

FINANCE & MANAGEMENT

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Panning for golden nuggets of insight

Through thick and thin

Why customer stickiness is no longer about big marketing spend

Counting on a career

Get your dream job – and keep it

Thinking on your feet

Don't be
caught on
the hop



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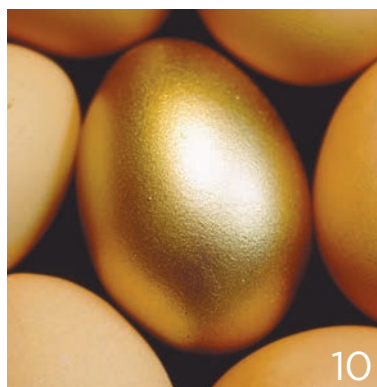
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July/August 2012



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Quick thinking – pressure inspires success

Welcome to the July/August edition of *Finance & Management*. With the London 2012 Olympic Games upon us, thousands of athletes are arriving in the capital after years of preparation and training in their individual sporting disciplines.



For many, this will be a once-in-a-lifetime opportunity to achieve Olympic glory and with everything at stake it's going to be high pressure. The athletes' quick reflexes and thinking abilities will be put to the test with most sports having a thin margin between Olympic triumph and disappointment.

In today's fast-paced environment, a highly coveted management attribute is being able to think fast in negotiations. For many, being able to articulate a good response when faced with unexpected situations doesn't come naturally. While arguably it is one of the more difficult skills to master, it can be learned through training and a lot of practise.

In this month's cover story, Matthew Copeland (page 19) focuses on how to enhance your thinking processes under tough negotiations. Copeland outlines some effective solutions to help you respond coherently when confronted with unanticipated circumstances – these include rapid response mechanisms such as reframing, visualisation, summarising and asking 'why' questions.

Another key element to thinking quickly is preparation. Just like any sporting activity, a great deal of research and training is crucial to success. Increasing your capacity to communicate with clear reasoning, brevity and impact could make the difference between winning and losing a key business deal. As Copeland says "in business there are usually no second chances to make your point, that meeting or presentation could be your only chance."

Also this month we look at how to be successful in a senior finance role and some key competencies you must hold to gain a competitive advantage. John Collier (page 14) explains that while technical excellence is mandatory, other important attributes are also crucial. These include strong interpersonal skills such as the ability to influence and persuade. Collier's point has been reinforced by the winners at this year's FDs' Excellence Awards (page 10).

As thinking on your feet is a vital skill – whether it be for business or personal reasons – the best way is to stay in control of the situation by preparing, listening, questioning and practising.

I hope you enjoy a wonderful break over the summer and will be cheering for Team GB or your own Olympic team's success.

Jennifer Chong
Technical manager

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News on the business front

FINANCE FOR THE FUTURE AWARDS 2012

The inaugural ICAEW Finance for the Future Awards took place on 19 June, celebrating finalists in six categories ranging from major corporates to start-ups, not-for-profit and the public sector.

The awards identify integrated approaches to finance and business that look at social, environmental and governance factors as well as financial performance. They aim to use the experience of the finalists and winners to share best practice through the development of case studies and educational resources.

NatWest, The Prince's Accounting for Sustainability Project and ICAEW founded the awards to recognise and reward the vital role that financial leaders and the finance function play in creating sustainable value by doing things differently.

The evening was hosted by financial



journalist and broadcaster Simon Jack and featured a keynote address by Gaynor Coley ACA, chief executive, enterprise, of the Eden Project (pictured above), who recounted her experiences of financial professionals leading sustainability work.

At the pre-awards reception, nearly 300 guests had the opportunity to learn the reasons why the finance function should engage with the sustainability agenda and

how this can be achieved. Guests were also asked to commit to actions for sustainability by completing a small pledge card listing what they could do to lead, practise or collaborate in the sustainability agenda.

You can find your own inspiration on sustainability in the finalists' case studies at www.financeforthefuture.co.uk – but the winners were:

- Large Business: South West Water (highly commended: Danone)
- Medium-sized Business: Wilson James
- Small Business: Easibind International (highly commended: HW Fisher & Company)
- Innovative Newcomer: Giveacar
- Not-for-profit: Charity Bank
- Public Sector: Hadlow College Group (highly commended: Companies House)



GETTY IMAGES

SPREADSHEET ON THE BOARD

Inefficient financial reporting is leading to a loss of confidence in finance functions, according to recent research from Oracle and Accenture. Although 47% of companies surveyed around the world had made "substantial" investments in their financial reporting systems and reporting processes, spreadsheets and email remain the dominant tools for managing reporting.

The 118 UK respondents were particularly blighted by inefficiencies in two areas. These were reducing productivity for the finance team (cited by 40% of British FDs, compared to 36% of US CFOs and just 13% of German finance chiefs); and missed internal deadlines – where only Nigerian FDs were likely to report a worse performance. This is damaging finance's reputation with board colleagues and creating knock-on effects for finance juniors, the report claims.

LIFE AFTER TWITTER

At the start of May, Gene Morphis was CFO of US fashion retailer Francesca's Holdings Corp. But in what might be a first for a finance director, he was fired in the middle of the month because he "improperly communicated company information through social media," according to the company.

In a series of seemingly innocuous tweets (twitter.com/#!/theoldcfo), an open Facebook page and his own blog

– morphsview.blogspot.ca – he updated followers on some of the ephemera of life as a finance leader and his personal interests, including charity and music.

The blog and twitter feed are still going strong. They reveal that far from being a Generation X executive with a passion for alternative approaches, Morphis is a politically conservative accountant who's been married for more than 40 years and has a passion for reviewing business books.

Commentators have pointed out that the case reinforces the need to review social media rules at work – Francesca's cited a breach of its policy as cause for the dismissal – and advise senior executives using social media to pay particular attention to even most innocent of tweets.

As Morphis himself tweeted immediately after his firing: "I'm sure there has to be an easier and cheaper way to create followers than that..."



Faculty news

ENROL NOW: 2013 BUSINESS LEADERSHIP PROGRAMMES

ICAEW's Leadership Development programmes are tailored specifically for the finance function.

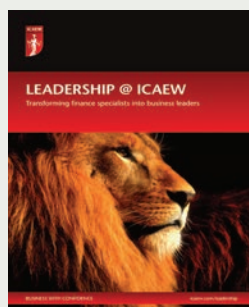
They provide access to an exclusive peer-level network designed to facilitate career development.

They also provide the opportunity to work with a FTSE 100, NED or chairman mentor, coupled with skills-based inputs and the sharing of new ideas and business intelligence, will help you get ahead in your career.

Programmes include:

- Financial Talent Executive Network for senior leaders;
- Network of Finance Leaders for middle managers;
- Women in Leadership for women in management looking to enter senior management, partner or director roles;
- Talent assessment and benchmarking tool (new); and
- Finance Connect for first-line managers (new).

Contact Lydia Harrison
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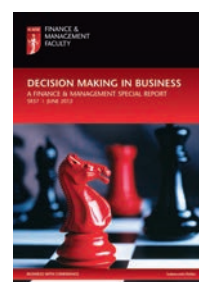


SPECIAL REPORT: DECISION-MAKING IN BUSINESS

Decision-making is a vitally important activity that lies at the centre of every business. Business decisions can be complicated but regardless of the complexities, there are steps decision makers should follow to achieve a robust decision-making process.

Our latest special report on decision-making in business is not a step-by-step guide, but aims to provide you with an overview of the key aspects, including important techniques to improve your current decision-making processes. This report, by a range of authors, also aims to provide practical guidance and an outline on the theory behind the process from a leadership and data quality perspective.

To read the full report, see icaew.com/fmsr37



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EXPERIENCE AMAZING

Win a two-night luxury break and experience the joy of owning a Lexus GS F Sport for a month



Performance matched by efficiency



An unrivalled portfolio of some of the world's best hotels

GET AWAY FROM IT ALL

The world of finance and management is stressful at the best of times. Thanks to low growth in the economy and uncertainty in the eurozone, these are far from the best of times. What better way is there to escape from those work-life pressures than to hit the open road and head for two nights in a luxury hotel?

That opportunity is open to one *Finance & Management* reader because in association with Lexus and Small Luxury Hotels of the World (SLH), we are offering the chance to get away from it all with a month-long loan of a Lexus GS F and two nights at one of SLH's UK hotels.

THE AMAZING GS

When it comes to enjoying the road, why not do so in a car that will delight both you and your passengers? Combining a powerful high-performance engine and sporty, agile handling with amazing environmental credentials and tax benefits, the GS F Sport defies convention. With a dynamic, stylish and sporty design,

including a gorgeous honeycomb spindle grill and 19-inch darkened, lightweight alloy 10-spoke wheels, the visual clues on the Lexus GS F Sport point to a car built for fun, rather than one designed to save the planet (and reduce fuel bills). But the new GS F Sport offers efficiency without compromise. The 3.5-litre V6 full hybrid delivers up to 343bhp and an impressive 0-60mph in under six seconds. But it also returns 44.8mpg and with emissions of 145g/km qualifies for 20% BIK tax.

Lexus is dedicated to creating cars that stimulate, engage and delight. To achieve this every new Lexus is put through rigorous testing. The new GS was tested over one million miles of driving in the Lexus simulator (the most advanced in the world) and on the open road. It also spent development time at Germany's legendary Nürburgring. Creating amazing cars is only part of the Lexus journey.

Customers are cocooned in the luxury they enjoy elsewhere in life. Five years were spent perfecting the world's most comfortable driver's seat and over 2,000

hours were put into positioning the optional Mark Levinson speakers. Despite all this, the GS range starts from £32,995.

A WORLD OF LUXURY

SLH offers an unrivalled portfolio of the world's finest independent hotels. Comprising over 520 hotels in more than 70 countries, the collection offers an exceptional diversity of properties and experiences. From cutting-edge design hotels to palatial, 17th-century mansions, from city-centre sanctuaries to country houses and idyllic resorts, SLH offers a world of luxurious locations.

What's more, SLH rewards guests. Club Membership is offered on a complimentary basis and benefits improve with every booking. The Club offers great service through a dedicated club manager and reservations consultants, ensuring the best personal recommendations for your next hotel stay.

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For the chance to win a month-long loan of a Lexus GS F Sport and a two-night stay in a SLH UK hotel (excluding hotels in London and Chester) just email competition@progressiveCP.com with F&M Lexus in the subject line. The competition closes on Monday 20 August 2012 and the winner will be announced in the September issue of *Finance & Management*. For full terms and conditions, visit icaew.com/lexuscompetition.

Power is nothing without control

It's possibly the one thing every FD is agreed on: you can't run an effective finance function – or business – without a good FC. So don't miss this year's **ICAEW Financial Controllers' Conference** where we'll help delegates on their journey from good to great

SOPHIA SCHORR-KON



How is your business enjoying the “new normal”? Forget recessions and recoveries; stop worrying about a double dip. The fact is that we're going to have to deal with uncertain economic conditions for the foreseeable future and every business needs to be ready to cope with global shocks, peaks and troughs in demand and exotic risks. We live in an era of “business as unusual”.

That phrase has made financial discipline the watchword over the past five years, as companies seek to protect themselves from the unexpected – and grow the bottom line – through new efficiencies, excellent planning and exceptional control. And that means the role of the financial controller has never been more prominent.

On 18 October we'll be exploring all of those issues at the annual ICAEW Financial Controllers' Conference at Chartered Accountants' Hall. The theme

is the marriage between the technical and the creative – delivering tight numbers to manage the business, but ensuring there's a strong platform to add value.

“FCs are having to prove themselves as active business partners, providing forward thinking to enhance strategic planning and decision making,” says Finance & Management Faculty head Emma Riddell, who'll be chairing the conference. “At the same time, keeping a tight grip on cash and maintaining finance function efficiency is vital.”

SETTING THE AGENDA

The conference programme reflects this balance between business performance (cash, control, efficiency) and company health (the ability to find new markets, fund expansion and add value).

Our keynote (see highlights, right) will cover the shift in mindset from recession to seeking new growth.

We'll be looking at the latest thinking

around key disciplines such as cash management, credit control, technology and designing KPIs for the business.

There are technical sessions on core knowledge areas – accounting and tax, for example. And we'll be showcasing the latest thinking in procurement, budgeting and risk management.

We are going through a time when talent retention and succession planning are at the forefront for most FDs. So we'll also be looking at how the FC can develop the influencing and leadership skills that will enable them to better support their team – and develop their own career.

As well as offering worthwhile sessions, the FCs' Conference is a fantastic chance to network, share ideas and create new professional connections. Our networking lunch and post-conference drinks reception provide the ideal opportunities to unwind and connect – and it will be much more fun to do so in person than on LinkedIn or Twitter.



EVENTS

WOMEN IN FINANCE FLAGSHIP EVENT: HEAD HUNTERS – REALISING YOUR DREAM JOB CHARTERED ACCOUNTANTS' HALL, LONDON

19 September 2012, 17.30-20.00

Trying to find the right job in today's competitive environment can be a difficult task. How can you increase your chances of landing your dream job? This event will feature a panel of leading head hunters from a variety of fields of expertise. There will be advice and helpful tips to drive your career forward, plus the opportunity to ask questions in smaller groups.

Who should come? Women in business.

Why? Assistance to find your ideal job position and networking opportunities.

More information and online booking: icaew.com/wifseptevent

CONFERENCE HIGHLIGHTS

KEYNOTES

■ ***Shifting From Recession to Recovery***

A look at how the finance function can support the search for new markets, growth opportunities and shifting demand.

PLENARIES

■ ***Alternatives to budgeting***

Can we exert control without playing the budget game?

■ ***The new rules for risk***

The role of FCs in risk management in a riskier world.

■ ***Defeating bad debt***

Latest thinking in credit management and delinquent debt.

PANEL DEBATES

■ ***Cash conflict – Cushion or Catalyst?***

A debate on the pros and cons of conservative balance sheets. Is tight cash control smart risk

management? Or is it throttling opportunities in R&D, M&A and capex?

■ ***Leadership skills: from FC to FD***

How to build on technical excellence and great team management to become a true finance leader.

CASE STUDIES

■ ***Mobile business intelligence***

Getting the finance function message into the hands of decision-makers.

■ ***Defining KPIs***

Aligning targets with strategy – and delivering outperformance.

TECHNICAL

■ ***The future of UK GAAP***

Understanding how your business will be reporting.

■ ***Smarter tax***

The latest approaches to corporate, employment and indirect taxes.

WORKSHOPS

■ ***Multishoring***

A tailored approach to outsourced services.

■ ***Procurement***

Taking the pain, the panic and the paperwork out of your spend.

* Note: programme subject to confirmation

HOW TO BOOK

Put 18 October in your diary and come join us at Chartered Accountants' Hall to discover how to enhance your strategic planning and decision-making as well as keeping abreast of the latest trends.

*More information and booking:
icaew.com/fcconference*



FD's gold standard

There are many good finance directors out there. But what marks out the great ones? Richard Young asked the winners of the FDs' Excellence Awards for some clues...

Richard Young is the Strategic editor for the ICAEW Faculties and founded the FDs' Excellence Awards, now produced in association with ICAEW, in 2005. For more details see fdsawards.co.uk

The list of attributes demanded of finance directors these days is bewildering. In the words of Suzzane Wood, head of the CFO practice at headhunting firm Russell Reynolds, appointment committees are looking for nothing short of Superman for their finance chief.

The buy-in, of course, is technical excellence. "But to be a great FD, that's completely irrelevant," Balfour Beatty CEO Ian Tyler told the ICAEW FD Conference in May. "It's a commodity you can buy. I'm not saying it's not important – but for the purposes of what makes a great CFO, it's irrelevant."

Tyler – former FD of the construction giant – says the real trick to being great is adding value to the business. That's quite nebulous, of course. "Within any company there is a small group of people who ultimately take the decisions, and to be part of that team is a question of reality, not status," he explained. "Anybody can have a single point of view on something. It's the resolution of those points of view that is key, and a great CFO has the ability to do that."

As fellow panellist James Cheesewright, CFO of Eurostar, pointed out, that doesn't mean you can forget the core of the role. "If you go to a board meeting and the numbers are slightly off or you can't explain something, a little bit of credibility dies," he said. "Get them off by a lot and you just won't be around much longer."

But there are so many other "softer" factors in the make-up of a great FD, so we asked the winners of the FDs' Excellence Awards, held in association with ICAEW and the Confederation of British Industry (CBI), for answers. Alongside the citations that the CEOs of the quoted companies provided to help the Academy of experts select their winning FDs, what emerges is a rounded picture of how the right FD can delight colleagues and investors.



Angus Cockburn

FTSE 100 FD of the Year

FLEXIBLE AND OPEN

"You have to be close to the business and understand what's happening beyond the numbers," says Angus Cockburn, CFO of Aggreko, the global temperature control giant. "Because the world changes so much faster these days, so you really need to be prepared for a range of outcomes. For us, that means making sure the business model is as flexible as possible. You can plan for any number of scenarios, but there will always be factors you simply couldn't predict that place unexpected demands on the business."

"This willingness to get out and about in the business is of enormous importance, and effectively provides me with another pair of eyes and ears," explains CEO Rupert Soames OBE – who also reserved special mention for Cockburn's commitment to the development of his global finance team. Personal and skills development ensures they're capable of providing high levels of operational support.

"We have a global finance academy every two years; in the years inbetween, we run regional academies," explains Cockburn. "That's a chance for finance people from every location to come together and share best practice – especially in areas such as leadership and strategy. The idea is to build not just great financial technicians, but true partners for the business."

Soames confirms, "The finance function gets better, and more cost-effective, every year." And he adds an example of the way the team applies skills and confidence to deliver better outcomes: "Ever hateful of unnecessary cost or waste, [Angus] insisted that Aggreko should be one of the first UK companies to raise a \$100m US private placing dealing directly with the institutions, rather than enlisting the help of banks, preferring in all serious matters personal, rather than group, relationships."



Brian McArthur-Muscroft

FTSE 250 FD of the Year

LEAN AND FOCUSED

Telecity Group operates data centres – facilities that serve applications and data to users on behalf of a range of clients. Its USP is that it locates them in cities rather than remote greenfield sites – so it can offer a more responsive service. That model also means it has long lead times – and has a strategic horizon to match.

"Our strategy is not about some crazy land-grab," says group FD Brian McArthur-Muscroft. "All our presentations emphasise that we strive for sustainable, controlled, profitable growth. As a business, we are disciplined and structured – there has to be a clear bottom line result to our decisions."

With massive capex – well into the tens of millions of pounds for a new data centre – discipline remains a big differentiator for this FD. "Brian is renowned for his strong capital management," said Michael Tobin, Telecity's CEO. "The financial strength of the company has been proven by its high levels of cash generation; its efficient working capital cycle derived from the advance billing cycle; and the Group's strong operating profit growth through continuous cost control."

"We live that lean approach in the finance function, too," adds McArthur-Muscroft. "But while we have a small staff, we look for the very best and we pay accordingly. In return, we get a degree of flexibility from the team. We don't have a fixed idea of the commitment our guys will make. We know what needs to be done – and we know they have the skills and application to get it done."

Making nimble, effective decisions is one thing – but the FD is clear that needs to be done right, too. "A key part of Brian's work was establishing a new team to bridge the operational and finance departments, which uses the analytical knowledge within the finance team and business knowledge within operations to drive improvements," explained Tobin. "Brian encourages his team to get under the skin of the business, visiting the sites and seeing the efficiency improvement process first-hand to help them understand the impact of their decisions."

"We live that lean approach in the finance function, too. While we have a small staff, we look for the very best and we pay accordingly. In return, we get a degree of flexibility from the team"



Stephanie Quinn

Quoted FD of the Year outside the FTSE 350

COMMUNICATION AND RESULTS

"While technical ability is clearly important, it's the personal skills that differentiate," says Stephanie Quinn, FD of Belfast-based light sensor business Andor Technology. "I see the ability to communicate and manage relationships as the most crucial of the softer skills. Not only do we need to be able to lead, develop and motivate our own internal teams, we need to communicate effectively with the CEO, board, shareholders, investors and customers."

That sentiment was reflected in Andor CEO Conor Walsh's citation. "Stephanie has played a key part in enhancing shareholder and analyst understanding of the business by providing increased transparency around the key performance metrics and the drivers of our strong growth in performance," he says.

But at the same time, it's the ability to deliver excellent financial results that allow an FD to take these additional roles with any credibility.

"Part of the growth strategy was to improve operating margin from 6.7% to 16.7% and Stephanie has driven this through her relentless focus on controlling costs," Walsh continues. "She has also been instrumental in generating cash from working capital, which we used, in part, to fund further growth by acquisition."

And Quinn is happy to emphasise the importance of the numbers. "We have developed a strong and rapid financial reporting system to ensure our reporting to the business is accurate and timely – for example weekly flash reports and monthly board reports including full consolidated accounts and forecasts," she says. "Our credibility as a finance function depends on the attention to detail and the strong time management skills of the team."



Kate Barnes

Young FD of the Year (quoted company)

CONFIDENCE AND BALANCE

HiWave is a very small company – just 22 people developing sound and touch feedback capabilities for high-tech devices – but its quoted status gives FD Kate Barnes something of a dilemma. "One day I can be making tea for a client, the next raising £8m in the City," she explains. "That's the role – it's about rolling up your sleeves and doing whatever's necessary; then stepping back when you need to let things develop."

For her, the key to doing that role really well is in three parts. First, foresight – "the real test is keeping an eye on what's coming up, the pitfalls and potholes," she explains. Second, you have to be the professional pessimist – the counter to perfectly necessary optimism from your sales colleagues. Finally, assertiveness.

"You simply have to know how to stand your ground without feeling that you're stopping the business in some way," Barnes explains. "As FD, you're there to influence people, not make friends – and you know that good controls prevent surprises, which, let's face it, are rarely the good kind."

HiWave has been through something of a turnaround, and its sales model has changed a lot. "So we have to look at exactly how realistically those numbers are coming through," Barnes says. "If there's a suggested range for a sale, you need to be the person asking how we react if that comes in at the bottom of the range, rather than the top. But it's much more than that. How does the sales pipeline translate into the supply side? What capacity can we buy? Will suppliers meet the rigorous quality standards – have factories been properly audited, for instance?"

And being a small company FD also means you "have to pick up all the jobs that no one else does," Barnes adds. "For me and my team, that's intellectual property, IT, HR, insurance, healthcare – as well as all the strategic input. So there's no one in finance who says 'that's not my job'."

"It means as FD I have to ensure that everyone is doing the jobs they are best suited to, otherwise they could easily end up taking on tasks they're not great at."

And as a leader, the FD needs to listen and watch – then respond to what they're hearing and seeing. "That means you have a better, happier team – and the business gets an effective engine at its heart," Barnes concludes.

"As FD, you're there to influence people, not make friends – and good controls prevent surprises, which, let's face it, are rarely the good kind"

WHAT CEOs LOVE ABOUT THEIR FDs

The shortlists for the quoted company FDs at the awards were compiled using three years' worth of data on key financial management metrics. But the CEO citations were crucial in helping the Academy of judges spot outstanding role models for their winners. Here are some of the things they rate in their FDs.

PASSION: "Andrew's enthusiasm for the business never falters and his commitment, belief and passion continue to prove invaluable to Sky's on-going success." BSKyB CEO Jeremy Darroch on Andrew Griffiths.

HUMANITY: "He combines technical skill, inspiring leadership and a sharp intelligence, with the human qualities of utter integrity, loyalty and kindness." Aggreko CEO Rupert Soames OBE on Angus Cockburn.

GRIT: "Bob has instilled a relentless focus on costs and cash throughout the business... [reducing] working capital by more than £1bn over the last few years." Imperial Tobacco CEO Alison Cooper on Robert Dyrbus.

ENGAGEMENT: "David fundamentally transformed the finance function... Employees were engaged at all levels in a group-wide 'passion for cash,' prioritising cashflow in the sales and delivery communities as well as finance." Qinetiq CEO Leo Quinn on David Mellors.

ADAPTABILITY: "Kevin is the executive lead on the Environmental, Health and Safety agenda for the Group... and significant improvements have been made in terms of visibility, management and absolute performance." Morgan Crucible CEO Mark Robertshaw on Kevin Dangerfield.

SALESMANSHIP: "Peter has shown great commitment to enhancing investor and analyst understanding of the business and its drivers. This transparency has been instrumental in a significant increase in research coverage and, in turn, attracting new investors." Hunting plc chairman Richard Hunting on Peter Rose.

INFLUENCE: "If I were to single out one achievement above all others it would be his ability to be accepted in Croda – a no-nonsense entrepreneurial culture where we promote from within most of the time – and gain the universal respect of all the employees." Croda CEO Steve Foots on Sean Christie.

RELENTLESSNESS: "His consistent drive to focus the team on controlling costs, keeping commercial control on projects and driving margin increases has been fundamental to [our] turnaround." SciSys CEO Dr Mike Love on Chris Cheetham.

PARTNERSHIP: "Peter has delivered key strategic alliances that have improved the financial health of the business and continued to fill its pipeline with potential new products." SkyePharma chairman Frank Condella on Peter Grant.



Jennifer Phillips

Young FD of the Year (private company)

COMMERCIALITY AND CONVERSATIONS

"I think the team here really wins points for the clarity of communication," explains Jennifer Phillips, FD at Cambridge Education Group (CEG), which runs courses for international students. "It can be pretty challenging, especially when you're dealing with technically complex areas like finance and accounting. But unless you can distil it all down into concepts that people understand, you might as well be talking to yourself."

CEG has grown rapidly over the past few years, which has inevitably added to the burden – in terms of the number of people that finance needs to support, and the complexity of the business. "But, if anything, clarity has become even more important as we've grown," Phillips stresses.

"You need to have a set of simple messages to avoid any speculation and to ensure you're getting consistent communication across a range of sites. We try to be sensitive to the audience. We want to be able to offer clarity at the top of the decision-making tree and avoid adding to the 'noise' that can make commercial decisions harder to arrive at."

Like many FDs, she sees proper integration of finance and the operational side of the business as a must-have. Ultimately, the kind of feedback an FD and their team offer decision-makers – particularly college principals – can define the business. "If we can help focus people on real commercial value through good KPIs, for instance, we know we can help drive profitability," Phillips explains. "You always have to be conscious that the pound signs drop out of the operational drivers for the business."

But that combination of commerciality and clarity also means it's incumbent on FDs to seek out accountants who are nothing like the dry technician stereotype. "That's perhaps the most pleasing aspect of working in a fast-growth environment: people seldom get bored," she adds. "We've had more and more commercially-engaged individuals coming into the finance team. They're energised by what we're trying to do and relish the chance to work with decision-makers. That makes it much easier for us all to be enthusiastic – and, ultimately, to be happy in our work. The value of that really can't be overestimated." ■

"We want to be able to offer clarity at the top of the decision-making tree and avoid adding to the 'noise' that can make commercial decisions harder to arrive at"

You're hired

In the current economic climate, competition for senior finance roles is fierce. **John Collier** has some advice on how to land the job you want – and then succeed at it

The welcome news is that demand remains strong for good CFOs with a commercial outlook, professionalism, technical competence and an eye for detail. However, the role of the CFO (and of other senior finance professionals) is subtly changing. And the number of good people on the market is higher than it has been for some time, meaning competition is fierce out there. So what will give you the necessary edge in securing and succeeding in a new CFO role?

HOW TO SUCCEED

Wherever in the market you set your sights, you should be:

- technically strong and up to date professionally;
- prepared to be a business partner to the CEO;
- prepared to be strategic; and
- able to communicate, persuade and influence.

Then, particularly in a listed company, you should be:

- able to handle greater exposure to the investment community; and
- able to handle the formalities of the audit committee and develop a good relationship with its chairman.

Looking at these in more detail it is taken for granted that you are technically strong and up to date.

You will have laboured over IFRS and the increasing complexity of our corporate tax regime. If your company is listed you will be up to date with the Listing Rules, the requirements of the Companies Acts, Sarbanes-Oxley (perhaps), the UK Corporate Governance Code and any special regulatory requirements. You may

be company secretary as well as CFO (particularly in a smaller company) but unless you have a lawyer on the board or as part of your senior executive management team, the board will look to you as a first port of call on most legal matters.

Do you have to be a professional accountant to be a CFO? It certainly helps. And the reporting changes of the last few years have, in my experience, made CEOs more comfortable if they have a qualified accountant alongside them.

You will probably be the business partner to the chief executive. This is normally the key professional relationship for a CFO. So, whatever the job's other attractions, if you don't think you will get on with the CEO then don't accept. If you do get on, though, the relationship can be

You must never lose your independence of mind or be afraid to speak up

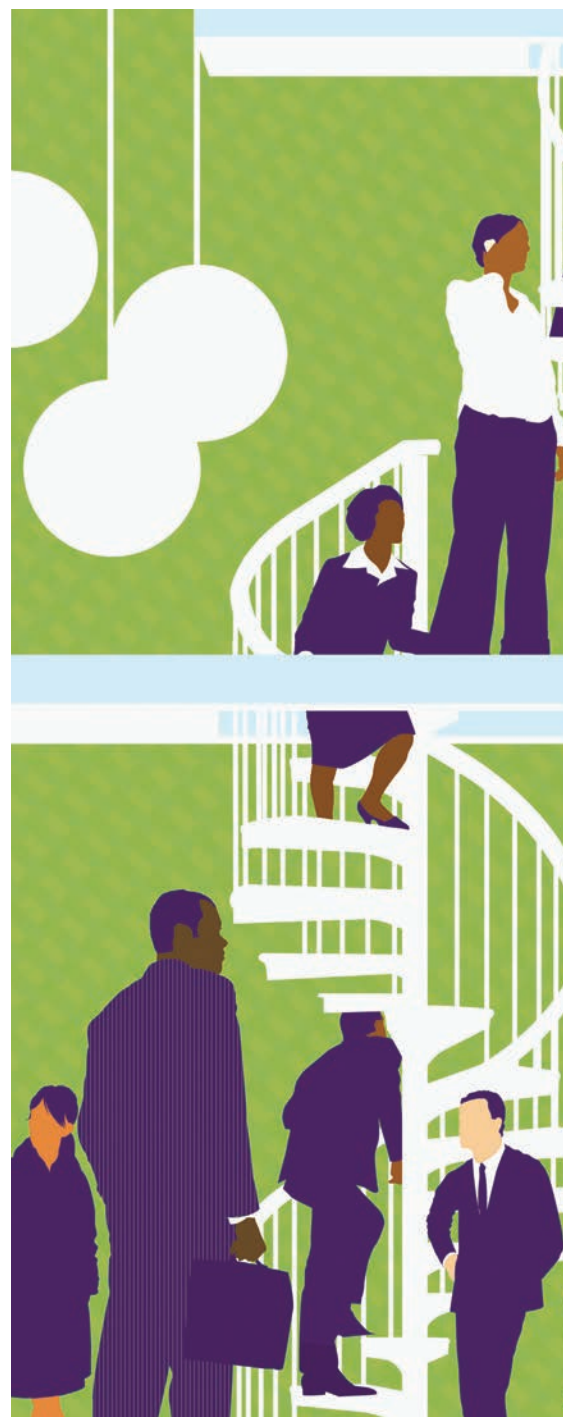
enormously rewarding. And it doesn't always mean playing second fiddle.

Not all CEOs are outgoing and charismatic: there are instances where the CFO is the public face of the business, especially where the CEO is based overseas (usually the USA). Who else on the board or within the top executive management team has the same breadth of knowledge across the whole of the group's span of activities?

It also doesn't mean always agreeing with the CEO. You must never lose your independence of mind or be afraid to speak up. If a CEO seems to want a 'yes

man' then you should think twice about taking the job.

You will need to be more strategic (rather than seen as just a numbers person), and able to work with others on the board as a team. It's a cliché that modern technology frees up accountants from the drudgery of number crunching and enables them to contribute across the whole range of a business activity, but don't kid yourself. If the annual report and accounts, plus the 10k (for a US listed company), is 300 pages long you're the one person on the board who has to know and understand what is in it – and probably





THE MARKET

Listed companies

Even in relatively small listed companies, the CFO post is high profile and suits people who'll cope with external pressure. Boards range from large (20 plus) to tiny (often just two execs). But be warned: some are controlled by overseas interests that do not always seem to accept or understand UK governance standards. At the smaller end, listed companies can be entrepreneurial and require a CFO with a different mindset from the FTSE 350.

Private companies

Can be as demanding as plcs, especially in highly geared private equity (PE) backed companies. The days of heavily leveraged PE are behind us, but large parts of the economy remain in their hands – so it's important to know what they expect. PE backers want detailed numbers, delivered frequently and on time. They like CFOs who can handle complex finances – as well as delivering long term, sustained growth. Cost savings and efficiency are often key.

Public sector

The public sector still lags behind in its regard for the job CFOs do. But there are now well-qualified senior finance people at the helm in the great departments of state (until recently, many didn't have an FD at all). These incumbents are increasingly involved in strategy and long-term planning, as well as reporting and financial management. Unfortunately, with cuts and tight budgets, further improvement in the standing of finance looks unlikely.

Third Sector

There are over 160,000 registered charities in the UK, with total income of more than £52bn; at the top end, annual income is measured in billions. Can be incredibly rewarding work. But if you come on board after a more 'commercial' career, the hard work, with lots of committees and an inclusive approach to decision-making, can be a shock to the system.

phone and get through to you? Often the medium really is the message. 'Spin' has become a highly pejorative word but how you say something as a CFO is sometimes nearly as important as what you say.

If your company's shares are listed you will have greater exposure to the investment community – your shares will be more widely followed by better people. I've not always been impressed by the quality of research on smaller listed businesses but most analysts following big companies are deeply knowledgeable technical accountants who have followed a particular sector for years. It's vital to hold your own with such people.

Corporate governance will be more formal and the audit committee will be critically important. Increasingly non-financial members of the board rely on the audit committee. The audit committee chairman knows this, has a public profile and has a report in the annual report and accounts – so it's not surprising that he or she takes a very close interest.

Whatever the size of the business, the audit committee chairman's relationship with the CFO is a critical one. Some audit committee chairmen make a point of keeping some distance from the CFO, others see it as more of a mentoring role. This is another relationship you will need to weigh carefully before joining a company and one to work on very hard once you have joined.

THE BEST ROUTE THERE

You must consider your moves carefully. You want enough to get sufficient experience in a range of roles and sectors, while not attracting the observation that you don't seem to have been able to stick at anything for very long – or worse, that you never stayed long enough anywhere

the only one who will read it in full.

You will definitely need to be more strategic and forward looking. But don't lose sight of the day-to-day reality either.

Your ability to communicate, persuade and influence is more important than ever. Being technically up to date is not enough. You have to be able to communicate technical complexity in a straightforward and understandable way. Beginning with your CEO, then the wider board and your investors, then the press. How do you deal with journalists, what do you look like in a web cast and how much can you say to members of the public who

to get found out. Even if you achieve the 'right' number of moves on your way up – what is the 'right route'? Is it internal audit, subsidiary finance director, group financial controller, and then group CFO, for example? Or a move from a smaller company CFO role (mid cap or even AIM) to the top?

There is no right answer, but I'd probably choose working my way up in a bigger corporate environment. If you start with small companies you tend to stay with smaller companies, whereas there is greater movement from larger to smaller. But it's not always possible to follow an 'ideal' route anyway. What should you do if you are out of work or feel the way forward is blocked and preventing

Impressing your non-executive directors (and especially your audit committee chairman) always helps

you from getting the experience you need to take on a bigger job?

There may be all sorts of reasons why you are out of work – a takeover, rationalisation involving closing your part of the group, a family or personal illness and possibly a career break (bringing up young children or sailing round the world). So how do you get back in?

Applying for advertised jobs (increasingly online) is one route but you need to make sure you meet all the requirements listed and try to do something in your application to make you stand out a bit from the crowd. Taking an interim role is another option and might give you the experience you want. But career interims are usually preferred over people who are really looking for a permanent job. Getting a good interim job can be hard.

If you are employed and the way forward seems to be blocked then make the most of what you have and get involved in investor presentations, attend audit committee meetings (making a good impression when you do) and do



important, high-profile project work to get the experience and get noticed.

GETTING NOTICED

Whichever route you take, what do you need to do to increase the chance that head-hunters like me don't overlook you? I recommend:

- networking;
- public speaking and talking to the media;
- impressing your non-executive directors;
- taking on a non-executive director role yourself;
- impressing the City;
- being part of a 'success story'; and
- taking calculated risks.

First, 'networking'. At each stage of your life you get to know people, but then you (or they) move away or get promoted and in spite of your best intentions contact fades away. Try not to let this happen but, if you do, take heart. A call out of the blue to someone you have not spoken to for years will almost always be warmly welcomed, then you can arrange a lunch together – and away you go.



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Then take up opportunities for public speaking and talking to journalists. It's far better to be proactive and manage your own profile than it is to be noticed for the 'wrong' reason (eg you are highly paid although your profits and share price are going sideways).

Thirdly, impressing your non-executive directors (and especially your audit committee chairman) always helps. Many non-executives (usually retired from full-time executive work) have more than one appointment and inevitably compare the performance of the executives in the different businesses with which they are involved.

Next, if your chairman and CEO allow it, take on a non-executive appointment yourself. Although it is demanding work, you will see how another business operates and increase your exposure to other senior business people.

Another vital point is impressing the City – analysts and your shareholders. Work at gaining confidence, use PowerPoint really well and get the balance right between confident candour and sticking to the precise PR/public statement line. Then, when head-hunters ask around for feedback on you, they will hear lots of positive things.

The sixth challenge is to be part of a success story if possible. If you have chosen the right company, are working in a business sector with potential and have a good CEO then some of the positive 'halo' will reflect on you. So think before you join, get in at the right time and make sure you respect the CEO.

Finally, be prepared to take calculated risks. If you believe a business, which has been going through a bad patch, may be about to turn or you believe in an, as yet, untested strategy or you think you can work with the CEO – then go for it.

DO YOUR OWN DUE DILIGENCE!

Being offered a big step up can go to your head and weaken your judgement so do your own due diligence. Ask friends, colleagues and people you know in the investing community... and really listen to what they say.

Good luck and enjoy a long, successful and rewarding career. ■



Cut red tape!

The government has announced measures to cut employment red tape. But will they really encourage businesses to take on staff? **Adam Rice** looks at the timing and impact of the proposed changes

Changes designed to cut employment “red tape” for businesses might not be all they are made out to be. While many of the changes are beneficial, there are limits to how far the government can go. Here are some of the key elements of what the government describes as, “the most radical reform to the employment law system for decades”.

DISMISSAL MADE EASIER

To offer employers more flexibility around dismissal, there are two key changes to the unfair dismissal laws. On 6 April 2012, the

qualifying period of service for unfair dismissal claims increased from one to two years. This means anyone recruited on or after 6 April now needs two years’ service before they can benefit from most unfair dismissal laws (anyone already employed before 6 April still only needs one year’s service). This is a positive change for employers as it gives greater scope to dismiss safely in the first two years of employment.

However, employees can still bring claims for discrimination and whistleblowing from day one and many argue the change will lead to an increase

in such claims, which tend to be more costly to defend.

The government is also considering a new rule that would allow employers to offer settlement agreements to employees without the offer being used against the employer in unfair dismissal proceedings. Settlement agreements are sometimes used by employers to end the relationship quickly, without a formal dismissal procedure. If the employee agrees and certain conditions are met, the agreement can prevent the employee from bringing claims against the employer. However, at the moment, employers must be careful to

get the timing right. Unless the offer is made in a genuine attempt to settle an existing dispute, an employee who refuses the offer could argue that any subsequent dismissal is unfair because the employer had already made up its mind before going through the dismissal process.

It is thought this new proposal has replaced earlier government proposals to introduce a new system of "compensated no fault dismissal". This would have allowed micro businesses (with fewer than 10 employees) to dismiss an employee without any fault on the part of employee and without following a set procedure, by paying a set amount of compensation. Although the proposal has not been scrapped formally, it had little support from businesses.

The good news for employers is that, unlike compensated, no-fault dismissal, the settlement agreement proposal would apply to all employers regardless of their size. A government consultation will be published this summer. The proposal is likely to be welcomed by employers but criticism from trade unions and employee rights groups is expected. The challenge will be in balancing flexibility for employers against the rights of employees.

REDUCING CLAIMS

A number of measures are being introduced to reduce claims and streamline the employment tribunal process – the most significant being the introduction of fees for bringing a claim. It has, to date, been free to bring tribunal claims. But the government hopes fees of between £150 and £1,750 will act as a deterrent to spurious or speculative claims.

However, those who can afford to pay will, and those who cannot may benefit from proposals to give full or partial fee remissions. Details will be released later this year but fees would not be introduced until 2013 or 2014 at the earliest.

Another measure to weed out vexatious claims is the proposal that all claims would have to go to the Advisory, Conciliation and Arbitration Service (ACAS) before going to tribunal. ACAS would then offer information about the tribunal process and offer the parties conciliation to help settle the claim first.

The challenge will be in balancing flexibility for employers against the rights of employees

This is not expected to be in place until 2014 at the earliest and is likely to be an effective step, provided ACAS is given the necessary resources.

MULTIPLE REDUNDANCIES

Another area under review is the regime that applies to multiple redundancies. Currently, employers must consult with employee representatives for a minimum period about proposals to make multiple redundancies. Where 20 or more redundancies are proposed at an establishment within a 90-day period, the minimum consultation period is 30 days; but where 100 or more redundancies are proposed, this increases to 90 days.

The government is considering reducing this minimum 90-day consultation period for 100-plus redundancies to 60, 45 or 30 days, a move that will be welcomed by employers. A 90-day consultation period adds costs at what is usually a financially difficult time, both in terms of employees' salaries during the period, as well as management time devoted to the consultation and the associated loss of productivity. Employees may also welcome the certainty of a shorter consultation period.

A call for evidence seeking public views was conducted earlier this year and the government is likely to give an indication of its plans later in the year.

BUSINESS TRANSFERS AND OUTSOURCING

The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) apply to most business acquisitions and outsourcing arrangements.

Broadly, TUPE protects the jobs of employees working in the business being acquired or outsourced, so that they

automatically transfer to the new owner of the business or the new service provider. Under TUPE, the new employer is obliged to honour the transferring employees' existing terms and conditions of employment, which can create real practical difficulties.

The government is also in the process of reviewing ways TUPE could be improved. Areas under review include its application to outsourcing arrangements and whether there is scope for more flexibility to change terms and conditions following a transfer. However, TUPE is based on European law and this gives the UK government very little room for manoeuvre.

It is perhaps unlikely that the application of TUPE to outsourcing will change but there may be some scope for greater flexibility around changing terms and conditions.

REALLY CUTTING RED TAPE...?

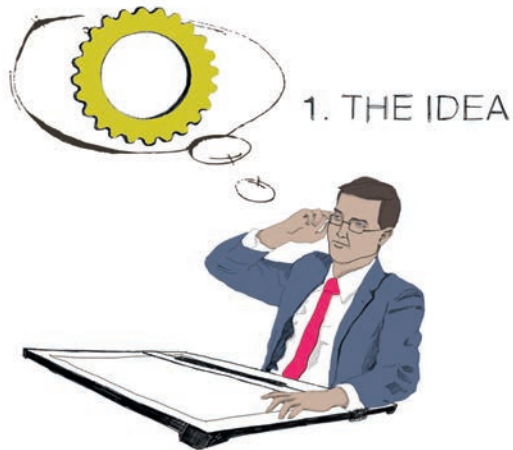
While the reforms reduce some red tape for businesses, employers are facing increasing red tape in other areas – notably immigration and pensions. It is increasingly difficult for employers to recruit foreign nationals amid ever-changing immigration regulation.

Employers will also soon be faced with the new requirement to enrol all UK workers automatically into an occupational or personal pension scheme, although the government plans to delay the staging dates for this to between 1 April 2014 and 1 April 2015 for businesses with 50-249 employees, and between 1 June 2015 and 1 April 2017 for those with fewer than 50. This will give smaller businesses more time to prepare. While employers will welcome the government proposals the benefits of the employment law reform package are unlikely to outweigh the increased regulation in these areas. ■



Adam Rice is an employment law specialist at City solicitors, Travers Smith LLP.

Avoiding “l’esprit de l’escalier”



Not getting your point across at work? Worried you're not good at thinking on your feet? **Matthew Copeland** has some bright ideas for getting agreement on your... bright ideas



L'esprit de l'escalier is a French phrase that translates as 'the wit of the staircase'. We have all had these moments – when a witty riposte or comeback only occurs to us after the moment has passed and the conversation has finished; when we have left and are 'halfway up the stairs'. But what stopped us saying it at the time? Why are we left deflated by the missed opportunity? And more importantly, how can we ensure it doesn't happen again?

The following situation is adapted from an encounter I was recently told about:

CEO, “Andrew”, approaches FD “Julia” saying, “I want you to look at and sort out our internal labour costing; it seems a chaotic mess and I don't know what anyone actually does. Bring

your suggestion to the meeting a week on Friday."

After a lot of thought, research, analysis and consulting Julia decides the introduction of a time-reporting software package is the first stage. It would enable time and effort efficiencies, ease of integration with billing and transparency along with useful and searchable data.

Having prepared thoroughly, gone through all the figures and practicalities in her head, Julia attends the group meeting. As she sits down, Andrew announces that Julia will now tell everyone what needs to be done to save money and be more efficient. Julia notes the looks of despondency and annoyance that cross the faces of those around the table.

Andrew also says, "while you are talking will you also say whether the company should be setting up a new shell company to deal with some future acquisitions I'm thinking about..." (Julia had absolutely no forewarning of this and had no idea that future acquisitions were even being considered.)

Slightly thrown, Julia addresses the meeting. She says that she proposes the introduction of a new time-reporting software package across the group.

"Never!" says Sara (marketing and creative communications director); "This big brother stuff is beyond a joke, it will kill our creativity; my team won't accept this. It feels like you bean-counters are always on our case!"

How might Julia respond?

IMPORTANT LIFE SKILL

Thinking on your feet and in the moment is an important life skill and even more relevant in a professional setting. In business there are usually no second chances to make your point; that meeting or presentation

Finance professionals should be seen as partners in enabling future growth and innovation, rather than just the risk-averse "gatekeepers of the organisational jewels".



Matthew Copeland is a faculty member at Ashridge Business School. Having been a practising barrister for 11 years, he now uses that experience to teach and consult on communication, presentation, strategic influence, negotiation and leadership. He also has a special interest in "open innovation".

could be your only chance.

For finance professionals (FPs) this is becoming increasingly necessary; given the central strategic role they now assume. The economic drivers of business, revenue models and streams are all changing, constant innovation is an imperative, novel situations and requests are increasingly the norm; and FPs should be at the heart of it all.

FPs should be viewed as partners in enabling future growth and innovation, rather than just the risk-averse "gatekeepers of the organisational jewels". However, for others to view FPs in that bracket, FPs first need to view themselves as having that role and to think, act, communicate and influence in a commensurate manner in all their dealings; whether that be in negotiations, presentations or office discussions.

So how can you maintain focus, keep a clear head, influence the outcome and not be sidelined?

WHAT WE OFTEN DO... (BUT IT DOESN'T WORK!)

Figure 1 is a depiction of how people often approach situations when wishing to influence. However, all this accomplishes is the simple "transmission of a message" rather than actual influence (or "effecting" an outcome).

The reason is this approach takes no account of the context; the reactions and thoughts of others; creativity; different people's agendas, styles and preferences – in other words it takes no account of the real world. But it seems to be the default human setting we fall back on – we just plough on regardless, with the same old approach, only giving up when people's eyes glaze over.

So how do we respond to all those things that result in our clarity of thinking deserting us – leading to narrow, defensive thinking and actions, combined with the utter exclusion of all creative thought?

A DIFFERENT APPROACH...

Flexibility of style is key. Rather than thinking it is the other person's fault, "they just don't get it", consider it your responsibility to put your point in a way they will understand.

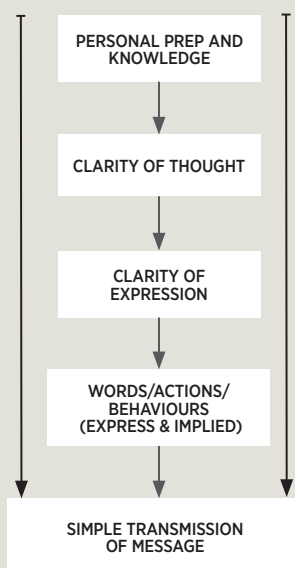
The best place to start is with a self-awareness of your own preferred style of communication and influence. Noting differences in style will enable you to understand why you're eliciting the reaction you are. Combine this with an understanding of the other party's preferred style and you can begin to flex your approach and style to enable your message to be heard and 'land' in any situation.

Consider the basic model [Figure 2]. A full diagnostic questionnaire is normally used in conjunction with it, but as a quick ready-reckoner:

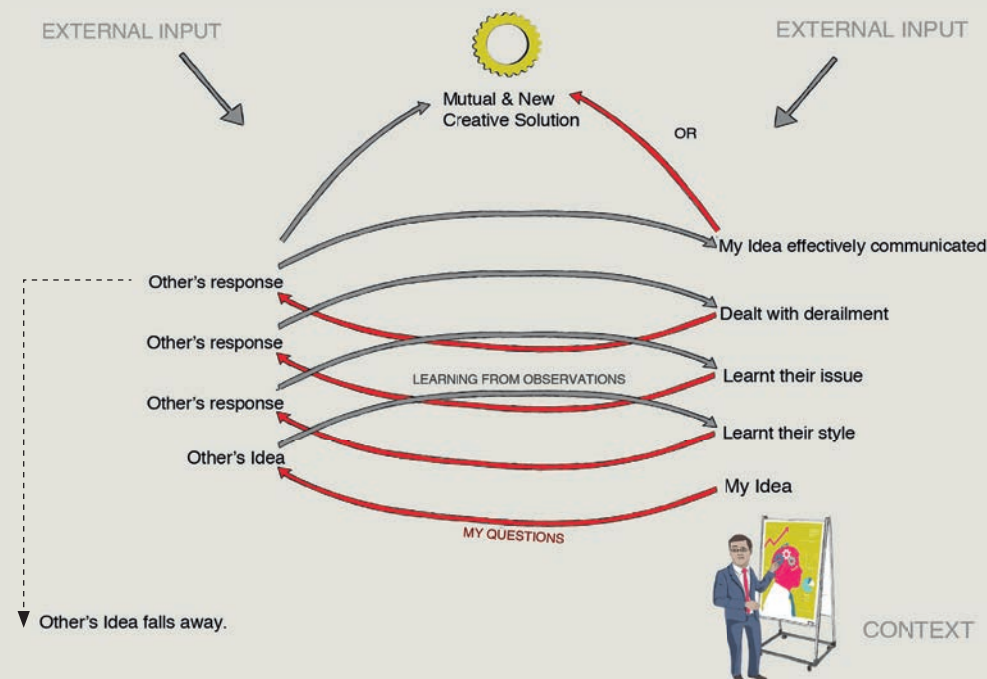
- Think which is your usual style when attempting to influence;
- consider a previous example of a situation where you became frustrated/confused or felt misunderstood/ignored in a meeting or situation; and
- ask yourself, what was the overt style of the other party? Was it different from yours? Did you adapt?

Honest answers to (c) are usually yes, their style was different to mine and no, I didn't really adapt!

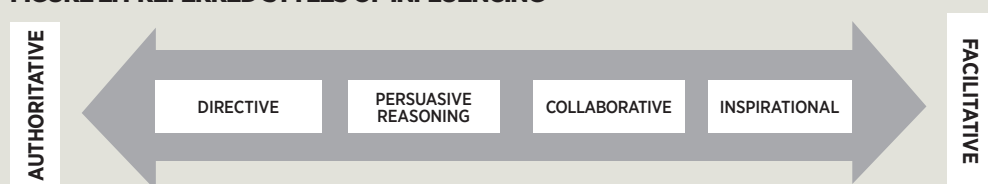
Adapting your style enables proper dialogue, engenders understanding on both sides and limits the occurrence of being shouted down. Having an

FIGURE 1: SIMPLE "TRANSMISSION" OF MESSAGE (ANALYTICAL/ LOGICAL APPROACH)

SOURCE: COPELAND 2012

FIGURE 3: FLEXIBLE COMMUNICATION SPIRAL

SOURCE: COPELAND 2012

FIGURE 2: PREFERRED STYLES OF INFLUENCING

Anticlockwise, from top left: a depiction of the most common approach when people wish to influence; differing styles of communication and influence; how different points of view can come together and make an alternative solution

SOURCE: DENT & BRENT 2010

understanding of the other person's perspectives is key to creative thoughts and solutions, and to responding "in the moment".

WHY IS THIS SO IMPORTANT TO AGILE AND CREATIVE THINKING?

Anxiety and lack of preparation time often go hand in hand – this is often due to *perceived* lack of time. Anxiety is often self-imposed and awareness of this usually prevents its occurrence. We actually have more time and know more than we think.

Ask yourself why somebody is asking you the question? Often it is because it's your field of expertise and deep down you know the answer or at least how to begin the process to finding solutions. If you don't, it is probably because they have asked the wrong person; and there is nothing wrong with admitting when you don't know. Don't apologise.

The real advance preparation we can do – and should always have done – is in understanding our own values and belief system. With these, any dynamic situation can be navigated.

Often the best way to discuss anything is to be "childlike". Ask

questions, watch and listen to everything, be curious. Asking questions, actively listening and watching, buys you time and, most importantly, enables you to understand what is really behind the other party's approach – ie what are they really concerned about, what are their assumptions, what style of communication is most likely to be effective with them?

With this information you can now deliver your message in an appropriate manner or think creatively to obtain a different and mutually satisfactory outcome and response "in the moment".

Asking questions is also an extremely effective way to deal with attempts to "derail" us. We have all been in those meetings where, whatever we say, someone will continually say the opposite. First, do not react or defend your view; second, ask why they think their point or idea should be the way forward. Ask for evidence, ask for facts, ask them to explain everything about it, *what, how, when, why?* The answers often reveal problems with their point (as well as things you can learn from). Now return to your view and modify your approach to address what you have learnt

from the conversation.

Eventually, this results in either their point falling away, leaving yours standing with influence – or the opportunity to take the best of each, plus additional ideas, resulting in an even more beneficial solution, as shown in Figure 3 on the previous page.

Throughout this process there are a variety of techniques that can be used, including: **Reframing** (looking at the underlying question/issue from a different perspective’); **Visualisation** (describe a picture of what it will look like); **Summarising** as you go, (making sure you have understood and been understood); **“Why, Why, Why?”**; (Asking “why” many times gets to the heart of what the other person is trying to say or achieve).

These techniques maintain clarity of thought, determine (through observation) the best route to give clarity of expression; make the time and mental environment for creative thought processes to occur; deal with the real issues while taking account of the entire context; arrive at the most appropriate solution; and maintain credibility.

PRACTISE, PRACTISE AND MORE PRACTISE

Much of the above may just seem like common sense, but many of us don’t put it into practice when in particular situations. Awareness of the varying factors is the first key step, then it’s a question of practise, practise, practise; but don’t leave it until you’re halfway down the stairs...

And finally, how did it work in practice for Julia? See box right for how she successfully defused a tricky situation. ■

HOW JULIA RESPONDED...

Julia noted the two different styles being shown. Andrew was clearly directive and authoritative. Sara was angry and had also made a personal insult. However, she also used terms such as ‘feel’ and ‘my team’, which suggested a more collaborative style; terms like ‘stifling’ and ‘big brother’, suggested she was not a fan of minute detail and preferred to hear about big picture and inspirational matters.

The most important things Julia did at this stage were:

- Ignore the personal insult – she put her ego to one side. If she hadn’t, this might have descended into a slanging match with little positive outcome.
- Ask Sara a series of questions and listen carefully to the responses – Julia asked “Why” Sara felt the way she did. “How” noting down the time spent on various projects would reduce her and her team’s creativity? “What” evidence she had for thinking that (even if anecdotal)? “What” the team currently did, in terms of noting time on different projects and billing clients? “What” solution might she suggest? Etc.

Julia calmed the situation, bought herself time and began to understand Sara’s anger. She learned Sara did not like to be “told” to do anything and was concerned about the future of her department. She assumed the time-reporting system was aimed at reducing her department’s budget and head count. Her anger was just the way her fear and insecurities showed themselves.

Sara had no examples or reasoning to support her claim that computer-based time reporting would reduce creativity. It also emerged that currently each team member wrote their times on a piece of paper at the end of each day; then typed them into an email at the end of each week and sent it to the department administrator, who in turn collated global amounts for each client account. In that light Julia re-framed her response to Sara.

She stated the software would reduce the amount of time Sara and her team would have to spend noting times; they would only need to input times once, rather than noting on paper, then typing an email which still left

the administrator with further work to do.

Julia explained this reduction in time spent “form filling” would free Sara to think creatively about her projects. The system may also enable justification for increased department budgets or billing rates, (as some suspected currently more work was done than actually charged to clients). The purpose was to get a better handle on group costing, and also to get data to justify to the board expenditure on the new social media campaign that Sara’s team had recently suggested.

The above all resulted in:

- a matching of styles;
- Julia maintaining credibility;
- Sara feeling listened to, plus her objections falling away; and
- Sara becoming a positive supporter of the initiative, due to Julia’s successful communication of the potential benefits!

As for Andrew’s request, Julia did not address this straightaway, but told Andrew she would come back to it after setting out her thoughts on his initial request. Thus signalling that she had registered his request and it was not being ignored.

After dealing with Sara’s points, Julia turned to Andrew. She asked why he thought a shell company was the way forward? What was the overriding thing he was trying to do? Was it to ease administration? Was it to take certain assets outside of the transaction? Was it for tax purposes?

Having listened to the responses, Julia summarised that tax reasons were the main concern and the potential acquisition involved an international company. She stated there were a number of options and with something of such importance she’d like to consult colleagues to ascertain if there was a better way to undertake the purchase. She said she’d report back on the following Friday.

In this way, Julia:

- avoided being taken off course by Andrew’s initial question;
- summarised what had been said (ensuring the facts and Andrew’s purpose);
- gave a set and definite time to report back;
- matched and appealed to Andrew’s directive and logical style; and
- highlighted that there might be other more creative ways of dealing with the issue.

WORLD VIEW

The series continues with **Philip de Klerk**, global finance director of SABMiller, talking about innovations in finance with Adrian Holliday



How would you define SABMiller's Business Capabilities Program?

It encompasses everything from IT to procurement to outsourcing. And that's the radical element. There's an appetite in the business to improve every function and process, from manufacturing to back-office programs, on an international basis.

One of the four key strategic priorities of SABMiller is to leverage skill on a global scale. The smart way is to do it in bite-size chunks. So there's a project leader to look after centralisation of manufacturing, another for regionalisation of treasury. For every single program we have a business case. But the key is to try and achieve everything transparently.

If you're centralising manufacturing in Europe, for example, you need to have a clear benefits case. If people don't see the value of this in their part of the business, it's harder to convince them to change. You always start with the value part.

What are the most radical aspects of your program currently, and how are these changes genuinely smart?

Because we started relatively late on this journey, many companies before us have found out what hasn't worked, and we can learn from that. We have got quite a few people joining from other companies with lots of experience. We standardise and centralise the back-office processes so the

"If people don't see the value in their part of the business, it's harder to convince them to change"

Philip de Klerk
is global finance director
of SABMiller's Business
Capabilities Program



business units can focus on the customer and consumer. An example of a smart change is extending our procurement initiative to cover other categories.

For example, it becomes relatively easy to buy raw material or packaging on a global scale. But when you move to indirect procurement – services, marketing materials, IT – it's more difficult to make it global. If you can do it globally, there are significant savings.

Everyone must be willing to improve their processes. The challenge is that you might have already plucked the low-hanging fruit in some areas. How do you go to the next value driver?

So where does the value element take you now?

In the last 12 months we have been more successful in the outsourcing of financial

activities. SABMiller is quite big in the less developed countries – Poland, Czech Republic, Peru, Panama – so the labour cost differentiator is less than other companies. Therefore we are looking at other opportunities, such as centralising the finance function internally.

The biggest challenge is language. It's not necessarily easy to get a Czech-speaking person to operate in Poland at a lower cost. So before we act, we need to ask: what's the value in going ahead?

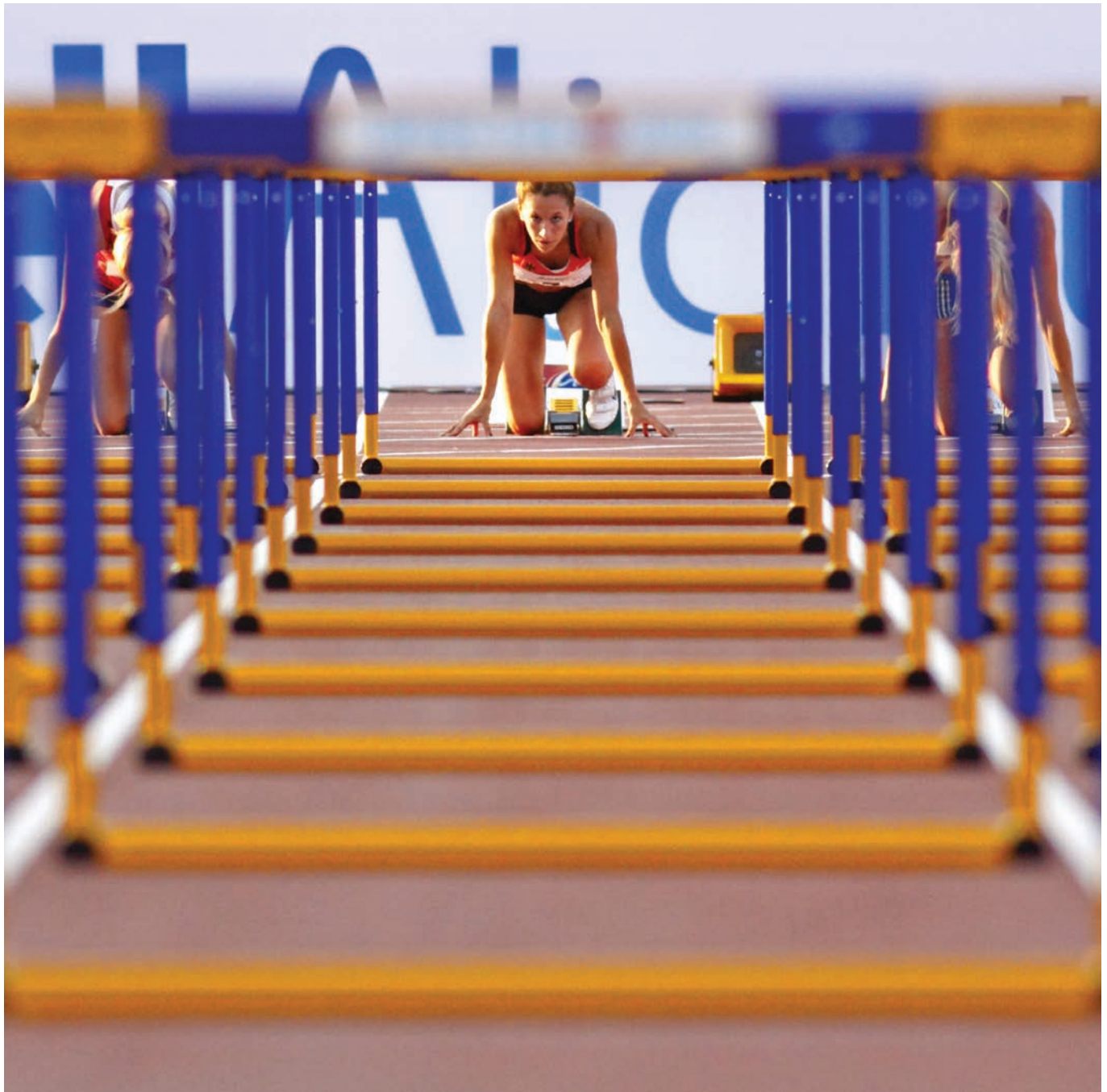
What about business workflow and process changes in the next year – and what savings have been made?

This is a very important trade-off on every process. You might want to use a simple solution that's proven in the industry. Or the advanced, more difficult approach that might give you a competitive edge but is unproven. This is worth debating, and it has taken us to the leading-edge route in quite a few processes – mainly in the front office and business information, the information you get out of your transactional systems: stock, distributors, market share data, etc. You take a risk when going through such non-proven territory. So we are willing to accept that it doesn't work all the time in every country.

But if it does work, you win. For example, to support a procurement organisation from scratch globally has been difficult in the first couple of years. Now, in the fourth year, the benefits are significantly better than we had expected. You need to believe in what you're trying to achieve.

If you could change one thing that you don't control currently about your organisation what would that be?

I would like to be able to implement SAP without the need to make any modification. I have been working with SAP R3 in one way or the other for 20 years and you would have hoped that in that time SAP would have captured all country specific requirements, so you don't need to define, design, build and test them and you don't need to convince local businesses that "less is more".



Working out the best measures

Many businesses collect rafts of information while never really knowing which measures matter to performance. **Bernard Marr** reveals how it is possible to collect better and more relevant performance data

Key Performance indicators (KPIs) should be the vital navigation instruments that help us understand whether a business is on track or veering off the prosperous path. However, organisations continue to struggle with identifying the KPIs that matter most and instead measure and report an often random set of metrics that rarely provide strategic insights.

For a moment let's imagine you are part of the California gold rush of 1849, when people flocked to that US state with the hope of making their fortunes from unearthing more of the gold that had been found there. Thousands of prospectors used their gold pans to sift out gravel,

sand and sediment, but retain the heavier and valuable gold nuggets. By panning endless tons of worthless silt, the prospector hoped to find those few precious nuggets of gold that would make them rich. Some did indeed become hugely wealthy. But most returned to their homes having either expended their investments without an adequate return (if any) or, worse, bankrupt.

Let's now fast forward to today and replace the gold rush with the performance measures rush. What we see are business managers behaving in much the same way as the prospectors of old: they are panning masses of essentially worthless, or background, metrics, with the hope that somehow they will discover those golden nuggets that will give them some valuable new insights.

Unless we use the insights from KPIs to learn and improve then measuring and reporting performance is a complete waste of time and money

This problem was starkly highlighted to me when I was helping one of the leading retail banks with improving its performance management processes. Its top level KPI report – the pinnacle of its performance reporting and the aggregated set of strategic measures – was automatically generated and emailed to the 20 top executives on a monthly basis. An IT glitch caused a failure with the scheduling and for four months the report wasn't emailed out. Surprise, surprise: nobody actually noticed. Furthermore, not one person requested this vital set of metrics regarded as *the* vital decision-support tool in the bank's business!

Accountants and financial managers are facing a number of challenges when it comes to measuring and reporting what matters. I would like to discuss three steps we have to take in order to make performance measures more relevant

(see Figure 1 overleaf). The basic steps are that we have first to be clear about our strategic objectives, then we have to measure performance in order to turn it into insights that we can use to manage and improve performance. This sounds simple and straightforward, but it is not what usually happens in companies.

Looking at these three steps and assessing the amount of effort that goes into each of them shows a much distorted picture. What we have seen in endless research studies and what I see most days working with clients is that we spend too little effort on clarifying the strategic objectives, we spend too much time on collecting 'stuff' (measures that are not relevant), and then we don't use most of the measures for any decision making. I have termed this the ICE approach:

- Identify everything that is easy to measure and count
- Collect and report the data on everything that is easy to measure and count
- End up scratching your head thinking, 'What the heck are we going to do with all this performance data stuff?'

Instead, using even simpler language (though with no easy acronym), we have to:

- Identify and agree what matters
- Collect the right management information
- Use the insights to learn and improve performance.

The point I would like to stress here is that unless we use the insights from our KPIs to learn and improve then the entire exercise of measuring and reporting performance is a complete waste of time and money. And linking indicators to the strategic needs will help to make KPIs more relevant and useful. Let me expand on each of these steps and give you some practical tools and examples.

STEP 1: IDENTIFY AND AGREE WHAT MATTERS – USE MAPS AND QUESTIONS

In order to be relevant KPIs have to link to your strategic objectives. A good starting point is to map the strategic objectives into a strategy map or balanced scorecard.

Tesco's Corporate Steering Wheel

This is what Tesco has done. To guide their performance measurement and analytics activities, Tesco has adopted the balanced scorecard. The Tesco balanced scorecard, which they call the corporate steering wheel, outlines its strategic priorities in the following perspectives:

- finance;
- customer;
- community;
- people; and
- operations.

With the performance framework in place, any efforts to collect and analyse measures can be linked back to the strategic objectives of the organisation. That way, Tesco doesn't waste valuable time analysing something that doesn't really matter in the grander scheme of things. Tesco's former CEO Sir Terry Leahy told me, "having objectives across five perspectives allows Tesco to be balanced in its approach to performance...the steering wheel creates a shared language, a shared way of thinking and a common blueprint for action."

When your strategic objectives and priorities are clear then we can identify the questions to which we need answers. In order to be really effective KPIs have to answer the critical unanswered questions the executive team has about business performance and strategy execution. If measures only provide insights that confirm what everyone already knows then they are not true KPIs.

Google's 30 questions

To avoid this trap, companies such as Google and Tesco have identified a small set of so-called key performance questions (KPQs) that articulate the real strategic information needs. They also make sure all KPIs they collect and report help to answer these critical questions.

In Google, the aim is to start with these questions and be clear about information needs at the outset. Executive chairman Eric Schmidt says, "We run the company by questions, not by answers. So in the strategy process we've so far formulated 30 questions that we have to answer and that stimulates conversation. Out of the



conversation comes innovation.

Innovation doesn't come from me just waking up one day and saying, 'I want to innovate'. I think you get a better innovative culture if you ask questions."

Here are three illustrative examples of KPQs (from a range of companies):

- To what extent are we growing our profitability?
- How well are we penetrating the Chinese market?
- To what extent are we providing an engaging online customer experience?

STEP 2: COLLECT THE RIGHT MANAGEMENT INFORMATION - CHOOSE RELEVANT KPIs

It is important that KPIs link back to the strategic priorities and the KPQs to ensure that you focus on measures that are linked to your strategic information needs.

Enterprise Rent-A-Car's ESQi

A powerful example of how to collect the relevant information is provided by the leading US car rental company, Enterprise

Rent-A-Car, which has the largest fleet of passenger vehicles in the world today (more than 700,000 cars and trucks). This organisation, which primarily serves customers arriving at airports requiring a rental car, has an unmovable conviction that only through the delivery of outstanding customer service will it secure sustainable competitive advantage in what is a very crowded and aggressive marketplace.

Enterprise Rent-A-Car does not want to be the biggest supplier of rental cars, but it does have an unrelenting drive to be the best in the eyes of the customer. A commitment to customer service excellence has been a hallmark of the business since it was founded in 1957. Every decision Enterprise Rent-A-Car makes anchors back to how it maintains that competitive advantage through customer satisfaction.

Maintaining the dominant position that it has achieved has been due to the organisation's unique way of measuring customer satisfaction. It has created an

enterprise service quality index (ESQi) that hinges on one simple term: 'completely satisfied'.

Each month, the organisation measures customer satisfaction at each local branch through telephone surveys of recent customers. Using a five-point scale, customers are asked to answer one focused question: 'How satisfied were you with your last experience?' Each branch earns a ranking based on the percentage of its customers who say they were completely satisfied. The organisation calls the uppermost end of that ranking 'top box' and this becomes the standard of excellence it sets for itself when working with customers.

Note, however, that in its analysis Enterprise Rent-A-Car only counts the respondents who are completely satisfied. Internal research had shown that customers who are completely satisfied are three times more likely to return as a customer. The company now focuses on driving up the frequency of this response of this question. Having

Most employees in a company (even at the top) don't fully understand most high-level finance KPIs

validated the results over time, the company now doesn't need to store the responses to the other four scale items.

It is also important to point out that only those managers who have led branches or other operations where customer satisfaction scores are outstanding (ie 'top box') can be considered as promotion candidates. This sends an unequivocal and powerful message about the importance of customer service to Enterprise Rent-A-Car.

Everyone knows that today's financial performance is a result of having done (or not done) the right things in the past; such as providing the right quality products or service to customers, building a strong brand image, engaging employees, or maintaining strong relationships with suppliers and partners.

Measuring intangible and non-financial performance indicators therefore provides vital leading indicators of future performance. While most financial metrics are well defined and understood, accountants often struggle to find KPIs for intangibles that are well defined, with solid formulas and analysis routines. However, leading-edge KPIs such as the net promoter score, brand equity, Six Sigma level, and staff advocacy score are all well-defined, non-financial KPIs.

STEP 3: USE THE INSIGHTS TO LEARN AND IMPROVE PERFORMANCE - PRESENT KPIs CLEARLY

To ensure the KPIs are providing insights that lead to learning and improved decision-making, we have to improve the way we report performance and we have to ensure performance is discussed appropriately.

The way we report KPIs (especially finance) often triggers anxiety and confusion in people. We have to realise

that the majority of employees in a company (even at the top) don't fully understand most high-level finance KPIs. Instead of giving people long lists of finance data or even P&L statements we have to:

- balance the numbers with headlines that explain what the numbers actually mean;
- present data visually in more meaningful graphs; and
- supplement numbers with narratives that explain the context of the data.

Using good visuals together with narratives (and relegating data tables to an appendix) can make a massive difference to the way people engage with and understand performance information.

A number of my clients now produce dashboards and hard-copy reports in newspaper front-page format with a clear headline, a meaningful picture (graph or chart) and some high-level narrative commentary to provide context.

Conclusion

So in summary, we can make performance measures more relevant and meaningful by:

- being very clear about the strategic objectives and the questions we need answered;
- collecting KPIs that help us answer those questions: and, finally
- making sure we report performance in an engaging and informative manner to inform learning and decision making. ■

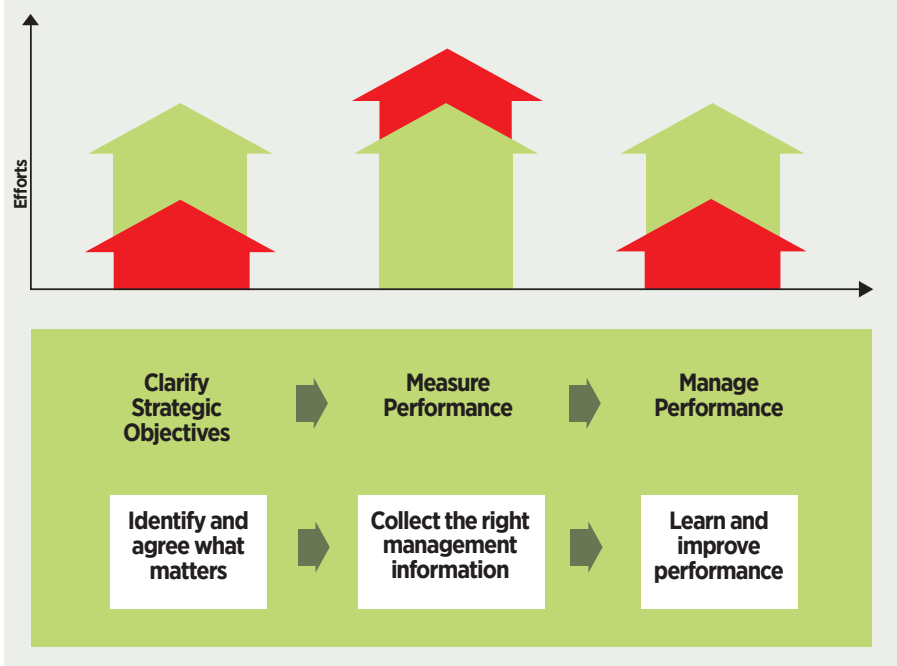


Bernard Marr is a leading performance management expert and business author. His book *Key Performance Indicators: The 75+ measures every manager needs to know* is available now. bernard.marr@ap-institute.com

This feature is based on Bernard Marr's faculty event, *Using performance measures to drive business success and fact-based decision making*, which took place in February.

(FIGURE 1) STRATEGIC PERFORMANCE MANAGEMENT

- Effort firms normally expend on each stage
- Effort firms should put into each stage



Technical updates

Our regular round-up of legal and regulatory changes

TAX

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

VAT CLAIMS

HMRC has issued Business Brief 13/12, setting out its views on the general principles for determining the time limits for making claims in respect of overpaid or over-declared VAT. EU states are permitted to impose reasonable time limits on such claims provided that they do not breach either the principle of effectiveness (not be framed so as to render excessively difficult the exercise of EU law rights) or the principle of equivalence (they must not be less favourable than those relating to similar claims based on domestic law).

EIS AND SEIS

Companies considering using the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS) may find it useful to have an advance assurance that HMRC will regard the shares it intends to issue as satisfying the requirements of the Scheme. HMRC has published a new Advance Assurance Form EIS/SEIS(AA) to be used by a company when it seeks assurance, in advance of a share issue, that qualifies under the scheme(s).

ADR GOES NATIONAL

The Alternative Dispute Resolution (ADR – see last issue) pilot for SMEs has been expanded nationwide. ADR is designed to resolve tax disputes using a facilitator who mediates between

the taxpayer (and the agent, if there is one) and the HMRC caseworker. The trial will be available to SME and individual customers where a tax issue is in dispute, but before an appealable tax decision or assessment has been made by HMRC. It covers both VAT and direct taxes disputes.

TRANSFER PRICING

The OECD is currently consulting on transfer pricing (TP) for intangibles (particularly intellectual property) and also on Safe Harbours. More than 40% of world trade takes place between associated enterprises – which makes the returns from intangibles, and where that return is booked, a major concern for tax administrations. Meanwhile “safe harbours” – originally frowned upon by the OECD – are now seen to play a valid role in helping compliance with TP compliance.

ARMoured CARS

If a security enhanced company car is also available for private use, there will be a benefit in kind charge for employees. The former £80,000 cap on the cash equivalent of the benefit, based on the car's list price and the cost of any accessories, was removed with effect from 6 April 2011. Consequently, the cost of certain security enhancements could now make the taxable benefit

disproportionately expensive. A measure was therefore included in this year's Budget and Finance Bill to exclude this extra cost with effect for relevant benefits provided on or after 6 April 2011. The relief is confined to those individuals who can demonstrate that the nature of their employment creates a threat to their personal security. See more at www.hmrc.gov.uk/cars/employer-guidance.htm

FINANCIAL REPORTING

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

AMENDMENTS TO FIVE IFRSs

The IASB has published a collection of amendments to IFRSs as its latest set of annual improvements 2009-2011. The amendments apply to accounting periods beginning on or after 1 January 2013. Earlier application is permitted. The table below lists the IFRSs and topics addressed by these amendments:

GOING CONCERN

The Sharman Panel, which was established in March 2011 to examine the challenges faced by

IFRS	Subject of amendment
IFRS 1 First-time Adoption of International Financial Reporting Standards	Repeated application of IFRS 1 and borrowing costs
IAS 1 Presentation of Financial Statement	Clarification of the requirements for comparative information
IAS 16 Property, Plant and Equipment	Classification of servicing equipment
IAS 32 Financial Instruments: Presentation	Tax effect of distribution to holders of equity instruments
IAS 34 Interim Financial Reporting	Financial reporting and segment information for total assets and liabilities

directors, management and auditors when companies face going concern and liquidity risks, has published its final report and recommendations on how such challenges should be addressed in the future. In light of lessons learnt from the financial crisis, the panel's final recommendations aim to refocus the going concern process and support better risk decision-taking for management. This aims to ensure that investors and other stakeholders are well-protected and informed about those risks, and sustain an environment in which directors recognise, acknowledge and respond to economic and financial distress sooner rather than later.

PROPOSED INTERPRETATIONS

The IFRS Interpretations Committee has published proposed guidance on two topics:

- Levies charged by public authorities on entities that operate in a specific market. The proposed guidance considers how an entity should account for the payment of certain levies – such as the UK's bank levy – in its financial statements. It specifically considers when the liability to pay such a levy should be recognised. Comments on DI/2012/1 are due by 5 September 2012.
- Put options written on

QUEEN'S SPEECH OVERVIEW

- Powers for the Secretary of State to impose a different cap on the compensatory award for unfair dismissal (currently £72,300) and different amounts can be specified for different types of employer – probably with a lower amount for small businesses.
 - Employment Tribunal claimants must submit details of their complaint to Acas and will be offered pre-claim conciliation for a period prescribed by regulation.
 - Tribunals will be able to order a losing employer to pay a penalty to the Exchequer where their breach of employment rights has an "aggravating feature" – which could be "where the action was deliberate or committed with malice, the employer was an organisation with a dedicated human resources team, or where the employer had repeatedly breached the employment right concerned."
 - Whistleblowing protection will only be available for disclosures made in the public interest. However, the lack of any definition of "public interest" will no doubt give rise to further litigation.
 - Statutory compromise agreements are to be renamed "settlement agreements". The Children and Families Bill is expected to allow mothers and fathers to share more flexibly the leave entitlement in the first year of the child's life (not expected to apply before April 2015) and to extend the right to request flexible working.
- The Government Equalities Office is also consulting until 7 August on three proposals relating to discrimination law. The first would remove the third party harassment provision in the Equality Act 2010, and has been trailed before. The other two are new: to abolish the statutory discrimination questionnaire procedure; and to remove the tribunals' power to make recommendations beyond those which would benefit an individual claimant. Although it might reduce an employer's costs incurred in responding to questionnaires, the work may still need to be done later on and the opportunity to settle pre-claim may be reduced.

non-controlling interests. The proposed guidance considers how to measure the financial liability created when a parent entity is obliged to purchase the shares of its subsidiary for cash or for another financial asset. In such circumstances, the parent must recognise a financial liability in its consolidated financial statements for the present value of the option exercise price. Comments on DI/2012/2 are due by 1 October 2012.

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EMPLOYMENT LAW

This is an extract from the monthly bulletin of law firm Herbert Smith, but does not constitute legal advice and should not be relied upon as such. herbertsmith.com

TERMINATION CLAW-BACKS

It's worth reviewing "payment in lieu of notice" (PILON) clauses and compromise agreement wording as a result of a recent Court of Appeal (CA) case. In *Cavenagh v William Evans*, the CA ruled that the employer had to pay out under its PILON deal, even though it later discovered misconduct on the part of the employee that would have permitted summary dismissal. Ironically an employer who has terminated "wrongfully" can cite knowledge of misconduct acquired afterwards to justify the dismissal – an option unavailable if they agree a PILON deal.

ORAL BONUS

A recent High Court ruling shows the need to ensure that any oral assurances on bonus payments are as carefully considered as written commitments. In *Attrill v Dresdner Kleinwort*, it found that the fact an oral promise relates to the size of a bonus pool, not an individual employee's award, will not stop it being contractually binding. In this case, an oral commitment to the bonus pool was made just before the collapse of Lehman Bros. Later the bonus pool was reduced by 90% through the use of a material adverse change clause. Any commitments on bonus pool should therefore refer to circumstances that could lead to a reduction. For more on this, visit snipurl.com/oralbonus

Winning ways

Marketers invest significant resources in trying to “engage” customers. But for the bombarded, jaded consumer often the best engagement is no engagement. Could helping customers make better decisions be the surprising new way to win their loyalty?



Stickiness. It's what chief marketing officers (CMOs) told Patrick Spenner, managing director of Corporate Executive Board (CEB), a global research and advisory firm, in 2011 when he asked what their biggest problem was.

“CMOs told us they were finding it increasingly difficult to hold on to customers all the way through their purchase path,” says Spenner. “A once-stable process had become elastic. So they wanted to know how to make customers more sticky.”

After 7,000 consumer interviews in the US, UK and Australia, Spenner had some interesting feedback for them. The CEB researched more than 40 variables thought to have an impact on stickiness – that is, consumers' likelihood to follow through on an intended purchase, to buy again, and to recommend to others.

One factor came out on top, by far. Spenner calls it decision simplicity, “the ease

with which consumers can gather trustworthy information about a product and confidently weigh their purchase options”.

So he created a decision simplicity index and ranked companies' performance against their simplicity scores. Brands in the top quartile were 86% more likely to be purchased than brands in the bottom quartile. They were also 9% more likely to purchase again, and 115% more likely to be recommended.

“Customers don't want a ‘relationship’ with you,” says Spenner. “Just help them make good choices.”

DECISIONS, DECISIONS

Spenner's research highlights a dilemma that strikes at the heart of marketing. Yes, customers want great products and services, but they also want to make better decisions. After all, if you can make a better buying decision, it should lead you to the better product anyway.

If the marketer's job is to influence the customer's

Customers want great products and services, but they also want to make better decisions

decision in favour of a particular brand, they're not providing impartial support and advice; the marketer is not meeting the customer's need for better decisions. Far from building trust in the brands they're promoting, by trying to influence the consumer's decisions they might be having the opposite effect.

The dilemma isn't new, but the context for it is. The rise of the web has presented consumers with a dizzying array of options – search, comparison sites, peer reviews and recommendations, online communities and social networking – that help them (in McKinsey's words) “quench their thirst” for impartial information.

With this “tectonic shift in power”, consumers “increasingly prefer to make purchasing decisions largely independent of what companies tell them about products.” The process, then, is changing.

TUNNEL OR FUNNEL?

For many years marketing strategies have been based on



the assumption of the decision-making funnel. The consumer starts out with many possible options and whittles them down, discarding less desirable ones until, finally, one is left.

However, recent research by McKinsey suggests this funnel metaphor is misleading. First, in a world of information overload, consumers' initial consideration sets – that is, the brands that immediately spring to mind – are getting smaller.

Second, consumers are increasingly making purchase decisions outside of this funnel – for example, by relying on word-of-mouth recommendation. They're tunnelling through marketing messages with their own data, and the McKinsey research finds that once past the initial decision to buy something, marketers' "push" outreach is largely replaced as "customers seize control of the process and actively 'pull' information towards them".

Third, as they research their purchase, their consideration set expands rather than contracts. Instead of starting

off with many options and filtering down to a few, consumers are more likely to start out with just a few options which then expands.

For example, car buyers start out with an average of 2.8 brands in mind. By the time they've completed their initial online research, that's up to 3.8 brands – usually thanks to user recommendations. In PCs, the initial consideration set of 1.7 brands jumps to 2.7. In telecoms, it doubles from 1.5 to 3. And it gets worse.

"Brands already under consideration can no longer take that status for granted," says David Court, who heads McKinsey's marketing and sales practice.

WORD ON THE STREET

In separate research McKinsey puts numbers to this modern folklore. Word-of-mouth recommendation is the primary factor behind 20% to 50% of all purchasing decisions – especially when consumers are buying a product for the first time or when products are relatively expensive.

"Marketers may spend millions of dollars on elaborately conceived advertising campaigns," says Court. "Yet often what makes up a consumer's mind is not only simple but free: a word-of-mouth recommendation from a trusted source."

This is not a marginal shift. It's potentially pivotal to the future of marketing strategies. During the consumer's critical evaluation phase, two-thirds of touchpoints – where the customer comes into contact with brand – are driven by the customer seeking information and not by the marketer.

A final surprise from McKinsey's research is that consideration doesn't stop at purchase. For example, it found that 60% of consumers of face-care products continue to research the product after they have purchased. This adds data to consumers' word-of-mouth recommendations.

The disconcerting implication of these findings is that many companies may be investing marketing budget on the wrong things in the wrong

places. Between 70% and 90% of marketing spend is concentrated at the beginning of the traditional buying funnel (on awareness) and the end (at the point of purchase), notes David Edelman, another McKinsey partner. Yet it's during the middle phase – evaluation – where the consumer is most open to influence.

"Consumers might have a handful of products and brands [in mind initially], with opinions about them shaped by previous experience," Edelman explains. "But their attitudes and consideration sets are extremely malleable. Consumers' outreach to marketers and other sources of information is much more likely to shape their ensuing choices than marketers' push to persuade them."

IT JUST GOT PERSONAL

This might be just the beginning of a bigger shift. Writing in *The Intention Economy*, Doc Searls of Harvard Law Schools Project VRM says customers will soon



be equipped with tools, apps and services that empower them to collect and store their own data – in “personal data stores” or “lockers” – express demand, make choices and set preferences.

“They will be equipped to tell vendors what they want, how they want it, where and when,” he explains. “Rather than guessing what might get the attention of consumers – or what might drive them like cattle – vendors will respond to actual intentions of customers.” The messages marketers choose to send out become significantly less important.

“A failure to change the focus of marketing to match this evolution has undermined the core goal of reaching customers at the moments that most influence their purchases,” says Court. “Marketers need to adjust their spending and to view the change not as a loss of power over consumers, but as an opportunity to be in the right place at the right time, giving them the information

“If I were a CMO today, I would be taking budget out of mass media and investing in purchase advisors”

and support they need to make the right decisions.”

They need to think beyond traditional, paid-for media to consider owned media – where the consumer comes searching for you – and earned media, where you earn the consumer’s attention by providing some additional point of interest or value. Then they have to integrate all three.

This new focus on “decision support” for customers throws up challenges to many marketing departments. First, how do they spend their money?

“If I were a CMO today, I would be taking budget out of mass media and investing in purchase advisors,” says CEB’s Spenner. If the biggest influence on a purchase is evaluation – focused on online research at independent, third-party sites – that’s where marketers need to be focusing their efforts.

He offers a simple example. “If you are a luxury car marque and you are buying Adwords on Google, where do you send people who click on your ad? To your site? Or to an

independent forum such as Edmunds.com (a big US motor review site, which many consumers will visit)?

If you try to bring them to your website all you’re doing is introducing an extra step for your customer when the simplest, most confidence-inspiring learning path involves touchpoints that are outside a brand’s control.”

Spenner admits this is hard for marketers to accept. “They have to fight every bone in their body to give up control,” he says. “But smart marketers are realising that this sort of consumer behaviour is inevitable and that aligning to it is ultimately a more customer-centric play.”

A SIMPLE PLAN

The second challenge is what marketers say. Early notions of stickiness were all about providing consumers with lots of content so that they could engage with the brand. But they were wrong.

“Marketers should be relieving consumers’ cognitive overload rather than adding to

it," says Spenner. Example? Early web search leader Yahoo! tried to keep users' attention with a busier and busier home page – then Google seized the market with nothing but a logo and a search box.

Decision simplicity is driven by three things, suggests Spenner:

- Simplified navigation, to minimise the number of information sources needed before making a purchase decision.
- Ensuring the trustworthiness of the information provided. "Trust isn't about trusting the brand, it's about trusting the information gathered," he argues.
- Making it easier to weigh options, so that consumers can feel confident about their choices. Research by UK telecoms comparison site Bill Monitor finds consumers value reassurance that they've made the right decision more than the money they save, for example.

The other side of this coin, warns Spenner, is that many attempts to engage with customers, including via social media, risk having the counterproductive effect of pushing customers away. Most don't want yet more interaction and information, he contends – they want trust and simplicity.

Delivering them is easier said than done. There's now a vast body of research from

DON'T SECOND-GUESS CONSUMERS

The Corporate Executive Board research uncovered a serious mismatch between customers and marketers around consumer engagement. CEB interviewed 200 chief marketing officers and brand managers from 125 brands across 12 industries. The research tested consumer reasons for engaging with a brand via a social site against marketers' intentions for doing so.

The top reason for consumers to look at a brand's social network site? Looking for a discount.

Your marketing people might not know social media quite as well as they think

Marketers ranked it bottom. For marketers, the top perceived reason for consumers' engagement was to learn about new products. That came sixth for consumers, behind discounts, product reviews and general information about the product.

While 61% of marketers said consumers want to feel part of a community, only 22% of consumers mentioned this as important; 64% of marketers thought consumers wanted to feel connected, but only 33% of consumers agreed. In other words, your marketing people might not know social media quite as well as they think.

behavioural economists charting the many "predictable irrationalities" that dog human attempts to make better decisions. In short, consumers' desire for more trustworthy information is no guarantee they will actually end up making better decisions.

LEARNING TO LEARN

Also, as Columbia Business School professor of psychology Sheena Iyengar points out, there's no way consumers can ever become expert enough in all the things they need to make decisions about: pensions, electronics, health issues, travel... the list is endless.

"Becoming an expert in every domain of choice is impossible," she says. "But we can become experts in the process of choosing, learning how to use the expertise of others to improve our choices and our knowledge of choice." That's another design challenge for the decision support provider.

Meanwhile, providing decision support can't help but raise marketers' fears that "if we help the customer make a better decision, they might end up choosing a rival's brand." Is there a way out of this conundrum?

The paradoxical answer may be that when it comes to customers making a choice between your product or your rival's, there might be little marketers can, or should, say.

What this misses, however, is the sheer number of levels of consumer decision-making. There are, for example, broad decisions about desired outcomes and goals; about alternative ways of achieving them; about how to assess and weigh these alternatives; how to overcome obstacles along the way; and solve problems – down to highly detailed questions such as how best to access, use or repair the product.

In each of these levels of decision-making, companies' accumulated expertise can be credibly and impartially turned into a useful customer resource. For example, the Pampers.com website run by Procter & Gamble offers advice about parenting rather than talking endlessly about nappies; Nike offers advice around keeping fit rather than advertising shoes; and supermarkets offer recipes, not just money-off vouchers.

It is axiomatic that good marketing is all about identifying and meeting customer needs. Today, one of the biggest customer needs is to make better decisions.

There's growing evidence that customers reward companies that help them do that. So, ironically, the best way to persuade customers of the merits of your brand could well be by not trying to persuade them at all. ■

Alan Mitchell is strategy director at Ctrl-Shift and a former editor of *Marketing Week*

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FS FOCUS



Falling short

European banks continue to fall short of the capital and liquidity requirements that are being planned. Laura Cox and Vincent O'Sullivan analyse the numbers

European banks have often been reported as being in a 'falling short' position. The European Central Bank's (ECB) latest report on the state of the banking system in the eurozone, published in July 2012, confirms this. It states that the average capital ratio of eurozone banks is 10.2%, which is below the 10.5% required by the Basel III framework. The ECB also notes that the average liquidity ratio is 10.2%, which is below the 10.5% required by the Basel III framework.

RISK & REGULATION

and the possibility of further stress tests. The ECB's latest report on the state of the banking system in the eurozone, published in July 2012, confirms this. It states that the average capital ratio of eurozone banks is 10.2%, which is below the 10.5% required by the Basel III framework. The ECB also notes that the average liquidity ratio is 10.2%, which is below the 10.5% required by the Basel III framework.

USPACING CAPITAL It is worth noting that the use of internal capital is not the only way to meet the requirements of the Basel III framework. Banks can also use external capital, such as bonds, to meet the requirements. The ECB's latest report on the state of the banking system in the eurozone, published in July 2012, confirms this. It states that the average capital ratio of eurozone banks is 10.2%, which is below the 10.5% required by the Basel III framework.

AUDIT & BEYOND

TRUST ME, I'M A PROFESSIONAL

What does your audit add to your business? That's a question troubling the minds of many in the audit profession, frustrated by the fact their discipline is more usually defined by past failures (Enron, Parmalat, et al) than a bright future built on rigorous skills and professionalism. At a time when regulators are also looking hard at audit, the question is key.

The first step is to better educate people on the role of audit – and close the much-discussed “expectation gap” which leads many in business to assume auditors are bloodhounds adept at sniffing out potential failures. But equally important, that kind of clarity – about both successes and failures – should encourage a richer dialogue with both preparers and users of accounts.

But the big issue remains regulatory. Auditors are keen that the framework remains one of principles and not rules. And they're keen to keep things as simple as possible. So while scrutiny is driving auditors to produce ever-cleaner audit files and worrying over disclosures, in an ideal world they would be spending that time getting to grips with client businesses and identifying key risks.

Ultimately, it's about securing a future for audit that maintains levels of discipline and assurance – but avoids the professional becoming desiccated and remote. And that's something most FDs – and all boards of directors – would most certainly welcome.

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FS FOCUS

FALLING SHORT

This year looked like being a bit calmer for European banks – after a stormy 2011 – with ECB injections of cheap money and even some growth. The IMF and European Systemic Risk Board also pointed to some stabilisation; and the European Banking Authority seems happy that recapitalisation is progressing well.

But as this analytical piece explains, last year the world's largest 103 banks (48 of them European) were still short €486bn of high-quality capital against the Basel III requirements. The Basel Committee also found that Tier 1 capital ratios fell from 10.2% to just 7.1% after applying new rules on risk-weighted assets and new definitions of “capital”.

Capital injections are therefore much needed – although with poor returns on equity within banking right now, issuing new shares might not be a viable option. Bonds, then? Well, European banks need to roll over €1,700bn of senior debt in the next two years anyway, so that's not ideal. No wonder asset sales are much in vogue – with €1,200bn planned by European banks this year.

Even with Basel III not a lock for US institutions (which, in any event, face other regulatory challenges), we're seeing major changes to banks' funding patterns. The critical question is whether they can manage these pressures, prepare for potential sovereign debt shocks – and still build their businesses for the long term.

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CORPORATE FINANCIER

MITTELSTAND ÜBER ALLES

German SMEs – the so-called Mittelstand – have a new option for raising finance while the credit crisis keeps banks on the sidelines: bonds. Traditionally the preserve of large-cap businesses, increasing numbers of Mittelstand companies have opted to issue debt, and boutiques such as Close Brothers Seydler Bank (CBSB) are struggling to keep up with demand.

CBSB alone has acted for half of the 10 issues so far this year, raising over €280m for a broad range of businesses. Its latest deal – a €35m bond for ready-meal maker Zanek – sold out in just two hours.

The market is well supported by Germany's regional stock exchanges, which are competing to provide trading platforms for the bonds. And given the likely further restrictions on bank lending, it's expected that issuance will grow even further. There are around 10,000 companies with annual turnover of between €50m and €1bn that would make ideal bond issuers in the future, says one asset manager.

Could it work in the UK? The Breedon report said it ought to – although there remain issues over costs and willingness to borrow at what seem relatively high rates compared to bank loans arranged just a few years ago. But the London Stock Exchange's Order Book for Retail Bonds platform is nicely bedded in – and is seeing borrowers return after previous bond issues, a sign that it has legs.

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**Figure taken from the All-New Volvo V40.

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