approached methodically – tendering can actually save time by preventing parties from missing vital information and then having to rework data over long email chains.

Obviously the first, crucial, step in running the tender process is to involve the purchasing department from the outset – even if it's just the one person. But that's only the beginning. Below I outline what I judge to be the eight main ways to make your tendering process a success.

1. Internal stakeholders should agree

Internal stakeholders, ie your organisational colleagues, should agree on a realistic set of requirements and timescales, with sufficient time set aside to negotiate the contract prior to the work commencing, or at a minimum, be clear on what work can be completed prior to contract signature, for example by way of a 'work definition phase'. (A work definition phase is where you establish requirements, as seen in the 'preparation' column of Box 2, and highlight the scope and timings of the project so that all stakeholders know when their support will be needed. Making a business case for the project will help you clarify this.) This process should also allow time to test any suppliers' assumptions before costs are finalised, and to switch suppliers should contract negotiations fail.

2. Define your needs clearly for suppliers

The heart of any tender lies in assessing your possible suppliers' abilities to deliver against your requirements. If you can clearly define your needs at the outset, then you will reduce supplier confusion and assumption, ultimately receiving more accurate supplier responses that you can actually use. So give clear and concise requirements, drafted in contract form so they can be lifted straight into the contract, linking deliverables, SMART SLAs and granular costs into one structure.

David Noble is chief executive officer of the Chartered Institute of Purchasing & Supply (CIPS).

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Box 1 TOP TIPS FOR MANAGING A SUCCESSFUL TENDER

Here is what some CIPS stalwarts have to say on the tendering process.

'The key for any major procurement is "relationship". From the outset, all internal stakeholders must be agreed on the objectives, scope, timescales and requirements for the project. Alignment between procurement, IT, business user groups, HR, finance and legal teams, with governance from board level, will avoid creating confusion with suppliers and reduce the risk of supplier misunderstandings and false assumptions.'
Alex Dorlandt, director, Maximal Consulting, CIPS member who represents the telecoms and IT sector on its Council.

'A point often forgotten is the importance of calculating and recording what the goods or service being tendered for should cost – prior to receipt of the tenders!'
Jack Salter, CIPS member, involved in commercial policy at the Department for Education.

'Ensure that you have a well developed communication and stakeholder engagement strategy at the outset and stick to it. Make sure it involves the wider supply market and be sure to listen and understand what the supply market can achieve… they may even surprise you!'
Graham Ockendon, fellow of CIPS who represents the business services sector on its Council.

Box 2 A TYPICAL TENDERING PROCESS

1. PREPARATION	2. PROCESS	3. EVALUATION/ AWARD
• Assemble documents, forms, specifications etc. • Arrange receipt. • Advertise or select suppliers to involve. • Select evaluation process and team. • Hold any pre-tender discussions. • Agree timescales.	• Issue tenders. • Deal with queries (must be open-handed). • Receive and open tenders (may be a formal process). • Schedule, sort and present tenders for evaluation.	• Evaluate tenders received. • Arrange supplier follow-up and clarification sessions (not price negotiation).* • Select successful supplier. • Inform unsuccessful suppliers. • Proceed to contract.

* At the award stage tenders can include 'best price' but negotiation does not happen until after the awards stage, though new EU procurement rules are likely to influence this. Buyers can negotiate with suppliers at that stage – post-award – to ask them to improve on their price.

‘Success should be linked to the results you want to see, not necessarily how the project is completed’

As well as spotting weaknesses quickly in any supplier response, clear requirements will help performance measurement against your requirements during the life of the contract. You can then identify and tackle poor performance early on.

3. Avoid stifling supplier innovation

Companies often use ‘input’ rather than ‘output’ based requirements. Success should be linked to the outputs or results you want to see, not necessarily how the project is completed. Avoid ‘inputs’, unless you have an important reason to dictate what technology or process is used. Specifying the ‘how’ too closely can stifle supplier innovation and creativity in trying to offer you the best solution. This is, after all, one of the reasons you are going to market.

Also take care not to over-specify. This can add costs and also put some organisations off submitting a tender. SMEs in particular are often ruled out due to unnecessary criteria being put in place – eg ISO standards. Only use these where they are really necessary.

4. Prepare – it pays off

Buyers should calculate what they expect these goods or services to cost, and either record this on file, or in a traditional formal tender open process by placing this in an envelope with other tenders to be opened, and to be recorded alongside the bids received.

It is important that this figure is reached independently of the bidders, either calculated on a time and materials basis, or by reference to what other organisations pay, and increasingly, to internet prices.

Significant variation either way means that more efficient calculated costs and bids received should be explained by the buyer and justified to the decision maker.

Sometimes the only conclusion is that none of the bids represents value for money or meets specified requirements and either the work should be delivered in-house, different bidders invited or possibly the work should be split and repackaged to attract a wider range of bidders. This is preferable to continuing to pay a high price for goods and services because it’s always happened that way, or trying to avoid the embarrassment of being exposed for paying too much.

5. Take advantage of IT – and the use of e-tendering portals – for efficiency in tendering

The tendering process is becoming increasingly sophisticated as rapid technological advances offer almost instant response times on a global basis. Previously a traditional purchasing cycle could take months from the initial formation of the specification through to award of the contract. IT developments have increased the use of e-tendering where tender documents are exchanged electronically, so improving significantly the efficiency and time taken to complete a purchasing project. This also helps maintain fairness in the system as it provides a clear audit trail of when documents have been received and who has viewed them.

The benefits of e-tendering include:
- financial transparency;
- benefits to suppliers;
- reduction in processing costs;
- reduction in ordering costs;
- reduced paperwork;
- improved cash flow; and
- reduced costs of credit control.

Additionally, e-tendering portals (secure dedicated websites, specifically set up for the exchange of information and tender documents over the internet) allow buyers to create, manage and transmit contract announcements electronically, while also creating an electronic audit trail. This provides more effective management information, helpful for the statutory returns that local government departments are required to produce.

Through e-tendering portals, tenderers can create and manage multiple profiles containing expressions of interest/pre-qualification information. Invitation to tender (ITT) documents can be exchanged electronically, and the assessment and award of tenders is usually automatic.

Web-based programmes such as electronic supplier selection (ESS) systems provide buyers with up-to-date validated information of suppliers and contractors. These systems allow the supply chain manager to control and manage the supplier acquisition and selection process in a transparent, fair and compliant manner.

6. Pay attention to resources… and other key issues

It is important that tenders should not only be awarded in a consistent and transparent way but by a process that is open and can be shown to any potential tenderer.

To run a successful tender or e-tender process it is essential to give careful consideration to the resources needed, and any other key issues, such as:
- appointing a programme manager and sponsor to deliver the business case and drive the programme forward (invariably a good step);
- deciding whether or not to involve an external IT partner. Or, if there are in-house capabilities, deciding:
  - whether to engage with a hub exchange;
  - whether to go for off-the-shelf or bespoke software;
  - whether to attempt a shared service; and
  - whether this should be recommended as part of a wider e-sourcing or e-purchasing system;
- evaluating risks and contingencies if the system should break down;

'Inefficient and complex tendering processes can create significant cost for bidders who are often challenged with maintaining a bid team over an extended period of time'

- estimating the resources needed in terms of money and personnel to drive forward the programme;
- discussing security, firewalls and other security-related IT issues; and
- launching a training, cultural change and change management programme.

Remember that e-tendering is only one part of an e-sourcing or a strategic sourcing strategy and should be considered alongside e-procurement in the context of an overall e-purchasing strategy.

7. Appoint a tender board

The tender board (also known as the tender panel) has a responsibility to review and evaluate the tenders and make a recommendation to the purchasing team based on pre-agreed criteria. The tender panel should be identified in the preparation stage to ensure members are engaged early on in the process. They often play a key role in identifying the specification and evaluation criteria and have a responsibility to understand the specification and how it relates to their department/function. The panel will be dependent on the value and complexity of the procurement and the services/goods being purchased and should include representatives of each key stakeholder group. The project manager or lead procurement officer will generally be responsible for the formation of the right governance structure and, in the public sector, will develop this in accordance with the correct EU procedure that they plan to use. In the private sector this will usually involve a request for information (RFI) or a request for quotation (RFQ) rather than a formal tender procedure.

The tender panel may wish to record any action that is needed to ensure that identified resultant savings are realised in practice.

8. Tendering can be expensive – keep it lean

Inefficiently managed and overly complex tendering processes can create significant cost for bidders who are often challenged with maintaining a bid team over an extended period of time to respond to clients' needs, many of which are ad hoc. This overhead cost has to be recovered somewhere and will inevitably find its way back in to bidders' pricing, so the more inefficient the tendering process the more overhead cost needs to be recovered. Selecting the most appropriate tendering process and applying lean techniques to eliminate waste and non-value added steps are essential. For example, maximising the steps that can be undertaken in parallel and reducing unnecessary review and approval cycles are obvious ways that a lean approach to the tendering process can help. Applying lean principals to post tender contract management and supplier performance management can also improve efficiency and drive supplier costs down. So thinking through how to manage these phases during the tender process can have a significant impact on bidders' pricing and the resulting contract life cycle costs.

And finally – looking ahead

Over the next five years, the tender process is likely to become far more intensive in terms of scrutiny of suppliers and supplier capability analysis, requiring a greater upfront commitment in terms of resource and time from both sides of the market. This pressure will be exacerbated by rapid technological advances enabling almost instant response times on a global basis. Supplier agility and buyer preparedness will be key differentiators in this developing market.

Box 3 NEED MORE INFORMATION?

The Chartered Institute of Purchasing & Supply (CIPS) is the world's largest procurement and supply professional organisation. CIPS guidance documents covering e-commerce, e-business, e-sourcing, e-tendering and e-auctions are available in the professional resources section at www.cips.org

SHARED SERVICE CENTRES

CUSTOMER SATISFACT
FINANCE SHARED SERV

Finance shared service centres (SSCs) can be an attractive and cost-saving option, but may be a false economy if the customer ends up dissatisfied. **Susie West** explains how to ensure customer service is also optimised.

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What is the best way to provide satisfaction and customer service in a finance shared services centre? As I started planning what I should say in this article, a conveniently timed tweet popped up on my screen from @Noosamouse: 'Pls stop telling me what you think I want & ASK me what I need! #customerServ #CustomerExperience #Services #sharedservices'.

Thanks, @Noosamouse – that instruction lies at the heart of delivering excellent customer service. Whether you're selling music online, running a dry-cleaning service or delivering an accounts-payable function, you must deliver something your customers need… and deliver it well.

The tweet also shows how far news from a dissatisfied customer can travel (@Noosamouse is in Australia), even when a service is internal. Once set, reversing that sort of negative perception is no easy feat.

With cost reduction still a priority for many businesses, it's no surprise that most finance shared service centres (SSC) focus on the 'shared' element – ie reaping the efficiencies from centralisation. But if you expect the

TION IN VICES

'service' side to follow naturally you're in for a bumpy, if not abortive, ride.

So, how can you delight the people you work for? Below are four ways to do so (and see Box 3, overleaf, for examples of KPIs relating to one particular finance activity – purchase to pay (P2P)).

1. Spell it out

When John Hall first joined DSM Business Support (see Box 1, right, 'About DSM'), it was clear that customer satisfaction wasn't high on the shared services priority list. Now, though, 'It is fundamental to the role of my shared services units,' he says. And, as he succinctly adds, 'It's the reason we get paid.'

It was while running a workshop with his staff that Hall realised he had to go back to basics to turn round the finance and HR shared services he looks after. A tentative hand went up:

Colleague: 'What is it?'

Hall: 'What's what?'

Colleague: 'What's customer satisfaction?'

It's a fair challenge. Many organisations claim that it's a priority without ever having defined – let alone delivered – it. Off the back of the workshop, John created the DSM Business Support (DBS) manifesto *Transforming the Customer Experience* (we have a copy of the manifesto at www.sharedserviceslink.com).

Box 1 ABOUT DSM

DSM is a manufacturing company and John Hall is senior vice president of DSM Business Support, the shared services division. His role includes implementing and developing the business support organisation at DSM on a global basis, which includes the HR and finance functions.

Age of shared services in each division: six years for credit management, two for general finance and four years for HR.

Main countries served: credit serves Europe (and parts of Asia), HR serves Netherlands only, and general finance works with global service units.

‘Whether offering praise or criticism, people need to know how to provide feedback and that they’re being listened to’

‘It makes our people think about what customer satisfaction and service really mean,’ he says. The document articulates their objectives, what excellent customer service looks and feels like, and how it is measured and rewarded. (See Box 2, below, DSM’s Top Ten Tips, for a further taste of Hall’s advice and approach.)

Box 2 DSM’S TOP TEN TIPS

1. **Know the business value of niceness:** always make the customer feel you are happy to hear from them. Never place your convenience above that of the customer. Your professionalism will shine.

2. **It’s all about the customers:** know what we stand for and communicate it through words and actions. Your actions reflect on our overall reputation.

3. **Surpassing service in your field:** be a legend in your team by providing outstanding customer service that goes beyond the ordinary to the extraordinary.

4. **Share it around:** make sure you share your ideas and experiences – the highs and the lows. It maintains a sense of team and means you have support when you need it.

5. **The customer defines a job well done:** before you close a query, ask your customer if they are happy with the service they received. Ask if the solution meets their needs. Find out if they would like to experience anything differently next time.

6. **Know your customers:** listen to them. Observe them. Make a commitment to no surprises. What you promise is what they get and more.

7. **Keep calm:** we all have tricky customers. Remember to listen to the customer and feel empowered to provide an appropriate solution. Remember turning a complainer into a champion leads to a great reputation for you and for DBS.

8. **Add value:** be sure that whatever it is that you do, you do it with the customer in mind. Use your knowledge of DSM to find the best solution for them.

9. **Take ownership:** be empowered to trust your judgment and know that you are the one who will follow through to be sure you meet your customers’ needs.

10. **Create options:** never say ‘No’ to the customer. ‘No’ is often uncreative. ‘Yes’ is great, but may be over-commitment. The customer needs options. Create them. Even partial solutions are better than roadblocks. Be a world-class problem solver!

2. Communication: it’s a two-way thing

You’ll have heard this before, but it’s worth repeating: communication is a crucial element of any major change initiative. Hall published the manifesto widely so customers understood the vision for the SSCs and knew what to expect. ‘Our message was, “we know we’re not there yet but here are our values and what we want to achieve”. The reaction from customers was extremely positive.’

It is important to remember that communications are two-way. Whether offering praise or criticism, people need to know how to provide feedback and that they’re being listened to. At our recent European Summit on ‘Finance shared services and outsourcing’, we heard how mobile phone operator Vodafone manages its SS communications through a suite of business partner channels.

Vodafone’s SSC customers have online support tools via the intranet, regular email updates and clear escalation paths with man-marking for each part of the business. Common issues are passed up to a business partner conference and can then go up to a customer council, a forum for country and regional CFOs and the SSO leadership team that meets once or twice a year to discuss the SSC’s strategic direction.

3. Train and incentivise

Having set expectations, your team must know exactly how to handle transactional as well as more complex scenarios. DSM standardised its processes and trained its staff on how to open calls, deal with difficult situations and choose the right channels while keeping the image of the organisation paramount in people’s minds.

DSM instils the right mind set in a number of ways, including tying customer satisfaction to people’s salaries and setting out the vision from the outset. ‘The most important thing, though, is that shared services leaders truly understand customer service and commit to it. If you’re not utterly committed it will never go in,’ says Hall. ‘And never abandon customer satisfaction for cost saving; it’s a false economy.’

4. Keep track

Just as hotels want to know how you felt about your stay, SSCs need to keep tabs on what customers think about their services. DSM measures customer satisfaction through its annual survey. ‘Our staff members get an overall rating based on the combined results for finance, HR and credit control,’ he says.

‘First we ask customers how important the service is to them and then how satisfied they are with it. If

> '"Run your SSC as if you are running a normal, external business. You're only as good as the last thing you delivered"'

you're satisfied with something, but it doesn't actually matter to you, then that's just housekeeping. But if it's something important to you and you're dissatisfied, we definitely need to act.' This approach also helps Hall tailor his budget to the services that are most important to the business.

In terms of measures, DSM is working towards a 70% customer satisfaction rating. 'This is a reasonably good score rather than world class, but there's a balance,' he says. 'If you get to 80% you've probably over-invested.' This year, despite building a new SSC in India and offshoring work, his unit hit 67%. The top performer, at 78%, was credit control, one of the toughest functions.

The annual bonus at DSM is linked to these customer satisfaction results. 'The first year we ran the survey we set a collective goal to achieve 70%,' he says. 'But as some teams, like credit control, exceeded this mark, we reset their goal to maintain their 78% result to get their bonus.'

Finally… run an SSC like an external business

Hall's final piece of advice sums up all the points made here: 'Run your SSC as if you are running a normal, external business. You're only as good as the last thing you delivered.'

And if you fail to take heed, don't be surprised to see your customers' dissatisfaction expressed publicly, perhaps in a brief 140-character tweet.

See also 'Managing the retained finance function' on page 20 of this issue.

Box 3 WHAT KPIs RELATE TO FINANCE SHARED SERVICES?

One activity lying at the heart of many finance shared services initiatives is purchase to pay (P2P). Involving thousands of invoices, a variety of processes and many employees, you need to be able to keep track of your performance at any given time. So high scores on the following metrics will mean you're also delivering service excellence.

1. Productivity per full-time employee (FTE)

Quite simply, the number of purchase invoices processed by each FTE in a year. This can be very telling of the state of your P2P function. If you have high purchase-order compliance, and high automation and electronic invoicing, then each employee is likely to process a high number of invoices.

Figures from consulting and research firm Hackett, released a couple of years ago, show that world-class P2P organisations process 35,147 invoices per FTE per annum.

This metric, however, tells you whether your process is effective, but it gives no indication of cost. Your productivity could be at 60,000, but if you spent millions on whizz-bang technology, this isn't surprising. You need to read this KPI alongside your cost per invoice.

2. Cost per purchase invoice

If your productivity is high your cost per invoice should be low. However, you shouldn't read cost per invoice in isolation. We all know that you can process an invoice in India for relatively little, but that means nothing if all the invoices are processed manually and fail to match.

According to Hackett, the cost per invoice for a world-class organisation is $1.28. A non-world class organisation comes in at $3.89. This calculation typically includes all invoices from third-party vendors over one year (paper, electronic, scanned, via EDI, self-billed). Take the sum of all salary and IT costs incurred during the receipt of invoice within the company through to payment, and divide it by the number of invoices.

3. First time match (FTM) rate

We all strive to process our invoices first time, without having to park them or handle exceptions. World-class organisations achieve this 94% of the time, according to Hackett, whereas non-world-class organisations operate at 70%.

This is one of the chief KPIs for P2P. The lower your FTM rate, the lower your productivity and the higher your cost per invoice, which results in fewer invoices being paid on time.

If you process invoices electronically, then a sophisticated P2P organisation would focus on the percentage of invoices processed touchlessly (ie electronic and straight through).

4. Payment on time (PoT)

PoT dovetails neatly with FTM. If your FTM is high, chances are your PoT is high too. PoT does not of course mean paying suppliers early, but to the terms that were agreed by procurement.

Speaking at our 'Accounts payable automation' conference last year, Procter & Gamble explained how PoT is part of the company's culture. In addition to a slick operation at 96% (which exceeds the Hackett 95% world-class rating), P&G also uses PoT to maintain its reputation as a good buyer, which lends added weight when negotiating terms and rates for goods and services. Non-world-class companies come in at 72%.

MANAGING PEOPLE

HANDLING CONFLICT IN THE FINANCIAL CONTROLLER ROLE

The role of financial controller (FC) can be a challenging one, often involving disagreements with others in the business over financial reporting demands and practices. Below **Catherine Bailey** explains how to resolve such conflicts.

The work of the financial controller (FC) routinely brings them into conflict with the business they support. While the current business pressure for growth and reduction of financial risk may have heightened the likelihood and potential intensity of such conflict, there have always been endemic conflicts from a financial control perspective.

FCs will probably recognise such sources of conflict as:

- shortcutting reporting – eg, operational managers can be more focused on 'getting the job done' and less focused on servicing 'the bureaucracy', as they might see it, in simple procedures such as timely completion of purchase orders;
- failure to appreciate the purposes of financial control – eg some managers may over- or under-report income or costs, happily ignorant of the problems that creates for business; and
- disagreements about what counts as good practice – for instance when senior managers use their 'market experience' to justify income predictions that they cannot substantiate with evidence, leaving unaddressed the risk they build into cash flow management.

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The embedded organisational issues

Undoubtedly market pressures, reward schemes and business priorities can lead to evasive or inaccurate reporting and lack of co-operation, in turn giving rise to intolerance for 'back office' activity and escalation of issues that should be addressed easily in routine business control meetings. But in practice, raising and resolving such issues can be tricky.

Some embedded organisational issues lie behind many of these areas of conflict, for example:

- only 'lip service' paid to the organisational principle of financial control – some line managers really seeing it as just bureaucracy;
- cynicism about financial control, based on the belief that it is self-serving and unconnected to the business; and
- managers' reluctance to challenge directly, because they suspect the FC is a conduit for a strategic agenda such as covert cost cutting.

Navigating the way through these conflicts

Navigating the way through these conflicts which arise from the differing

‘Focusing on how financial control can help resolve issues sends a strong positive message’

agendas of line management and financial control is an inherently political process. In this political reality the FC cannot rely solely on the logic and rationality of professional good practice.

What the FC must do to manage these commonplace conflicts effectively is as follows:

1. Prepare the way for productive discussions

Making time to meet budget holding line and project managers in the business, and to understand the operational and functional priorities, demonstrates interest beyond the numbers. It also helps to challenge the ‘organisational police’ stereotype of the financial controller role. And, most importantly, it enables the FC to anticipate and address conflicts before the month end/quarterly reporting crunch point. Relationships built on mutual understanding and value-add offer a greater chance of productive discussion.

2. Ask the business how difficult issues should be discussed

Getting line managers to recognise that inherent conflicts damage business if not openly addressed is a crucial first step to normalising difficult conversations. Agreeing some ground rules (see box, right, ‘Rules for discussing difficult issues) for those conversations is a key step too. This is particularly the case when there is a need to deal with the ‘too difficult’ issues, for example where there is a suspected compromise on accuracy and timeliness of reporting due to performance related rewards or incentives.

3. Position financial control in terms of help and support

Difficult conversations should not be about finance versus the business, so focusing on how financial control can help resolve issues sends a strong positive message. For example, seeking to understand how and why an issue has arisen and trying to find ways within the financial reporting constraints to work with the business.

4. Focus on issues not personalities

Attributing recurrent control issues to an individual’s ‘non-compliant’ personality, rather than difficulties peculiar to their situation or lack of understanding, raises the likelihood of personal conflict, distracts focus from the control issue and so limits the likelihood of resolution .

5. Try to read the political interests of the individuals involved

Set out to understand what is driving the views of the business stakeholders. Asking questions to gain understanding rather than making statements – worst of all, ostensibly dogmatic ones – is a good starting point.

6. Make sure the relationship is back on an even footing before leaving a difficult conversation

A good tactic is to acknowledge that the conversation was difficult, but has nevertheless brought positive results. ‘I know that was a difficult conversation because we addressed a challenging issue about which there could be no simple answers. But it has clarified the way forward, so it was important we saw it through. Thanks.’ Offering to provide additional support for the business – in terms of earlier involvement in difficult issues, control advice on other projects, supplementary financial information etc – can also re-stabilise the relationship.

And finally – handling deadlock with a senior manager

All of that said, there is one situation in particular which demands a special kind of response from the FC: dealing with deadlock created by a senior manager refusing to acknowledge or discuss an issue. This might happen because the senior manager is in strategic conflict with the board or simply because there are strategic issues that cannot be discussed outside the board. What can the FC do where the issue is at one remove from his/her point of influence? The only meaningful route is to share the problem with the FD. After all, if the senior manager has a reputation as a ‘difficult personality’ then conflict is only heightened by probing from a position one level removed.

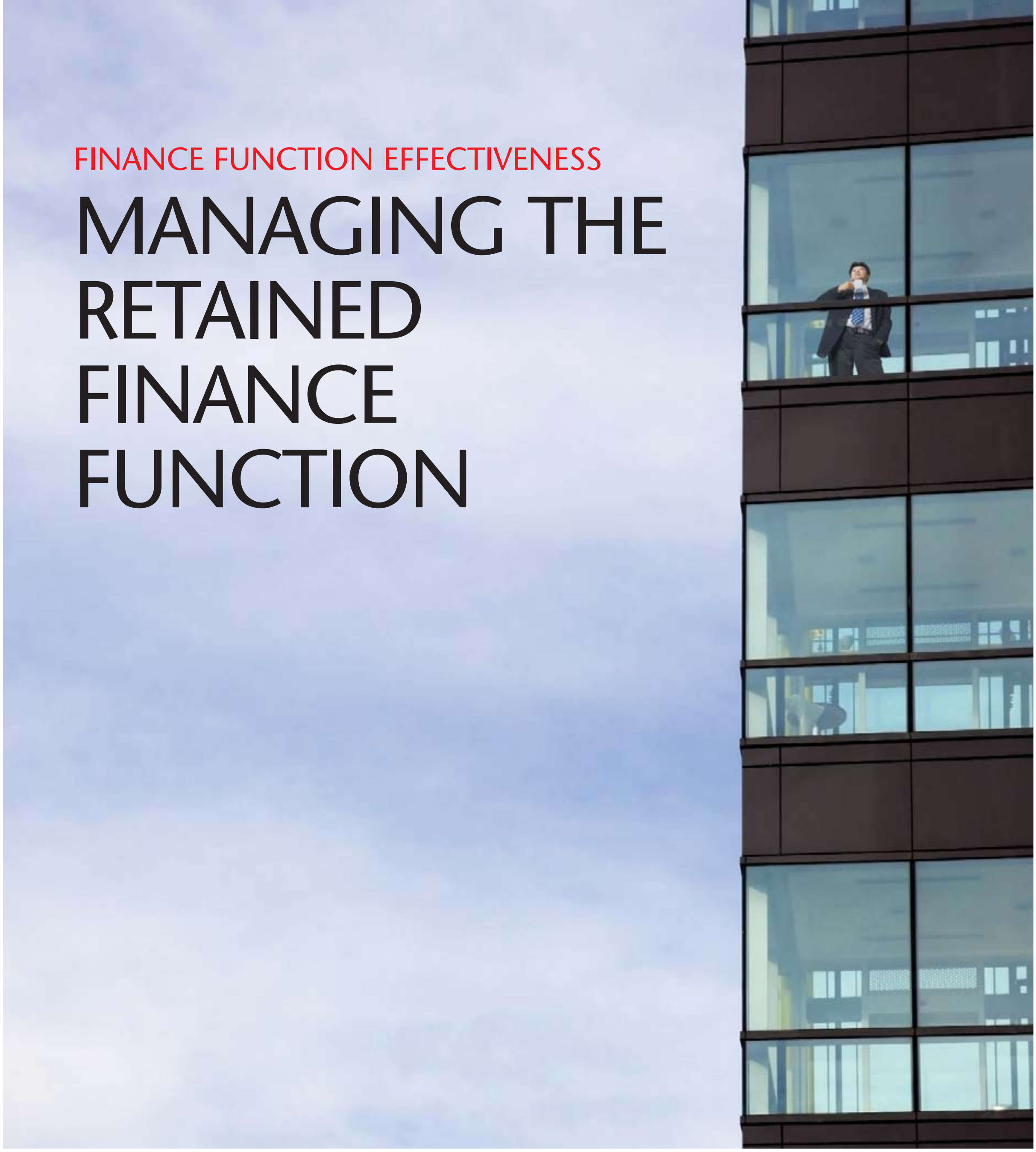
Such advice assumes that the relationship between the FC and FD is a good one – and it certainly needs to be, as there is no alternative for resolving conflicts driven by business strategy.

However, when the issue is a simple conflict over financial control procedures, the FC should not shy away from pointing out to the senior manager that their position is unreasonable by standards of good practice.

Even when dealing with someone at a higher level, unreasonable behaviour calls for strong words.

RULES FOR DISCUSSING DIFFICULT ISSUES

- Raise the issue early.
- Adopt a structured problem-solving approach where parties share perspectives at each stage from issue recognition to solution.
- Commit to achieving stage agreement through exchange of information and discussion before progressing to the next. Key stages of a problem solving process are:
  - Do we agree there is an issue?
  - What is the issue?
  - What is the impact?
  - What are the decisions to be made to resolve the issue?
  - What needs to be understood better to make these decisions?
  - What are the decision-making options?
  - What are the pros and cons of each? How do we evaluate them?
  - What is the agreed outcome?
- Commit to the importance of successful resolution and support the outcome.



FINANCE FUNCTION EFFECTIVENESS

MANAGING THE RETAINED FINANCE FUNCTION

Building a shared service centre marks an important milestone for a business. It also presents unique challenges to a retained finance function. **Alistair Marsden** offers some tips on meeting these successfully.

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The establishment of a shared service centre is only a step, albeit a large one, towards a world class finance function. It is, as the cliché goes, part of ‘a journey’. Motivating the retained finance function is important throughout this journey to ensure effective performance in terms of financial reporting accuracy, effective business partnering and strong internal controls.

What next?

The establishment of a shared service centre presents unique challenges to a retained finance function that has been reduced significantly in size, possibly feels a little bit unloved and may well be wondering, ‘what next?’

> 'You need an "end vision" in sight that acts as a guiding light to keep you all on course'

No golden rules

The first golden rule is that there are none!

A lot of consulting houses have sound methodologies on how to approach change management. But be wary of getting swept along on the back of such theory and dogma. In reality the situations that you deal with will be variable and unpredictable, and your decisions rely more on your own knowledge of the business and the people involved than on text book responses.

In the absence of golden rules, though, I can offer six tips (below) derived from my own experience of this sort of change programme. They are as follows.

Box 1 FINANCE CAREER PROGRESSION IN AN SSC

CAREER PROGRESSION	DEVELOPMENT
Financial analyst	Gains good experience of understanding the key business drivers. Starts to business partner with commercial sales directors. Performance appraisals highlight good progress and identify managing people as a development goal.
Secondment to SSC as a team leader	Gets the chance to lead a small team in an operational environment in a different culture. Attends internal coaching course. After a successful eighteen month secondment, IFRS technical skills identified as next development area.
Financial reporting analyst	Is transferred to EMEA head office role, responsible for IFRS reporting and consolidation. Attends external IFRS course and qualifies. Next stage development seen in the partnering area.
Regional controller	Given middle manager role responsible for larger team requiring a combination of technical and analyst skills, working closely with regional managing director. Develops strategic and partnering skills.

Six tips for managing the retained finance function

1. Give 'heart' and 'head' equal importance

This is an emotional journey, and constant reminders of the business case to the exclusion of the emotional impact are a sure fire way to fail.

As a finance person, I know it is often easier to focus purely on the logic behind any decision. Most finance transformations have a sensible efficiency argument at their core, for example, 'the establishment of a shared service centre in a low cost jurisdiction and headcount reductions in other countries to drive productivity and labour cost savings'. It's hard to argue against that!

Yet driving the change means that the retained finance organisation will go through a lot of uncertainty and loss of jobs. At the same time the expectation is for higher performance from the remaining people. They have to maintain financial reporting accuracy and a strong control environment in a riskier climate as well as leading multiple system implementations and managing a team that is shrinking as staff are laid off.

You have to win both hearts and minds. Academic research suggests that the team will support your decision, even if they disagree with it, if a fair process is followed. As an example, during the reorganisation at Covidien we held regular and open meetings, often with some very direct questions about the project from staff leaving the organisation. It may have been easier to have avoided these meetings but the leadership team earned more respect by addressing the issues head on. During the transformation we posted as open jobs all roles that we legally could – including the more senior ones. We also promoted objective assessments of skills and experiences in the interview process, and gave feedback to unsuccessful candidates – not always easy conversations, but ones that earned us respect.

2. Establish a clear vision for the finance organisation

Change brings a lot of uncertainty and stormy waters, so you need an 'end vision' in sight that acts as a guiding light to keep you all on course. When preparing the vision you should be asking how you want to be perceived by your stakeholders and by the finance team. You should consider both the service you offer and how you intend to develop your staff.

Allow the vision to be developed by the entire finance team. It

‘Training budgets should be evenly balanced between technical and leadership development’

should be motivational, encompassing not just what’s in it for finance internal customers but also what’s in it for finance staff (whose main concern is often their own development).

Remember that after the implementation of a shared service centre, career paths within the retained finance organisation can become hazy. It is therefore important to paint some pictures of how careers can progress in this new world and how the organisation can help in that. An example is set out in Box 1 on page 21.

3. Pick the future finance leaders early and empower them to lead the finance transformation locally

Managing change happens most effectively in the physical location undergoing the change. No matter how skilled the head office leaders are, there is no replacement for local leaders with ‘skin in the game’, who can feel the pulse of their local organisation. Pick the future local leaders early in the transition. As well as reducing uncertainty this creates a team of motivated leaders that can drive the benefits realisation and the systems implementations as well as maintaining the local control environment.

4. Invest in personal development with a particular emphasis on interpersonal skills

You will be asking many of these local finance leaders to go into uncharted territory. They will need to be able to build effective teams and good relationships with the shared service centre and the wider business while the foundations of the organisation are being shaken.

While accounting technical skills cannot be ignored, the emphasis should be on leadership skills to enable the local leaders to drive the change locally. Financial reporting errors during change programmes are much more likely to come from a communication issue rather than a lack of technical knowledge. Effective coaching skills are important and should be included as one of the key skills required for more senior managers. Good coaching enables leaders to build capability at lower levels in the organisation, encouraging more effective communication by promoting two-way feedback and helping to soften the hard edges of a change programme.

So training budgets should be evenly balanced between technical and leadership development. Key to this is a relatively centralised budget based on formal departmental training needs analysis linked to performance appraisals. This enables the identification of training hot spots and more effective sourcing of training.

5. Pick your advisors carefully… but do not outsource leadership

You can’t do absolutely everything, so recognise where you and your team have strengths and have enough humility to see where you could benefit from support. From my experience, skills such as facilitation, coaching and communication are in short supply during the ongoing journey to world class.

Getting the balance right between external and internal resource is important. Too many internals and you may not have all the skills you need. Too many externals and you will not have the experience you need and you may become over-dependent on consultants.

Go for one or two trusty and highly skilled advisors from the outside and then use the change programme to stretch internal candidates and to build the in-house capability. The emphasis should be on advice; decision making must remain with functional leadership.

6. Keep the impetus going after the shared service centre is built

After so much change, you may feel inclined to sit back in the steady state. This is likely to have a demotivating impact on staff who have probably learned a lot from the challenges of the transformation. They will be hungry for the next challenge. Encourage innovation within the retained finance group to drive world-class performance.

Conclusion

So what about that unloved retained finance organisation I mentioned earlier – the one wondering ‘what next?’ In truth, if the transformation is successful then the retained finance organisation will have grown in skills and experience (if not in number), and should not only have a clear vision of what happens next but will now be saying ‘Bring it on!’

See also ‘Customer satisfaction in finance shared services’ on page 14 of this issue.

LEADERSHIP

'GREAT' FINANCE LEADERS SHOULD WIN HEARTS AS WELL AS MINDS

What is the difference between 'good' and 'great' finance leaders – and how can the great ones be developed? **Rachel Short** provides guidance.

What makes a finance leader stand out from the crowd? YSC has been researching thousands of organisational leaders and our database tells us that finance professionals have considerable strengths relative to their peers. For example they:

- are significantly more analytical, logical and data-rational; and
- can also be stronger at framing organisational strategy and showing sharp commercial judgement and market awareness.

Interpersonally, however, they tend to:

- be less influential;
- have lower levels of impact; and
- lack insight into how to motivate and inspire as leaders.

Lack of influencing skills

In terms of development, most finance leaders have first focused on building on their technical expertise. As they have risen through the ranks, they have also acquired formal people and project management skills. However, they have generally spent relatively little time developing a range of influencing skills that will create 'followership' across the business.

Unsurprisingly, then, their success is built on winning minds rather than hearts. And while this data-led, rational, logical approach fuels credibility and trust in the integrity and impartiality of the function's contribution, it only takes them so far.

It is the capacity to inspire which appears to distinguish 'great' leaders from the merely 'good'.

Fostering 'great' within finance

According to our research, an increased potential for future success is indicated by:

- sharp self-awareness;
- a 'feeling' for political and cultural contexts;
- a real understanding of others; and
- the ability to convert these insights into an adaptive leadership presence.

The need for these qualities also sets the agenda for organisations' development of inspirational future finance leaders. The box below offers hints and tips for developing future finance leaders.

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ONLINE TOOL

The multiplicity of roles and responsibilities undertaken by a CFO represents a unique leadership challenge. This adds to the complexity of identifying and nurturing leadership talent within a finance function. ICAEW and YSC have developed an online tool to help finance leaders become more aware of their teams' areas of strength and potential room for growth as they work towards becoming leaders of fully rounded finance functions.

For more details, contact Grace Christie on 020 7920 8506 or email grace.christie@icaew.com

HINTS AND TIPS FOR DEVELOPING FUTURE FINANCE LEADERS

1. When recruiting or promoting a finance professional, probe for the capacity to recognise and adapt in different contexts while maintaining self-awareness of limitations.
2. Employ robust personality assessments routinely when profiling functional talent to tap into relational preferences, emotional intelligence, conflict management styles etc, to set a developmental agenda.
3. Encourage regular 360° feedback to build self-awareness in finance professionals – particularly at early stages of team management responsibility.
4. Create opportunities for colleagues to connect with a range of audiences.
5. Encourage senior managers to look for opportunities to create wider organisational interest in functional initiatives.
6. Support peer coaching or mentoring relationships with non-finance professionals.

BRIEFING

TECHNICAL UPDATES

FINANCIAL REPORTING

BUSINESS RISK REPORTING: EXPECTATIONS AND IMPROVEMENTS

Why do users, regulators and commentators so often express disappointment at companies' risk reporting? And how can it be improved? These are the issues addressed in a new report from the ICAEW Financial Reporting Faculty, *Reporting Business Risks: Meeting Expectations.*

The report puts forward seven principles for better risk reporting. These are practical ideas, aimed at public companies, for how they can improve their risk reporting. The report does not advocate tougher regulation, which it says is unlikely to be effective. Risk is such a subjective area that the quality of reporting on it is to a large extent voluntary, even when there are mandatory requirements. While the report argues that risk reporting should be improved, it also points out that expectations for it need to be realistic.

For more information and to download a PDF of the report, visit icaew.com/bettermarkets. To order a printed copy, email bettermarkets@icaew.com

REPORTING ON GENDER DIVERSITY

The Financial Reporting Council (FRC) will amend the UK Corporate Governance Code to require listed companies to report annually on their boardroom diversity policy, including gender, and on any measurable objectives that the board has set for implementing the policy as well as the progress it has made in achieving the objectives.

The FRC will also be updating the code to include the diversity of the board, including gender, as one of the factors to be considered when evaluating the board's effectiveness.

The new provisions will apply to financial years beginning on or after 1 October 2012 but companies are strongly encouraged to make the disclosures with immediate effect.

For more information visit frc.org.uk

IFRIC 20 STRIPPING COSTS

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* clarifies when stripping costs (the process of removing waste from a surface mine in order to gain access to mineral ore deposits) should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

The interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

For more information visit icaew.com/frf

SIMPLIFIED REPORTING FOR SMALL ENTERPRISES

Financial reporting can be complicated for small enterprises in the UK and the Republic of Ireland. The Financial Reporting Standard for Smaller Entities (FRSSE) provides a simplified route to preparing financial statements for organisations of this size.

ICAEW has launched a new FRSSE learning and assessment programme which will help you to develop and validate your knowledge of this standard.

The online study programme and assessment can be undertaken at any time so you can minimise your time away from the office and plan study time around other commitments.

For more see icaew.com/frsse

By **Marianne Mau**, Financial Reporting Faculty, ICAEW (marianne.mau@icaew.com) and other sources.

THE FUTURE OF THE FRC

The Department for Business, Innovation and Skills (BIS) and the Financial Reporting Council (FRC) have launched a consultation proposing the refocusing and streamlining of the FRC. The aim of the reforms is to create an FRC that is clearer about its role and purpose, proportionate in the execution of that purpose and in a strong position to promote the highest standards of corporate reporting, governance and auditing. Comments are due by 10 January 2012. For more information visit icaew.com/frf

FINANCIAL REPORTING LAB

On 14th October 2011 the FRC launched the 'Financial Reporting Lab' which brings together companies and investors to identify practical solutions to today's reporting problems, such as the length and complexity of reports and accounts. The Lab's participants will be drawn from a diverse range of sectors and will include investors and representatives from a wide range of companies. For more details visit frc.org.uk

ACCESS FRF RESOURCES

Membership of the Financial Reporting Faculty for 2012 starts at just £105. Membership will give you full access to the faculty's wide range of resources including factsheets, webinars, monthly bulletins and eIFRS. For full details of the benefits of membership and for information on new UK and international financial reporting standards available to all, visit icaew.com/frf

GAINES-COOPER LOSES IN THE SUPREME COURT

Robert Gaines-Cooper has lost his long running residence case in the Supreme Court. The court found that leaflet IR20 *Residents and non-residents* should be looked at as a whole and that mere day counting was insufficient to establish non-residence. An individual has to effect a 'distinct break' in the pattern of their life in the UK in order to become non-resident. The decision was not unanimous but nonetheless HMRC will be happy to have its view vindicated. Gaines-Cooper is considering taking further action in the European Court of Justice so this may not be the end of this story.

Under current plans the UK is likely to have a statutory residence test (SRT) effective from 2012/13 tax year onwards. However the Gaines-Cooper case is still likely to be relevant for 2011/12 and prior years. Further, one of the factors to be considered in the SRT is whether one has been resident or not in the preceding period so the decision is likely to have continuing relevance, albeit reducing over time.

For further details, see www.ion.icaew.com/TaxFaculty/23204

PAYE UNDER- AND OVERPAYMENTS

The newspaper headlines were once again full of horror stories claiming millions of people have underpaid tax through the Pay As You Earn (PAYE) system, while others are due repayments.

The 2010/11 PAYE reconciliation process is continuing – all 2010/11 repayments have been dealt with; there were 2.3m of them and the average tax repaid to taxpayers was £297. HMRC is now concentrating on the underpayments. 1.2m of these have been identified and the average tax underpaid is £512, about half of the underpaid tax identified in the 2009/10 process. For 2010/11, HMRC is using a *de minimis* of £50, below which it will not reclaim underpaid tax shown up by the reconciliation process. The *de minimis* for 2009/10 was £300.

For further details, see www.ion.icaew.com/TaxFaculty/23185

EMPLOYEES TRAVELLING OVERSEAS

HMRC has published an updated (as at 1 October 2011) list of world-wide subsistence rates for expenses payments that can be made to employees travelling outside the UK, without deduction of tax. If an employer decides to pay less than the published rates, its employees are not automatically entitled to tax relief for the shortfall. They can only obtain relief under the employee travel rules for their actual, vouched expenses, less any amounts paid by their employer.

These tax/NIC free amounts are in addition to the incidental overnight expenses of up to £10 that can be paid to employees who are abroad overnight and which are designed to cover incidental expenses such as newspapers, laundry and home phone calls.

For further details, see www.ion.icaew.com/TaxFaculty/23115

COMPLAINTS ABOUT HMRC'S SERVICE

The factsheet on how to complain about HMRC has been updated. This factsheet tells taxpayers what to do if they are unhappy with the service they receive from HMRC. Given the continuing problems with HMRC's service standards, taxpayers and advisers should make sure they are familiar with what redress they have should HMRC get it wrong. Download the factsheet at www.hmrc.gov.uk/factsheets/complaints-factsheet.pdf

UPDATE

By **Frank Haskew**, head of the ICAEW Tax Faculty, based on the faculty's weekly newswire. To subscribe (free) to the newswire, visit icaew.com/taxfac and click on 'free weekly newswire'.

SWISS UK TAX 'DEAL'

On 6 October the UK signed a tax cooperation agreement with Switzerland. Under the terms of the agreement individual UK taxpayers who have accounts in Switzerland for which they have not declared income and gains to the UK tax authorities will be subject to a one-off deduction in 2013 as long as the account was open on 31 December 2010 and is still open on 31 May 2013. This deduction will settle income tax, capital gains tax, inheritance tax and VAT liabilities in respect of the funds in the account. For full details see www.ion.icaew.com/TaxFaculty/23104

ONLINE PAYE CODING NOTICES

From 13 October 2011, both taxpayers and authorised agents are able to view PAYE coding notices (forms P2) online. This new facility applies to taxpayers who are within self assessment. For further details, see www.ion.icaew.com/TaxFaculty/23131

MORTGAGE FRAUD

A new scheme to combat mortgage application fraud was launched on 1 September 2011. Where lenders have inadequate evidence of declared income and suspect fraud, mortgage lenders will send HMRC relevant details from mortgage applications. HMRC will cross check the income details declared against income tax and employment returns. Lenders will then take this into account when making subsequent lending decisions. See www.ion.icaew.com/TaxFaculty/23162

EMPLOYMENT LAW

TUPE: CONSENSUAL POST-TRANSFER HARMONISATION OF TERMS

Two Employment Appeal Tribunal (EAT) rulings suggest that agreeing changes with TUPE-acquired staff putting them on the same employment terms as the transferee's indigenous workforce may be effective provided the transferee has a reason other than simple harmonisation for making the change.

Following a TUPE transfer, the transferee will commonly want to change the employment terms of the newly acquired employees. Where the purpose is simply to harmonise the terms with those of the transferee's indigenous workforce for the sake of administrative efficiency, this is viewed as transfer-connected and, as a result, any changes are invalid under TUPE even if agreed by the employees.

In *Smith v Brooklands*, a change was agreed with transferred employees two years after the transfer. The tribunal decided as a fact that the reason for the change was the genuine view of the transferee's HR director that the employees were being paid incorrectly by mistake and out of step with normal practice in the sector (in that they were being paid for full-time hours when working part-time). The EAT ruled that this was not a transfer-connected reason so the change was valid.

In *Enterprise Managed Services v Dance*, the EAT accepted that changes aimed at improving productivity were not transfer-connected, even though in fact the transferred employees were given the same terms as the transferee's indigenous staff.

However, transferees should be cautious – tribunals are likely to examine sceptically any evidence that a harmonisation of terms is actually for a reason other than the transfer. *(Smith v Brooklands, EAT and Enterprise Managed Services v Dance, EAT)*

WHISTLEBLOWERS: VICTIMISATION BY COLLEAGUES

The Court of Appeal has ruled that the law does not prohibit workers from victimising their colleagues for whistleblowing, and therefore an employer cannot be held vicariously liable for their acts.

The court considered that it was not possible to read the necessary words into the legislation to provide this protection. Public Concern at Work has since called for a government review of the legislation to ensure employees who blow the whistle are protected from retaliation from colleagues.

The court also confirmed the EAT judgment that an employee claiming whistleblowing detriment need only show that the protected disclosure played more than a trivial part in the employer's reason for the treatment, and not that it was the core reason for the treatment. *(NHS Manchester v Fecitt, CA)*

GOVERNMENT IDEAS FOR CHANGE

Rumours of a number of proposals being considered by the government have been published by the press.

Deputy prime minister Nick Clegg is reported to have suggested that conversations between employer and employee about performance and retirement plans should be protected so that employees cannot use them in subsequent litigation.

A leaked government report is apparently also suggesting the abolition of unfair dismissal in favour of no-fault dismissal compensation, although Downing Street comment implies this is unlikely to be adopted.

It has also been reported that the government is seeking an opt-out from parts of EU working time law in return for supporting any deal to save the euro.

This section is extracted, with kind permission, from the monthly bulletin produced by the law firm Herbert Smith LLP. For further information about these issues, contact anna.henderson@herbertsmith.com or visit www.herbertsmith.com. The content of this section does not represent legal advice and should not be relied on as such.

WITHDRAWAL OF NOTICE

An employer cannot unilaterally withdraw a notice of termination simply because it mistakenly expected the employee to agree to proposed new terms as a self-employed contractor. Employers negotiating changes to the terms of an individual's engagement should ensure agreement is reached before taking steps to terminate the employment. *(CF Capital v Willoughby, CA)*

REFERENCES: CARE NEEDED

In giving a reference for an ex-employee, an employer can refer to allegations of misconduct or poor performance that were not investigated due to the timing of the employee's departure, provided the reference makes clear that the allegations have not been investigated and that no assumptions should be made about what the outcome would have been. *(Jackson v Liverpool CC, CA)*

UNFAIR DISMISSAL: NEW POLICY

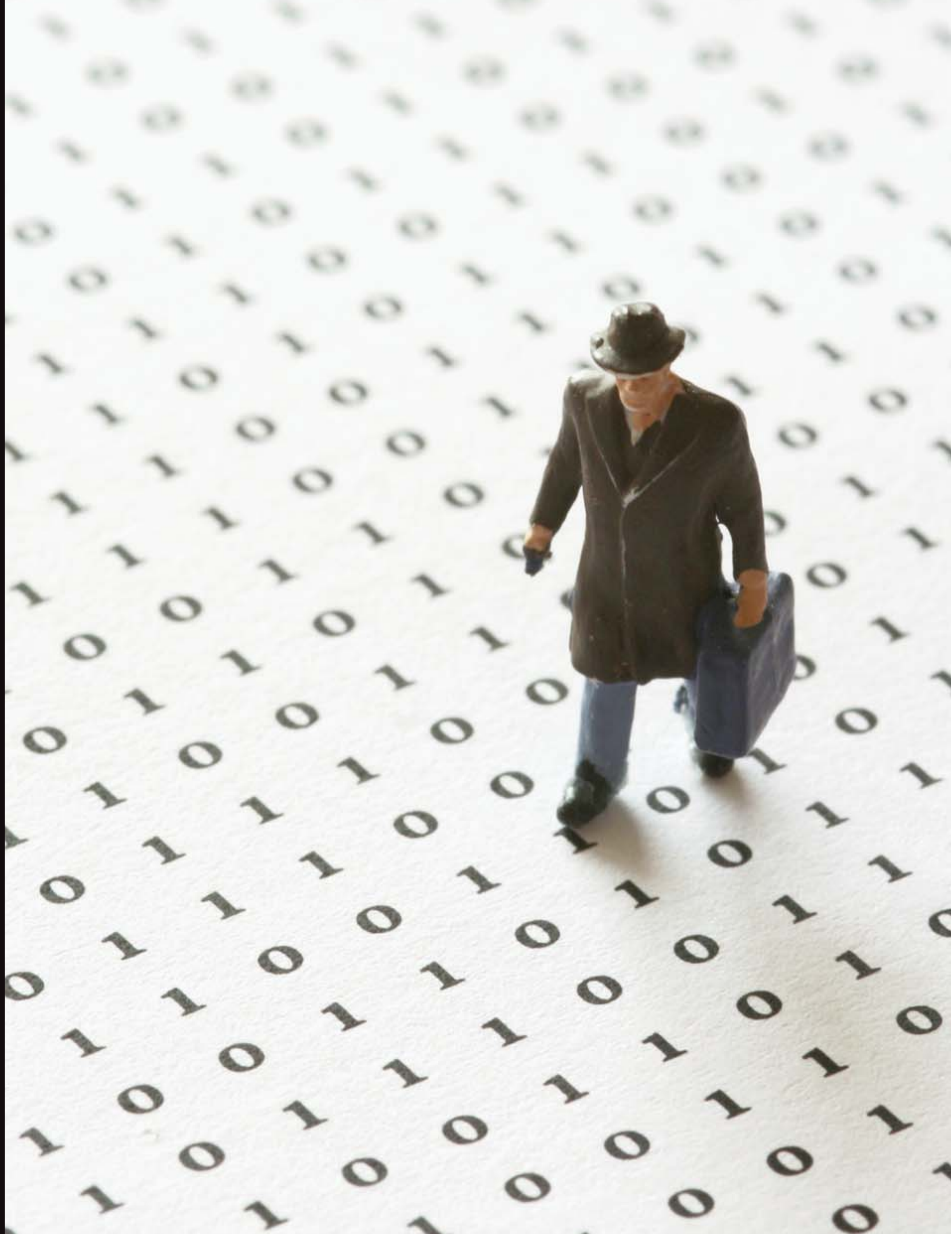
Under a new judicial listing policy, standard unfair dismissal cases will now be listed for a one-day hearing to be heard within 16 weeks. Standard directions will require parties to exchange documents six weeks after the claim is issued, with preparation of an agreed bundle by the respondent two weeks later and the exchange of witness statements 10 weeks from issue.

MANAGEMENT EXTRA

A monthly review of current thinking in the key areas of strategy, human resources, marketing and finance.

MARKETING

BIG DATA OR BIG RISK?



The past few years have seen the emergence of 'big data' – the tracking and utilisation of personal information gained through individuals' behaviour on the web and elsewhere. Here **Alan Mitchell** discusses the potential merits of big data as well as the many privacy issues that it raises.

If you haven't already heard of it, you soon will. 'Big data' is fast becoming the next big buzzword in business, key (if you believe McKinsey) to effective innovation, competition and productivity.

Not long ago, we lived in a mass, anonymous age. Unnamed, unidentified 'consumers' acted as faceless 'audiences' to marketers' blandishments, buying products and services using an anonymous payment mechanism (cash). Today, virtually everything consumers do online, and increasingly offline, creates a 'digital slug trail' leaving massive data sets about who did what, when.

The resulting data sets are vast. For example, as well as knowing who we talk to, when, and for how long, mobile phone companies now know where most of us are, when, most times of the day – thanks to geolocation data. Cash is rapidly being replaced by electronic credit, debit, contactless and mobile payment mechanisms which are generating ever more comprehensive digital records of what we buy, from who, when.

Facebook has a map of over half a billion individuals' 'social graphs' (ie friends, family and contacts) and their interests. Now, via the use of face recognition technologies, it also knows what each one of them looks like, while storing the 30bn pieces of content they create online, every month. Thanks to pervasive cookie technologies, our every click on the internet is recorded and stored and our movements tracked back to the IP address of our computers. Increasing proportions of online advertising are driven by the 'behavioural targeting' that follows: ads served up to be more relevant to the online journeys we've made.

Google not only records every search term we enter, it also tracks which sites we visit from the search results page and the time we take to decide (apparently these timings shed light on your personality). If you have Gmail, its bots 'read' your letters looking for key words to advertise against. And, since December 2009 it's been using the data it collects on you not only to serve up more relevant ads but to decide what search results you see in the first place. Two different people putting the same search query into Google are now likely to see two different sets of results – thanks to Google's 'personalisation' algorithm, which selects answers to search queries after crunching the data it has collected about the individual inputting the search term.

Meanwhile Twitter has a vast and rapidly growing database of what we are talking about online, and which subjects are trending up and down. And TV providers like Sky monitor and record not only what programmes we watch, but when we watch them and what we fast-forward through. It sells these data to marketers keen to understand target audiences' interests.

There's plenty more to come. Schemes like Transport for London's Oyster keep a log of every Londoner's movements through its transport systems. And as radio-frequency identification (RFID) matures, so does 'the internet of things', with the ability to track individual items through every step of the supply chain into the consumer's home (where RFID scanners are likely to become ubiquitous).

Defining big data

As McKinsey pointed out in a recent report, all these data sets have a common factor: their size 'is beyond the ability of typical database software tools to capture, store, manage and analyse'.[1] There's immense potential value in such data, at two levels.

First, each individual data set – clicks, purchases, geolocation data, viewing habits – can be mined to reveal previously invisible patterns and trends. By monitoring volumes of searches for subjects related to flu, for example, Google was able to create a Google Flu Trends service which helps US public health organisations monitor and anticipate the progress of flu outbreaks.

The data can also reveal new insights, customer segments and targeting opportunities leading to new business opportunities. American Express, for example, has launched a direct marketing analytics and consulting business that draws on the purchasing behaviour of its 90m credit card holders across 127 countries.

Second, the benefits of big data sets can be multiplied many times over if different databases can be brought together. In the US for example, General Motors combined telematics data from its OnStar vehicle security and diagnostics service with its GMAC car insurance data to offer lower insurance premiums to customers who drive fewer miles. The holy grail for marketers is to create a complete, all-round picture of their customers' purchasing journeys, starting with their intentions and behaviours as revealed by their activities online, including targeting opportunities afforded by data about their whereabouts or media consumption, and ending with purchasing data which measures success and reveals new patterns and trends.

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‘In taking data collection and use to its logical limits, big data could also take these strains and tensions to snapping point’

The potential uses of big data

With big data, then, we could be on the verge of the perfect marketing database. Or are we?

The big data concept continues a 50-year-old trend whereby organisations collect data about their customers, giving customers little or no say over the purposes or processes of data collection and use, leaving them with no role to play except that of ‘target’. This creates tensions. In taking data collection and use to its logical limits, big data could also take these strains and tensions to snapping point. Before embracing the big data bandwagon, businesses need to address some basic questions.

1. Does it protect privacy?

Crunching huge volumes of customer/personal data does not create a privacy problem if the data is anonymised and not personally identifiable. Trouble is, the distinction between personally identifiable and non-personally identifiable information is not as sharp as many think. The IP address of your computer does not reveal your name and address, for example. But it’s only one small step away from doing so – and the entire multi-billion dollar behavioural targeting industry (which drives rapidly increasing proportions of internet advertising) is based on this distinction.

In fact, it has now been shown that most anonymised data sets are remarkably prone to ‘inference attacks’ which can quickly identify named individuals. One study showed that 87% of the US population could be uniquely identified by just three pieces of data: their five-digit ZIP code, gender and date of birth. When Netflix released anonymised data about 500,000 movie viewers’ preferences as part of a competition, University of Texas researchers showed that 99% of them could be named if they had watched just eight movies.[2] Retailers who maintain detailed customer and purchase information can use their data to partially de-anonymise any anonymised search engine data set. A data broker holding databases of several companies is able to de-anonymize most of these records.

Commenting on the findings of his research, Paul Ohm, a professor at the University of Colorado Law School, wrote that with our faith in anonymisation ‘we have made a mistake, laboured beneath a fundamental misunderstanding, which has assured us much less privacy than we have assumed. This mistake pervades nearly every information privacy law, regulation, and debate.’[3] In short, many companies are building data strategies on privacy foundations that are not as robust as they seem.

2. Is it based on informed consent?

There can be few privacy concerns about data sharing or use if the individuals concerned have given their consent. But have they? Really? Under current UK and EU regulations individuals have to ‘consent’ to certain practices, such as being sent electronic marketing communications or having their data shared with other parties for marketing purposes. Individuals are often deemed to have consented if they tick a box referring to small print which nobody reads or understands. Often, the box is pre-ticked despite the Information Commissioner’s Office guidance that an individual failing to object ‘does not mean that they have consented’ and that ‘individuals must fully appreciate that they are consenting and must fully appreciate what they are consenting to’.

Privacy campaigners have long argued that current practice flouts the spirit of the law. This debate is intensifying thanks to a new European ‘cookie law’ that requires organisations to gain individuals’ consent before they place cookies on individuals’ computers. In a recent speech the European data protection supervisor Peter Hustinx described current uses of cookies as ‘an erosion of fundamental rights and a market failure’, and called for the implementation of ‘privacy-by-default’ settings by which third party cookies are rejected unless users decide otherwise – a stance behavioural targeting companies admit would ‘kill’ their current business model.[4] Chances are, the debate about what informed consent looks like for cookies will spill over into renewed scrutiny of what it looks like for all data gathering.

3. Is our data gathering proportionate?

The scale and degree of today’s data gathering takes us into realms undreamed of by those who drafted today’s privacy legislation. Under UK law, organisations should only collect personal data for a specific stated purpose or purposes, and should not hold any more information than is needed for that purpose. Yet, as Accenture points out in a recent article on big data, ‘no single organisation has all of the data it needs to meet the demand for information services products; as a result, the ability to take your own information, combine it with other data and make it uniquely valuable via robust analytics will be critical to success’.[5]

This vision of combined data sets leads marketers in the opposite direction – of trying to collect as much data as possible. Recently, for example, Visa and Mastercard announced plans for connecting their purchases data to data about customers’ activities online. The *Wall Street Journal* commented: ‘If implemented, this would represent not only a technological feat – tying people’s internet lives with shopping activities – but also an erosion of the idea of anonymity on the web.’[6] So is today’s ‘data

'Deploying big data to solve some marketing problems could simply be a big waste of money'

minimisation' principle now redundant? Or is it even more apposite as we stumble into a surveillance society?[7]

Changes in the law

All these debates are now up for grabs as the EU's review of data protection legislation gains momentum. Many believe only one outcome is likely: a significant hardening of the law in favour of increased privacy. In other words, even as big data dazzles marketers with a vision of the ultimate, perfect marketing database it could generate the exact opposite: a perfect privacy, reputational and regulatory storm.

This takes us to a final question: is big data the only or best way forward? In many cases – where the answer is genuinely and wholly statistical – the answer is probably 'yes'. But, as soon as it involves the profiling or targeting of individuals, the answer may well be 'no': big data brings with it 'big risk'.

Big versus small data

The other side of the big data coin is very small data. In many situations, individuals and organisations need only a few bits of data to achieve what they want to achieve. But these few bits of data have to be right: available, accurate and trustworthy. Improved information logistics – getting exactly the right information (no more, no less) to and from the right people at the right time in the right form – may be a more fruitful operational avenue to explore.

This is especially true where value is better generated by data sharing than by pure analytics. Many big data applications focus on prediction – using past patterns to understand what individuals and groups are likely to do next. But there may be simpler, cheaper, quicker and more accurate ways to identify what customers want and are going to do next: just ask them. Deploying big data to solve some marketing problems could simply be a big waste of money. Alternative philosophies and approaches may work better.

The current UK government, for example, is backing new initiatives designed 'to put customers in charge of their own personal data'. Its midata initiative[8] encourages organisations holding customer data to release these data back to their customers, so that customers can use them for their own purposes. This makes individuals the point of integration of their own data, and turns them into potential information sharing partners. 26 major organisations including British Gas, Callcredit, EDF Energy, E.ON, Google, Lloyds Banking Group, MasterCard, Moneysupermarket.com, npower, RBS, Scottish Power, Scottish Southern Energy, Three and Visa have joined the programme – potentially embracing over 20 million consumers. Other major organisations are expected to join soon.

Speaking at the launch of midata, consumer minister Ed Davey said it creates a platform for innovation and growth. 'This is the way the world is going and the UK is currently leading the charge. We see a real opportunity here, but others, including the US and EU, are also showing real interest in the programme and the economic benefits it can deliver.'

In the light of such initiatives, organisations mulling big data strategies might usefully consider alternative 'small data' strategies at the same time.

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