Finance & Management

ICAEW FINANCE & MANAGEMENT FACULTY

ISSUE 252
MARCH 2017
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ROARING TRADE?
THE LATEST MEASURES AIMED AT RAISING UK EXPORTS

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March 2017

COVER: ARON VELLEKOOP LEON

"The proportion of British firms exporting fell from 10.8% to 10.4% in the past year, and the churn is alarming – 26,000 give up selling overseas every year"

An unexpected win

Having disposable cash is a fairly standard desire for most people, although I do acknowledge that some would not place such a materialistic aim in their top five wishes. The sudden arrival of wealth,

however, is something that many cannot cope with, whether from a lottery win, inheritance, bonus or proceeds from unknown valuable attic contents.

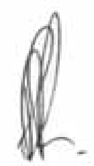
Unexpectedly getting as little as three months' worth of salary in a lump sum can cause panic, guilt and fear for some, according to psychologist Dennis Pearne, co-author of *The Challenges of Wealth*. This is backed by an organisation called The Sudden Money Institute based in Palm Beach, Florida. "People think windfalls are about money. But it's really all about change and transition… and people need time to adjust," says Susan Bradley, founder of the institute. She refers to "money shock", which can lead to irrational spending behaviour, even if the amounts involved are relatively small compared to headline lottery wins. It is the unexpected nature of the cash that can trigger this behaviour. Many react by splurging on luxuries – mostly cars and holidays.

The US based National Endowment for Financial Education estimates that 70% of all receiving windfalls spend the whole amount within a few years. More sadly, the Certified Financial Planning Board of Standards says that nearly a third of US lottery winners – where the winnings are significant – declare bankruptcy within five years of their win.

These outcomes are totally at variance with people's expectations of their own behaviour when dealing with unexpected windfalls. Ally Bank conducted a survey in 2013 asking how people would spend a hypothetical win of $10,000. The responses are measured and modest – the average spend on luxuries amounted to no more than $600 from the lump sum, which does not tie up with the observed spending pattern. Likewise, only 32% of respondents said that they would give up their jobs if they won a significant payout, compared to the 59% who actually did quit their jobs after winning.

The expectation gap between the theoretical steps that we would plan to take and our actual realised behaviour has been the subject of many behavioural economists. While we like to think that we would act in a certain way, we may find that the temptations associated with windfalls prove stronger than expected.

We hope that you enjoy this copy of the magazine, although I can't guarantee any windfall as a result of reading it. Please drop stephen.ibbotson@icaew.com or robert.russell@icaew.com a line if you have any thoughts or ideas for the faculty.



Robert Russell
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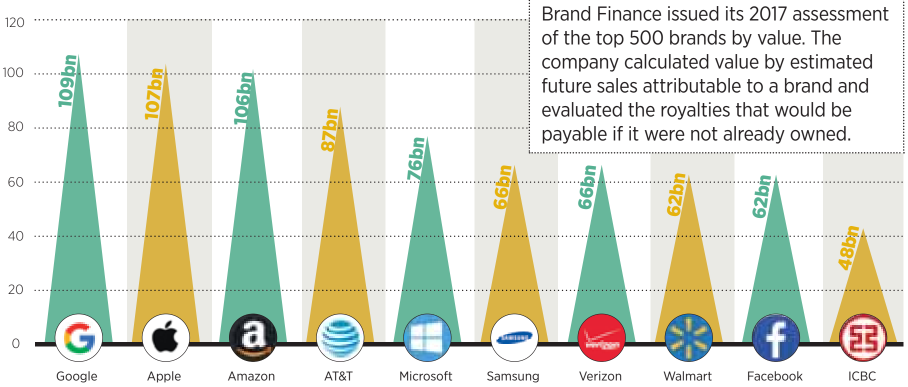
News

THE CREAM OF THE CROP



Brand Finance issued its 2017 assessment of the top 500 brands by value. The company calculated value by estimated future sales attributable to a brand and evaluated the royalties that would be payable if it were not already owned.

TURNING UP THE GAS

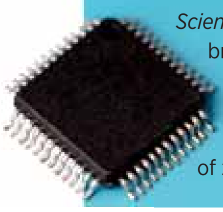
UK-based Materials Solutions, now a subsidiary of Siemens, successfully tested its new 3D-printed gas turbine blades, which are printed from a high-performing polycrystalline nickel superalloy powder. The company announced last month that the printed blades passed stress tests under full-load engine conditions at 13,000 revolutions per minute and temperatures above 1,250˚C in what the company described as a breakthrough. James Stettler, capital goods analyst at Barclays, commented: “Technology is moving rapidly. All vendors across the supply chain need to be on their toes.”

A CALL FOR OPINIONS

ICAEW, in collaboration with the Jubilee Centre for Character and Virtues, is looking for members to complete an online survey to gather opinions on which individual virtues and personal attributes are prized the most by ICAEW members and what they associate with the ideal professional for chartered accountants. The survey is available at tinyurl.com/FM-Character

We would be grateful if you might contribute to our research via this link. We plan to publish an initial report in May or June this year. Please contact martin.martinoff@icaew.com for more information.

QUANTUM LEAP



A team at the University of Sussex has come up with the first practical blueprint for constructing a giant quantum computer, like that dreamt of by Douglas Adams in his comic sci-fi novel *The Hitchhiker’s Guide to the Galaxy*. The design, published in *Science Advances*, is ground breaking. It can operate 100,000 times faster than existing computers. Existing computers use binary systems of zeros and ones, but a quantum computer also has qubits, which can take on the value of zero or one or both at the same time. Professor Winfried Hensinger, head of the Ion Quantum Technology Group at the University of Sussex, said: “For many years people said it was completely impossible to construct an actual quantum computer. We have not only shown that it can be done, but now we are delivering a construction plan to build an actual large-scale machine.”

A proof-of-concept early prototype is planned within two years.

DRIVING COSTS DOWN

Plans to introduce a network of “fully intelligent trains” in the UK have been laid out in a new report from the Rail Delivery Group, which represents train operators and Network Rail. The new trains will connect and communicate with each other to negotiate junctions and keep a safe distance apart, removing the need for train drivers. Driverless trains have been in operation on London’s Dockland Light Railway for more than a decade, and their rollout onto the UK railway network would save the industry £342m a year. Rail passenger numbers have more than doubled in 20 years to 1.69 billion passenger journeys in 2015/16 (compared with 735 million in 1994/95) according to Office of Rail and Road figures.

CYBER SAFETY

Insurer Hiscox issued its *Cyber Readiness Report 2017* last month, revealing that some 72% of US businesses have suffered a cyber attack in the past 12 months with nearly half experiencing two or more. Some 45% of UK businesses have suffered an attack.

Events

In partnership with Prophix

WEBINARS

icaew.com/fmfwebinars

Unless otherwise stated, all webinars and events are free to existing faculty members

20-MINUTE LUNCH WEBINARS

FREE

BOARDROOM CONVERSATIONS – FD's CORNER

14 March 12:30 – 12:50

We cover ICAEW's confidence monitor and Nigel Hastilow provides commentary from finance directors from around the country about issues that are bothering them. This interactive webinar will keep you updated with the economic outlook and concerns of your fellow ICAEW members. To book a place, visit icaew.com/lunchmar2

FREE

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

29 March 12:30 – 12:50

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

FREE

IP FINANCE TOOLKIT AND DISCLOSURES

26 April 12:30 – 12:50

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

60-MINUTE WEBINARS

FREE

FUTURE PROOF YOUR FINANCE FUNCTION

21 March 10:00

Finance leaders are becoming valued collaborators with business leaders across an organisation in areas such as sales, marketing and operations, equipping teams with tools to model tomorrow to improve today.

Join us for this sponsored webinar presented by Phophix's managing director Daniel Cobb.

To book a place, visit icaew.com/fmfmarwebinar

FREE

BUSINESS VAT UPDATE

17 May 10:00

Presented by VAT expert Neil Warren, this one-hour practical update is aimed at SMEs and will include:

- updates on EU sales and EC sales list filing;
- a review of how to avoid the most common mistakes in accounting for VAT; and
- an update on VAT legislation and tribunal rulings.

To book a place, visit icaew.com fmfmaywebinar

EVENTS

FREE

7½ STEPS THAT EVERY FD MUST TAKE TO SUCCEED

22 March 18:00 – 20:00

It's a given in today's workplace that soft skills determine success as a finance professional. In this practical workshop Angus Farr will identify the key non-technical skills that determine how far and how fast our finance career can progress. For each one, he'll identify a practical takeaway to help us better manage ourselves, our teams and key stakeholders.

To book a place, visit icaew.com/fmfmarevent

LEADING CHANGE IN THE FINANCE FUNCTION

10 April 9:30 – 16:30

Etc Venues, Tenter House, 45 Moorfields, London, EC2Y 9AE

22 November 9:30 – 16:30

(venue TBC)

£402.50 + VAT

for Finance & Management Faculty members

This course introduces a planned approach to leading change, including the concept of a change 'balance sheet'. You will gain a deeper understanding of the emotional responses to change and how to handle them, and will leave more confident in engaging others in the change vision and dealing with resistance. This course is suitable for finance leaders and senior managers involved in finance transformation, or those who want to learn more about leading strategic change.

To book your place visit icaew.com/academy/changefinance

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More than just a crystal ball

Forecasting is incredibly important for finance directors and, when done correctly, is much more beneficial than just approximate predictions, says **Gill Ringland**

Forecasting, for all its faults, is an integral part of business planning in every organisation, whether this is looking at sales and profits for the next 12 months or the next five years. We can integrate forecasts of the economy, business environment and the competition into these. Forecasts aim for accuracy, although predicting the future is fraught with pitfalls, as we have seen with recent election outcomes; each stream adding to the forecast increases the risk of error, which leads many to regard forecasts as no more than staring into a crystal ball. Futurologists make predictions on a daily basis and have developed tools to assist the process, which may assist you to lessen the risk and uncertainty in your forecasting.

Professor Philip Tetlock is a social scientist, now at the University of Pennsylvania, who has designed and run major experiments on the characteristics of successful forecasters. His book *Superforecasting: The Art and Science of Prediction* covers his findings, but one of the most important aspects was the characteristics of successful forecasting, summarised with the acronym CHAMP:

- Comparisons are important: use relevant comparisons as a starting point;
- Historical trends can help: look at history unless you have a strong reason to expect change;
- Average out opinions: experts disagree so find out what they think and pick a mid-point;
- Mathematical models: when model-based predictions are available you should take them into account; and
- Predictable biases exist and can be allowed for: don't confuse hopes with forecasts – don't cling to old forecasts in the face of new.

THREE HORIZONS

A useful tool for thinking about factors that could cause the organisation's assumptions to change uses three horizons.

Horizon one takes into account the current working assumptions and systems that we take for granted when we make decisions. For example, the ongoing trend for decreasing family size, for migration and for people to live longer, causes us to re-examine our assumptions on demographics.

Horizon two is about drivers that represent a transition or accommodation for evolving tensions as current assumptions and work patterns obsolesce and transformative changes affect industries and markets.

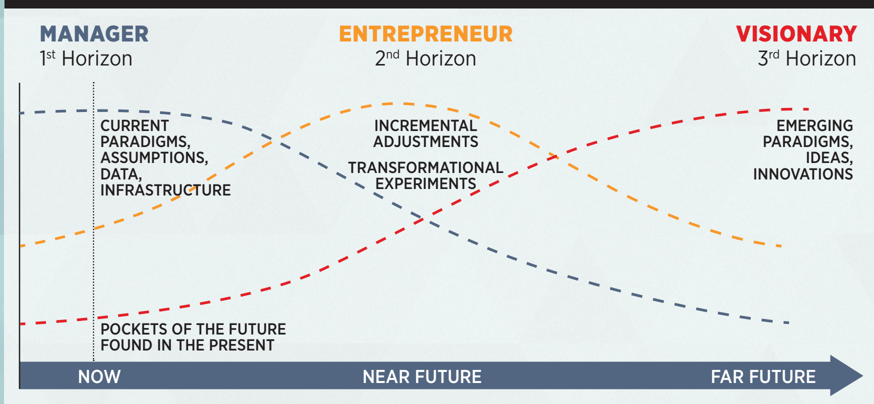
For example, the CEO of General Motors, Mary Barra, said: "I believe we will see more change in our industry in the next five to 10 years than we have in the last 50. We are at the start of a technological revolution that is going to change the way we drive and interact with our cars, trucks and crossovers."

Horizon three is about completely new paradigms and ways of understanding and undertaking various human activities. For example, The World Business Council for Sustainable Development believes nine billion people can live well on the planet.

Once you have used three horizons to identify drivers of change to build into strategy now, a tool for thinking about the effect this could have on your organisation – through customers, stakeholders, regulation etc – is an 'impact wheel'. Starting from the driver at the centre, effects are mapped outwards. This is a structured brainstorming method used to organise thinking about potential impacts.

These examples show how use of futurists' tools can improve the forecasting capabilities of organisations and should assist you with crystal ball-gazing.

THREE HORIZONS: MINDSETS



SOURCE: BILL SHARPE THREE HORIZONS ©TRIARCHY PRESS

Gill Ringland, director and fellow of SAMI Consulting and director of Unlocking Foresight Know-How CIC

THE ART OF MEMORY

Chester Santos explains how training and improving your memory is the key to demonstrating business expertise

GETTY

Even in the age of Google, where information is at our fingertips, remembering certain things can give you a huge advantage in business. You'll definitely have an edge in this competitive profession if you're able to recall important business-related facts and figures, give presentations from memory using little (or no) notes, know foreign vocabulary, recall material for exams and remember people's names and other things about them.

Most of the techniques I teach originated with the ancient Greeks. Back then everyone was educated in what was called the art of memory. But somehow that got lost over time. Nowadays we're expected to remember a lot of information, but we're never taught how to remember it. With a little bit of application, however, and using my three-step process, you'll be able to improve your professional knowledge and demonstrate your expertise. The bottom line is we always want to do business with the person we view as being the smartest, and we view people who have razor-sharp memory ability as smart. Memory is hugely important in terms of how people perceive you.

Although you may not believe it, you actually already have an amazing memory, and with the tips in this article I'm going to help you unlock your full memory potential. This is going to be easy and a lot of fun!

THREE STEPS TO SUCCESS

The first step is to visualise what you're trying to remember. Take this piece of information and try to turn it into a simple image or series of memorable images. Once this is in your head, try to involve as many additional senses as you can while trying to commit a piece of information to memory. The more senses that you involve, the more of your brain you'll be using and the more connections you'll be building in your mind to the information, making it much easier to remember.

Next, use your creativity and imagination to make what you are seeing and experiencing in your mind crazy, unusual, extraordinary. This is important so that you can take advantage of the psychological aspect to your memory – images that have an impact on us psychologically and that graphically hold our attention are much easier to remember. With little to no effort, we can all remember things that are crazy, unusual and extraordinary in some way.

Let's put the three principles that I just described above into practice and use them to commit to memory the following random list of words: monkey, iron, rope, kite, house, paper, shoe, worm, envelope, pencil, river, rock, tree, cheese, euro. To memorise the word list, I'd like you to relax and have fun while visualising the story that I describe. Just see it happening to the best of your ability – almost like a cartoon or movie playing in your head.

TELLING A STORY

First, picture a monkey. This monkey is dancing around making noises; the monkey next picks up an iron; the iron starts to fall, but a rope attaches itself to the iron; you look up the rope and see the other end attached to a kite; the kite now smashes into a house; you notice that the house is covered in paper; a shoe appears out of nowhere and starts to walk on the paper; the shoe smells badly, so you look inside and find a worm crawling around; the worm now for some reason jumps into an envelope; a pencil starts to write on the envelope; that pencil now jumps into a river with a huge splash; you notice that the river is crashing into a giant rock; the rock flies out of the river and crashes into a tree; this tree is growing cheese!; a euro now flies out of each piece of cheese.

> We view people who have razor-sharp memory ability as smart. Memory is hugely important in terms of how people perceive you

Read through the story just one more time while visualising everything described. Now, go ahead and recite all of the random words from memory by simply going through the story in your mind and recalling each major object that you encounter. You'll be amazed at how easy it is.

WHAT'S IN A NAME?

You've just learned what's called the story method, and it's just one of many powerful and fun techniques for improving your ability to remember things. It's important to note that the images in the story can represent much more than random words. The images could, for instance, remind you of key points to a speech or presentation that you need to give.

The principles that you applied using the story method can also be applied to helping you get better at remembering names. This will help you to get more out of business networking, as remembering names is huge in any profession. When you're able to call someone by their name, they feel - sometimes subconsciously - that they must be important to you. The opposite, however, is also true, especially if you have already met someone a couple of times. If you're still not able to remember their name, they feel unimportant.

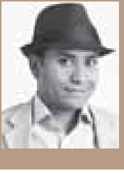
So if you meet a woman named Jane with beautiful hair, you might imagine that her hair is made of chains that are clacking together making a loud noise. The next time you see Jane and notice her hair, the imagery of the chains will come back to you and chain might effectively remind you of its rhyme in Jane. If you meet a man named Mike with large eyes, you might imagine a microphone or mic popping out of each of his eyes.

Although this might seem a bit strange, going through this exercise when trying to commit a person's name to memory is going to help tremendously in recalling the name later. This is the exact technique that I use to open presentations and name hundreds of people from the audience after having heard each name only once.

SLEEP SOUNDLY

One handy memory trick to use in conjunction with the tips above is to review important information just before you go to sleep. Many studies have shown that doing this causes your brain to process and solidify the information in your mind overnight. You'll wake up the next morning knowing the information much better than you did the day before.

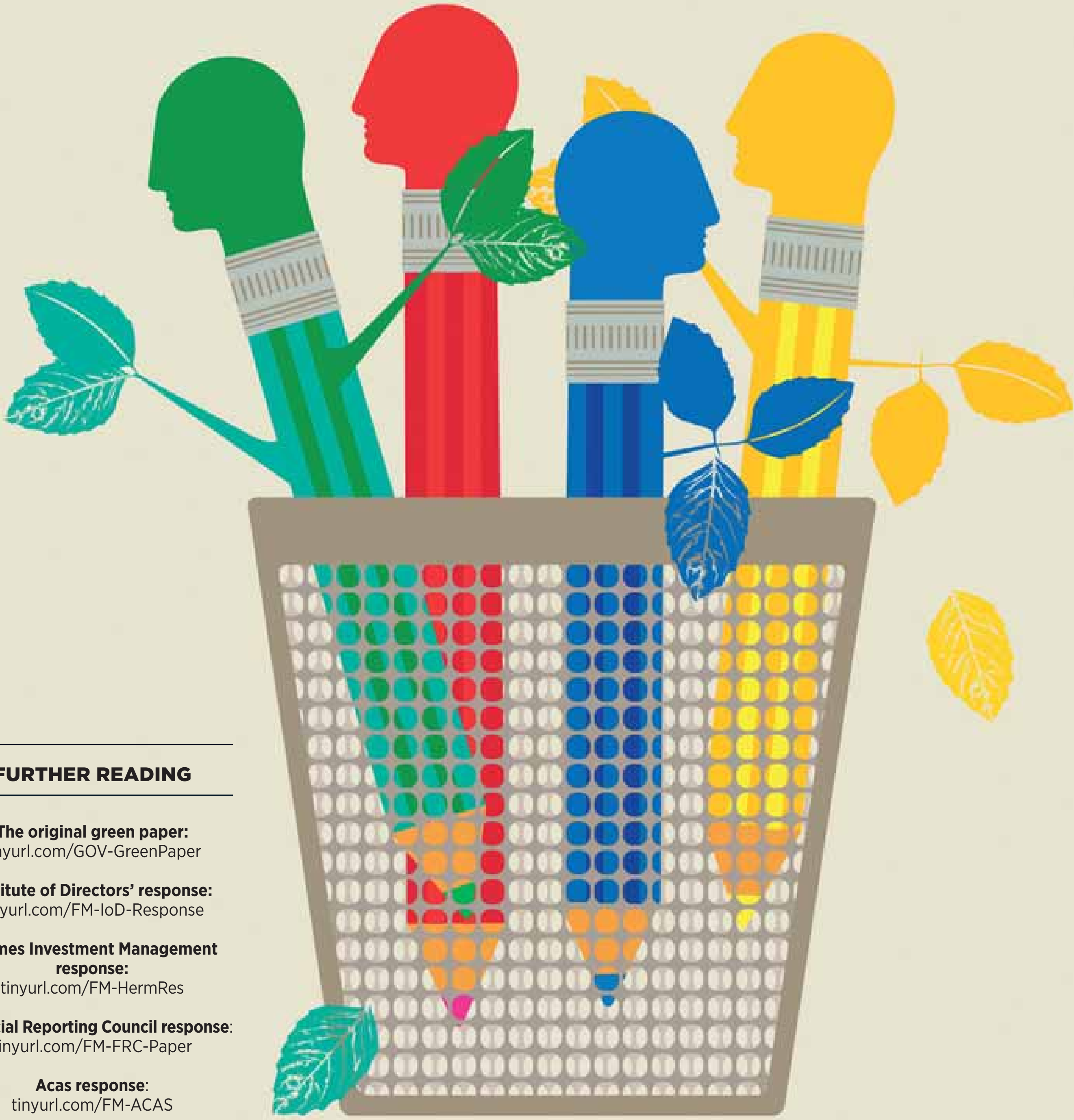
Make sure to follow through and use the tips in this article to force yourself to commit things to memory. It's fine to keep notes on paper or in electronic devices, but at least make an effort to use your memory more, as this will strengthen it. Your brain is incredibly trainable!



Chester Santos, author of ***Instant Memory Training for Success***
chester@chestersantos.com

WHICH WAY NOW?

With the consultation on the government's corporate governance green paper now closed, Nina Bryant looks at key themes and some responses from the business world



GILLIAN BLEASE/IKON

FURTHER READING

The original green paper:
tinyurl.com/GOV-GreenPaper

Institute of Directors' response:
tinyurl.com/FM-IoD-Response

Hermes Investment Management response:
tinyurl.com/FM-HermRes

Financial Reporting Council response:
tinyurl.com/FM-FRC-Paper

Acas response:
tinyurl.com/FM-ACAS

When prime minister Theresa May introduced the government's corporate governance green paper ahead of its official release last November, most media homed in on her observation that a significant proportion of board directors were drawn from a narrow professional circle. But the Department for Business, Energy and Industrial Strategy paper, for which consultation closed on 17 February, angled the argument slightly differently. It stated: "It is right that we look to build on our corporate governance strengths to equip us for the economic challenges and opportunities that lie ahead." In particular, the green paper highlighted three areas of interest:

- executive pay;
- strengthening the employee, customer and supplier voice; and
- corporate governance in the UK's largest privately-held businesses.

After the consultation closed, the Financial Reporting Council (FRC) announced it would undertake a fundamental review of the Corporate Governance Code later in the year. But what did other stakeholders have to say in response to the consultation?

ADDRESSING EXECUTIVE PAY

In the green paper the government acknowledged there is a "widespread perception that executive pay has become increasingly disconnected" from the pay of ordinary workers and long-term company performance. It also recognised the number of institutional investors for whom this had become a concern since reforms in 2013 gave shareholders in quoted companies a greater role in determining executive pay.

The paper invited views on the case for further change to the executive pay framework for quoted companies, offering several options for each of:
(a) shareholder voting and other rights;
(b) shareholder engagement on pay;
(c) the role of remuneration committees;
(d) pay disclosure; and
(e) long-term pay incentives.

There will be an extended article about remuneration, and an ICAEW comment, in the April 2017 issue of *Finance & Management*.

HOW THE EXPERTS RESPONDED

"We support [the option to] require the remuneration committee to consult shareholders and the wider company workforce in advance of preparing its pay policy. Our review finds that overall reporting on engagement with shareholders is low and more can be done to encourage this in line with the Code. We also support the option that chairs of remuneration committees need to have previous experience on a remuneration committee."

Simon Lowe, chairman, Governance Institute for Grant Thornton

"Our proposals seek to address some of the issues that have undermined the reputation of business. Where CEO pay has become disconnected from performance, shareholders should have the power to show the company a 'yellow card'. Firms that lose their advisory vote on pay or receive 25% or more vote against the directors' remuneration report for two consecutive years should face a binding vote on policy at their next AGM."

Paul Drechsler, chief executive officer, CBI

"The idea that discretionary incentive pay awards pay out irrespective of the outcome of a shareholder vote seems too lenient and at odds with public perception. We suggest there is merit in creating an escalation repercussion in circumstances whereby if a remuneration report fails to receive majority support then a further general meeting would be called within six months. The proffered solution we believe has the attraction of being an evolution of the existing regulations and retaining accountability with the directors."

Saker Nusseibeh, chief executive officer, Hermes Investment Management

LISTEN TO OTHER VOICES

Section two of the green paper specifically looked at strengthening employee, customer and supplier voices at boardroom level, and offered four options:

1. CREATING STAKEHOLDER ADVISORY PANELS

Boards could potentially create separate stakeholder advisory panels where directors could "hear directly from their key stakeholders and amplify voices with different backgrounds and perspectives". The paper claimed panels "would offer greater transparency into how well a company is addressing its stakeholder issues".

2. DESIGNATING EXISTING NON-EXECUTIVE DIRECTORS

Existing non-executive directors could chair meetings with the express purpose of making sure the decisions being made by the board are taking employee, supplier and customer positions into account.

3. APPOINTING INDIVIDUAL STAKEHOLDER REPRESENTATIVES

This third option was already off the table when the paper came out; this is partly because current rules do not preclude individuals being appointed to boards, such as in the case of First Group.

4. STRENGTHENING REPORTING REQUIREMENTS FOR STAKEHOLDER ENGAGEMENT

The final option relates to section 172 of the Companies Act 2006 and the idea of designing stronger reporting requirements in relation to divulging assessment of directors' performance in the annual strategic report. The current rules do not apply to small companies. ▶

HOW THE EXPERTS RESPONDED

"Organisations should voluntarily adopt the methods that best suit their circumstances rather than being required to meet a tick box regulatory requirement. Our recommendation would be that the government should consider options one and two. We would recommend the formation of external stakeholder advisory panels, chaired by the chair of the board or, if impractical, SID, and attended by at least one of the NEDs (on a rotational basis). It is the CEO's role to ensure any organisation engages with its stakeholders; it is also the responsibility of the chair to manage the board and with the NEDs to introduce challenge."

Simon Lowe, chairman, Governance Institute for Grant Thornton

"Mechanisms to hold directors properly to account for their actions do not always work effectively. This does not allow stakeholders to raise concerns, which may be connected to a lack of trust in business. Consideration should be given to the introduction of a 'super complaint' system, as there is in consumer law."

Stephen Haddrill, FRC

"A way forward may be to introduce a combination of the options. The key to ensuring employee voice at board level is strengthened will lie in how specific reforms are taken forward. The government may wish to reflect on... transparency and fairness in the selection of worker representatives; clarity about the constituencies from which representatives are drawn; and clarity about how the involvement arrangements sit alongside other mechanisms for facilitating employee voice and engagement."

Acas

"Companies are trying to improve by considering different options. A desire for high standards and competition are driving the right behaviour. Mandating a single option would not solve the problem. Instead, companies should still be required to explain how they've listened – and acted upon – the views of their employees and other stakeholders."

Paul Drechsler, CEO, CBI

WHAT ABOUT PRIVATELY-HELD BUSINESSES?

The third section offered the potential for reform affecting private companies and limited liability partnerships of which there are about 3,000 across the UK.

"These businesses are not expected or required to meet the same formal corporate governance and reporting standards as publicly listed companies, yet the consequences when things go wrong can be equally severe for other stakeholders," the green paper stated.

The paper reported that a decline in the number of public companies had coincided with a rise in the number of privately-held businesses since the 1990s. The green paper stated: "They are excluded from the higher levels of public scrutiny and formal corporate governance discipline associated with being traded on a public market."

While the paper acknowledged that most businesses operated above board, and that the likes of the Big Four were signed up voluntarily to the FCS Audit Firm Governance Code, it put forward two options for improvement: applying enhanced standards of corporate governance more widely and/or applying reporting standards more consistently.

HOW THE EXPERTS RESPONDED

"The government should be wary of developing a code for all private companies that would force small and micro-entities to adopt a governance model [that] would not be right for their business model. Of the UK's millions of registered companies, most are not listed or quoted on tradable equity markets. The overwhelming majority are SMEs or start-up companies that remain under the ownership and control of the founder or founding family. We would urge government to consider the IoD's already existing guidance for unlisted companies, which recognises principles of good governance that can be applied to firms of different sizes/fields."

Oliver Parry, head of corporate governance, Institute of Directors

"Businesses of sufficient scale – over 1,000 employees – should be subject to high standards of corporate governance. Government should measure its approach against several key tests – proportionality; avoiding duplication and creating a tailored approach."

Paul Drechsler, CBI

"The FRC stands ready to develop a governance framework for larger private companies. This would need to be tailored to take into account their specific and different ownership and governance arrangements. It should be underpinned by regulation as the Code is with the Listing Rule, recognising that private companies and their shareholders have a close relationship. It may be appropriate to introduce a requirement to report against a best practice code with private companies explaining their governance approach. If there was a regulatory requirement for reporting, thought would need to be given to how this would be monitored and enforced. Any governance standards for large private companies should also be the minimum requirements for companies with either a standard listing or which are quoted on the AIM market."

Stephen Haddrill, FRC

AND NOW?

Now the consultation has closed, the government will analyse the feedback and publish a summary in due course on the outcomes (tinyurl.com/GOV-GovReform). Time will tell whether fresh or amended regulation will be drafted for business. No doubt the review work announced by the FRC will also be eagerly awaited. Until then, high-profile cases, such as BHS, will ensure business conduct remains something of a hot potato for politicians and the public.

Industrial reinvention

Industry has always been a strong driver of economic success for the British economy, but maintaining this requires the right approach from UK government. David Adams explores how a new industrial strategy might drive progress

To what extent should the UK government intervene to improve the performance of UK industry? If you have strong feelings on the subject you now have a chance to express them directly to policymakers. January 2017 saw the publication of the government's green paper on industrial strategy, launching a consultation that runs until 17 April.

This is a policy area that seems to be important to Theresa May. She spoke about the value of "a proper industrial strategy to get the whole economy firing" when launching her bid to become prime minister in June 2016. Once in office she turned the Department for Business, Innovation & Skills into the Department for Business, Energy & Industrial Strategy (BEIS).

CO-OPERATE, NOT CONTROL

The green paper states that the strategy will neither direct the economy nor try to control industry from Westminster. Instead, the aim will be to "identify our competitive strengths, explore with industry the ways in which government can help and put in place institutions and relationships to sustain higher levels of productivity over the long term".

It lists 10 pillars that should drive the strategy: science, research and innovation; skills; infrastructure; business growth and investment; procurement; trade and investment; affordable energy; sectoral policies; driving growth across the whole country; and creating institutions to bring together sectors and places.

The green paper outlines actions already under way to support each of the pillars and new commitments related to them. For example, the government is creating an Industrial Strategy Fund for investments in technologies including robotics, clean energy and biotechnology. It also proposes investing £170m in new institutes of technology to deliver technical education in science, technology engineering and maths subjects.

Support for infrastructure includes the £40bn UK Guarantees Scheme – originally set up by George Osborne to encourage lending to projects in the wake of the financial crisis and now extended to 2026 after a disappointing initial take-up; the Private Finance 2 model for public/private finance partnerships; and planned investments in roads, railways and public transport, flood defence, increased broadband coverage and cyber security.

The government has invested an extra £400m in the British Business Bank (BBB) and given the minister for small business Margot James the title of scale-up champion, leading a taskforce to support high growth small businesses.

There are also pledges to set out a long-term roadmap on minimising energy costs for business; to provide more support to exporters; and to develop a more strategic approach to inward investment.

A WARM WELCOME

The green paper inspired some broadly positive reactions. Among representatives of advisory firms, Robert Hannah, COO at Grant Thornton, suggested that it could lead to the creation of an industrial strategy that was needed "to tackle deep-seated productivity issues, anticipate future needs, rapid change in the economy and the challenges and opportunities of Brexit".

Lee Hopley, chief economist at the manufacturers' association EEF, highlights the need for business to engage. "The first positive is that this is a consultation process," she says. "That's important because this isn't how it has worked previously. This is an opportunity to shape this strategy. This isn't just a set of actions – it will evolve: you need to be constantly thinking about what else needs to be improved in terms of infrastructure or skills, for example. But there also needs to be some consistency. The government needs to stick with these pillars – we don't want a new set being proposed a couple of budgets down the line."

FAMILIAR INPUT

A number of the ideas highlighted in the green paper will be familiar to anyone who has seen ICAEW's written submission to the BIS Select Committee's inquiry on industrial strategy, completed in autumn 2016. It called for sector-specific support for the professional business services and financial services sectors, and for the technology, engineering, science and creative industries. It focused on the need to improve infrastructure (including digital and social infrastructure) and skills. It highlighted the value in connecting clusters of similar and complementary businesses; of improving corporate governance and supporting entrepreneurs and exporters – the latter with export vouchers or tax credits as well as advice. And it stressed the need to guarantee equivalent sources of funding for start-up businesses to those currently available through EU programmes.

> "What would an FD do to deliver this and make it relevant? As any accountant will tell you, what gets measured gets done"

Stephen Ibbotson, director of business and commercial at ICAEW, says he would have liked to see more detail in some parts of the green paper. "There's a lot in there about skills, training, infrastructure, innovation and research, but no mechanism to measure how they are delivered," he says. "What would an FD do to deliver this plan and make it relevant in their business?"

Ibbotson agrees it could be difficult and possibly counterproductive to create key performance indicators to be used across multiple sectors, but suggests that an overall productivity target, perhaps broken down by sector, could be of value: "As any accountant will tell you, what gets measured gets done." ICAEW's submission to the BIS Select Committee recommended adopting a national target for growth in productivity of between 2% and 3%.

CHALLENGE FOR INDUSTRY

In relation to the 'cultivating world-leading sectors' pillar, the green paper proposes "an open door challenge" for industry to come to government with proposals for sector deals. These could focus on addressing regulatory barriers, promoting competition and innovation, increasing exports, commercialising research and strengthening supply chains. The document cites relevant work already under way in life sciences, around

ultra-low emission vehicles, in the nuclear industry and in the creative industries. The sectoral approach will need to be complemented by initiatives related to the 'driving growth across the whole country' and 'creating the institutions to bring together sectors and places' pillars. Local enterprise partnerships (LEPs), city devolution deals and the Local Growth Fund may all be relevant here.

The green paper also stresses the value of clusters of businesses in specific areas, perhaps related to universities or incubators/accelerators, or to a large employer; and extols initiatives such as the Northern Powerhouse Partnership and the Midlands Engine, which will coordinate investment in infrastructure and skills in partnership with local authorities.

> "Can we take that approach and apply it to other sectors? Readers of *Finance & Management* may well have roles in such collaborations"

Investments directed at specific parts of the UK include £556m for the Northern Powerhouse. The green paper also proposes the establishment of Ministerial Forums on Industrial Strategy within the devolved administrations in Scotland, Wales and Northern Ireland, to work with central government on industrial strategy.

LEADING THE WAY

Co-ordinated progress seen in recent years in the automotive sector is cited in the green paper as an example of how a sectoral approach might work. It points to the work of the Automotive Council, alongside industry groups and government, in focusing on specific issues affecting the sector, such as those related to the supply chain. It also refers to the work of scientific and technical research and training institutions serving the sector.

David Bailey, professor of industry at Aston Business School, also commends this work and similar initiatives in the aerospace sector, including the work of the Aerospace Alliance. "In the automotive industry, this work helped to identify technology roadmaps, skills shortages, or key gaps in the supply chain, then enabled the development of policy interventions to tackle those issues," he explains. "The question will be, can we take that approach and apply it to other sectors? The readers of *Finance & Management* may well have roles to play in such collaborations." Readers of this publication may also play an important role in determining the impact of the strategy at regional or local level. Perhaps the biggest problem in this instance, Ibbotson suggests, is setting out how regional/local and central government bodies interact to support businesses. "LEPs need resources to build those partnerships," he says.

Another key element in the strategy will be improving access to

CASE STUDY: **RIDING IT OUT**

The Norton Motorcycles brand was revived successfully by UK businessman Stuart Garner, now chief executive of Norton Motorcycles, in 2008.

The company's headquarters and manufacturing facility are at Castle Donington in Leicestershire and it is now selling bikes in markets across the world, including the US and Australia.

"Issues around a good, skilled workforce and easy to access finance are key drivers for our business, now and beyond Brexit," says Garner. He claims Norton will be in a healthy position whatever the outcome of Brexit negotiations.

"We've got strong growth and an appetite for the brand around the world; and we're growing the business to meet that demand," Garner says.

He also supports previously stated government policy (under former chancellor George Osborne) to try to rebalance the economy with a stronger focus on manufacturing; and is a big supporter of initiatives to introduce more apprenticeships. He thinks some of the government's current plans for infrastructure improvement are focused on the wrong priorities. For example, he would like to see much better investment in the existing, creaking rail network, rather than in HS2.

Garner would also like to see an even more competitive tax regime for business in the UK. "Coming out of Europe, there is an opportunity for us to set ourselves up as a location with a good tax regime, great communication links, and the great global business hub we have in London," he says. "Hopefully the politicians will catch on to the opportunities around improving our skillset and finding finance."

CASE STUDY: **COOLING TECHNOLOGY HOTS UP**

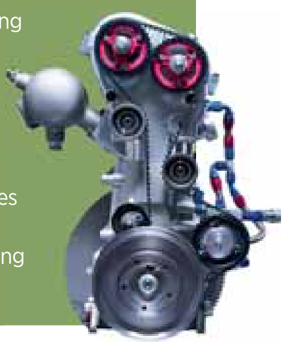
Engineering company Dearman's core technology is an engine that runs on liquid nitrogen (a clean by-product of industrial processes), with applications for cooling, refrigeration and air conditioning; offering an environmentally friendly substitute for diesel in many applications. The company was founded in 2011 and is still pre-revenue, but has secured over £30m in private equity and grant funding.

Its strategy includes targeting rapidly growing markets in emerging economies where large quantities of food are wasted because of difficulties accessing refrigeration. A trial is under way in the UK with the supermarket Sainsbury's, cooling delivery vehicles in London. Further trials will run in the UK and Europe this year.

Dearman commercial director David Sanders acknowledges the support the company has received from government, including grants from Innovate UK that were used to create an effective supply chain.

For disruptive technology/engineering companies like Dearman, "half the work is about the technology, but half is about the business model," Sanders explains. "In our case it's about providing cooling as a service – you could think of it as a leasing model," he explains. "The customer can see this as economically attractive and environmentally friendly – and low risk as well."

The biggest concern at the company in relation to Brexit is the UK will no longer be committed to EU environmental regulations, says Sanders. But with the company currently planning large-scale production it is possible that any barriers to trade as a result of Brexit could mean it sets up overseas subsidiaries and outsources manufacturing to those countries instead of building its products in the UK.



finance. ICAEW has published a joint discussion paper, *Boosting Finance for Engineering Technology*, with the Institution of Engineering & Technology (IET), based on work with CEOs at a range of engineering and technology companies from start-ups to long-established brands. Questions considered how best to boost investment in these sectors, how public and private investment might be combined to do so, and the efficacy of government incentives for R&D.

The research findings highlight the successful application of grants and finance supplied by Innovate UK as a way to make investments in engineering or technology companies look more attractive and less risky, as well as forming a route to EU programme-based funding.

ICAEW has also partnered with the Creative Industries Federation to publish *Creative Industries – routes to finance*, a guide to sources of funding and investment for arts, cultural and other creative industry organisations. The document is designed to raise awareness within these industries of the full range of funding sources available, including rewards-based crowdfunding and peer-to-peer lending, alongside private investment and venture capital. It also aims to help organisations put themselves in the best possible position to make the most of these opportunities.

One thing companies operating in all sectors have in common is a need for effective financial management, says David Petrie, head of ICAEW's Corporate Finance Faculty. He believes development of the industrial strategy will encourage further announcements like that made recently by the BBB and the European Investment Fund of a £30m fund for innovative UK SMEs, backed by the EU's Horizon 2020 research and innovation programme. This is exactly the type of funding for which ICAEW and IET have highlighted a need, says Petrie.

Hopley would like to see more prominence given to steps being taken to further reduce the costs of doing business. "With things like the

> "Our product is innovation, so we need the best brains and the best market contacts. Limiting immigration is a problem"

living wage, auto-enrolment and apprenticeship levy, that commitment to keeping the cost base low is really important," she says. "Not adding to the cost burden on business if those costs are not being added to for companies in other countries should be a guiding principle of an industrial strategy."

Another area that many observers, including some within ICAEW, would like to see focused on in the industrial strategy is government policy in relation to takeovers of UK firms by foreign companies. "Policy around hostile takeovers needs to be addressed, with perhaps the introduction of more checks and balances, so that companies that don't want to be taken over don't have to spend time fending off takeovers," says Bailey.

THE BREXIT FACTOR

Whatever its final form, the industrial strategy will be at the mercy of the economic forces unleashed by Brexit. It is true that the effective devaluation of sterling has been good news for some UK exporters; but Peter Hewkin, founder of the Centre for Business Innovation, which facilitates the creation of collaborative 'communities' of organisations in the Cambridge region, is among those more preoccupied with longer term negative impacts.

Cambridge is cited in the green paper as an example of the results seen when innovative new companies cluster alongside educational and research institutions, with the document suggesting further progress should follow planned improvements to transport links and implementation of the Devolution Deal for Cambridgeshire and Peterborough.

For Hewkin, such gains could be offset to some extent by the consequences of Brexit. "Our product is innovation, so we need the best brains and the best market contacts," he says. "Limiting immigration, whether that includes students or researchers, is a problem. Not allowing us to hire the best people from all over the planet is likely to have a bigger impact than the industrial strategy." Bailey also has concerns, pointing to problems that may face companies managing complex supply chains across borders if additional barriers to trade are introduced.

Clearly, in an age of contradictory economic forces - Brexit and new trade deals, globalisation and protectionism - a new industrial strategy will have very little in common with the truly interventionist strategies used by previous governments.

It will depend, above all, on the efforts of individual companies, in particular the efforts of CFOs and FDs, who determine how companies use resources strategically and help to determine how they work with partner organisations to develop products, services and markets. "CFOs are the key stakeholders in this debate," says Petrie.

"They should be actively seeking to engage in the industrial strategy, in whichever sector they work." ■

You can contribute to the consultation online at tinyurl.com/FM-IndCon

CASE STUDY: **HIT OR FOLD?**

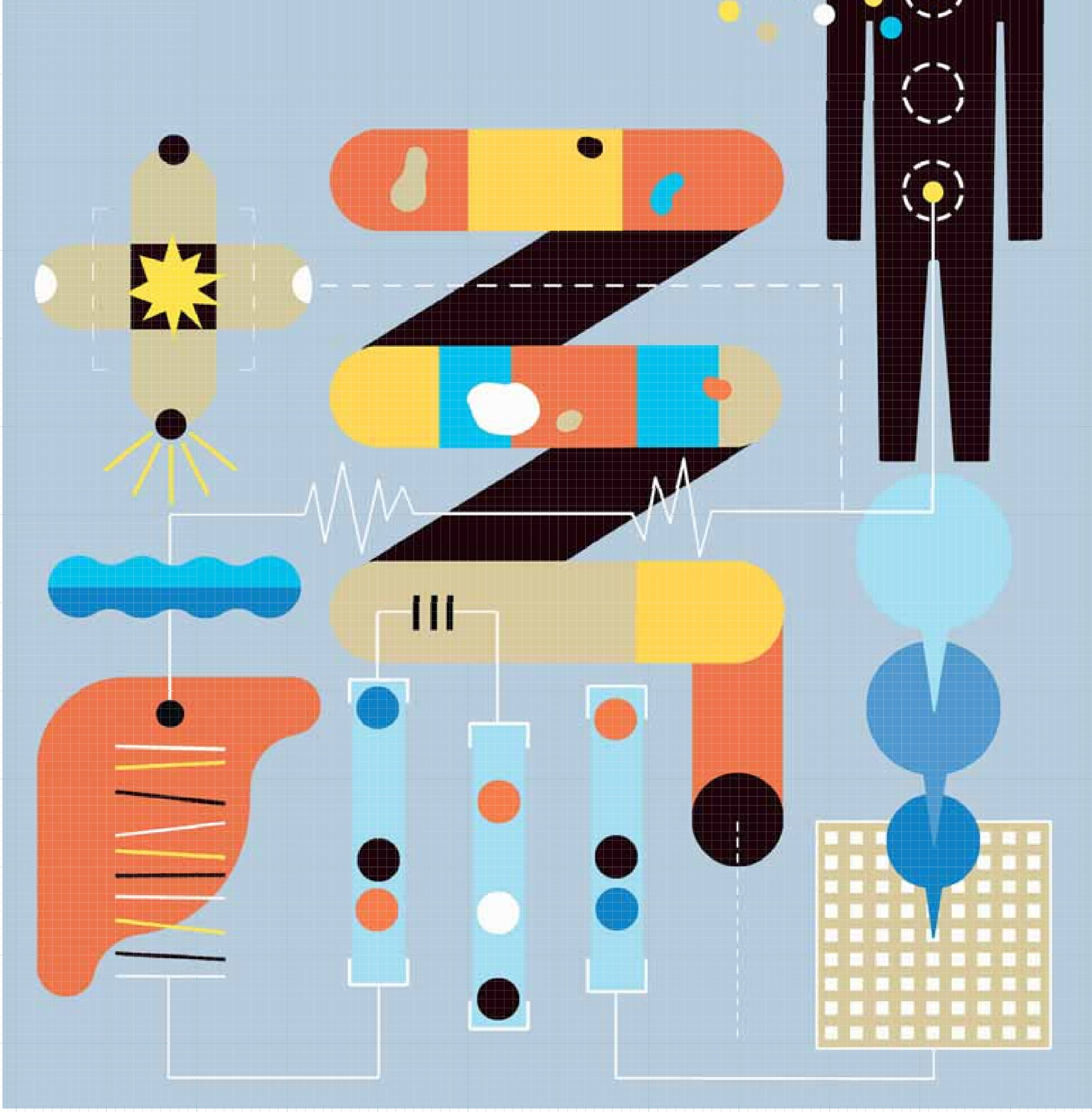
The first folding Brompton bicycle was designed and built by Brompton founder Andrew Ritchie in his London flat in 1975. Today the company employs 240 staff and builds 45,000 bikes each year at its London factory. The bikes are sold to customers in 45 countries around the world. "The industrial strategy is most definitely a positive," says chief financial and business development officer Lorne Vary. He is particularly pleased to see a focus on manufacturing. "We need to inspire a new generation with the idea that manufacturing is exciting. For our economy to grow we need to export more and we need to invest far more in skills, ensuring young people can really make a difference when they enter the business world. We are keen to explore what this means to apprenticeships and how we can invest in training the next batch of engineers, innovators and ICT professionals."

Brompton is also a company that prides itself on continuous research, development and refinement of its bicycles. Vary is also pleased to see signs of ongoing support for R&D from the government. "Through R&D tax credits and government funding we have been able to invest in more staff, more technology and we are now on the cusp of launching a new bike that will revolutionise urban transportation," he says. "More support will enable us to invest more in R&D and will hopefully inspire other companies to do the same."

Vary also does not see Brexit as a reason for pessimism: "Yes, we have uncertainly with how we will trade with Europe in the future but we are where we are. Hopefully the aftermath of Brexit will not be all doom and gloom as was first feared. Just look at sterling versus the euro: after the initial madness things have stabilised in the past couple of months."

DEBUNKING SAMPLING MYTHS

Matthew Leitch explains some widespread myths about sample sizes and illustrates some effects that may surprise you



Finance professionals are not usually required to be statisticians, but we do acquire and analyse data, and sometimes need to think about how far we can generalise from that data. At times we might decide against a simple survey or other data-gathering exercise because we overestimate the amount of data needed for a reliable conclusion. At other times we may err the other way and generalise too far.

BIG POPULATIONS

People often overestimate the sample size needed for surveys. Typically, they think a sample of several hundred is needed when in fact fewer than 100 would be enough. One reason for this is the tendency to think that samples need to be a particular percentage of the population sampled. You might even see samples expressed as a percentage of the population.

It is true that larger populations need larger samples for the same level of confidence, but in percentage terms the sample gets rapidly smaller as the population increases, and eventually there is no appreciable gain from a larger sample.

To illustrate, imagine you want to establish an error rate so that you are at least 95% confident the true error rate lies within plus or minus 5% of your best estimate. This is quite a high level of confidence and requires a fairly large sample (for this illustration I have gone back to first principles and simulated sampling using Bayes Theorem rather than using a sample sizing formula).

Figure 1 shows how the sample size, needed to maintain confidence, grows with population size. Figure 2 shows that the sample as a percentage of the population starts at 100% but soon dwindles to less than 20%. Later in this article we will see a sample that does not get beyond 14, ever.

It is a myth that the sample size needs to be a fixed proportion of the population.

The confidence you get from a sample also depends on the type of conclusion you want to draw, and on the reality of the data

PRE-CALCULATION

Another cause of overestimating the required sample is typified by three myths.

1. Statistical confidence is solely driven by the sample size.

2. Sample sizes can and should be calculated before doing a study.

3. The confidence level sought should always be 95%.

In fact, the confidence you get from a sample also depends on the type of conclusion you want to draw and on the reality of the data. It is true that you should make some sensible estimates to help you plan your research, but those estimates will inevitably involve guessing what the results of your research will be.

The general principle is that the finer the distinction you want to make, the bigger the sample needs to be. To illustrate, suppose you plan a poll to find out which of

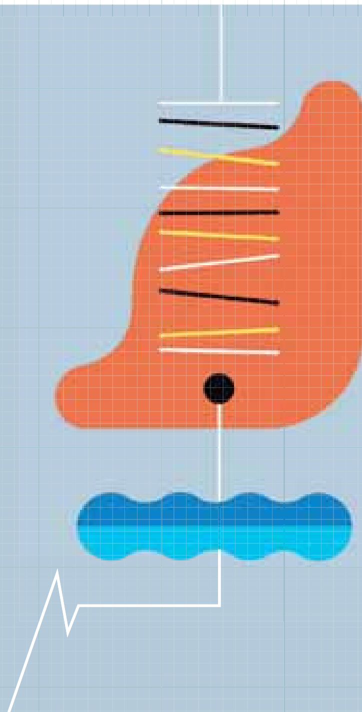


Figure 1: **A bigger population needs a bigger sample, but the relationship flattens off**

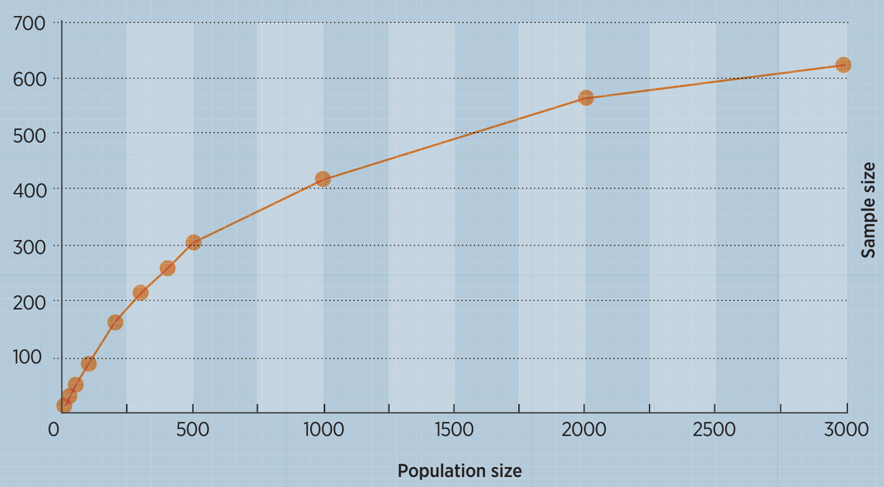
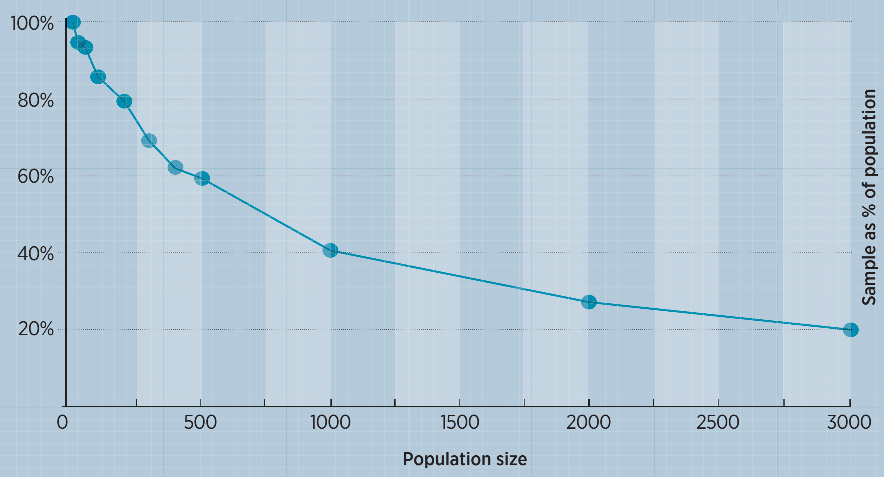
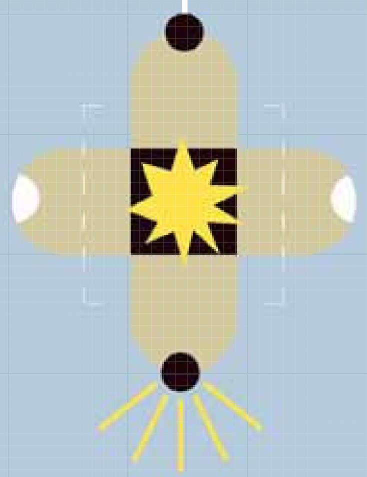
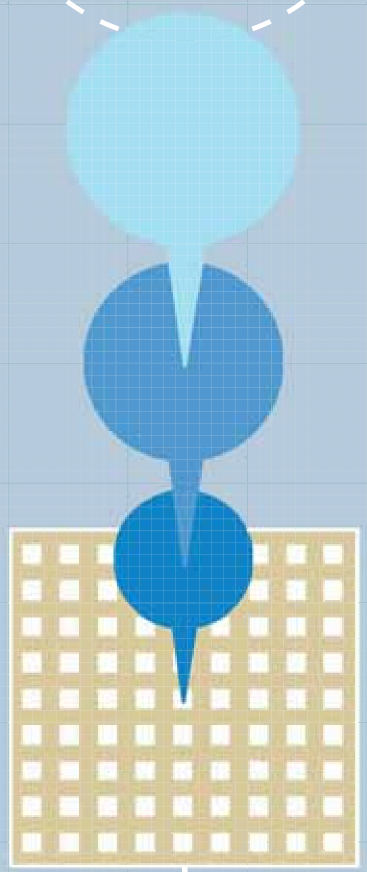


Figure 2: **A bigger population needs a smaller percentage sample**





> Models built using full detail are more reliable, and their robustness is far better when detail is retained



two products is preferred. You can only choose one product to invest in so you will choose the preferred product and ignore the other, regardless of the strength of preference. Figure 3 shows how the sample size (to be 95% sure product A is preferred) varies with the actual rate of preference in the population. I've assumed a population of 500 and used a simulation again.

When the true preference across the whole population is 80% you only need to test 14 items on average to be 95% sure of the majority. When the true preference is just 52% then you need to test nearly the entire population. Incidentally, that 14-item sample is still about equally convincing if the population is 3,000 instead of 500 – population size increases make almost no difference.

Back when I was an external auditor an unusual regulatory audit was requested and the client wanted to know what sample size should be tested to be 95% sure the error rate of a process was no more than 3%. This sounds impressively statistical but showed a fundamental misunderstanding. The sample size needed would depend on the actual error rate of the process. If it was close to 3% we might need a huge sample. If it was actually greater than 3% then no sample would be big enough.

AGGREGATION

Many of the data points we deal with are really summaries of detail below, such as monthly totals. What difference does that make? It is a mistake to think that data points are just data points or to imagine that summaries contain all the information in the detail below.

To illustrate, here's what happens at different levels of aggregation when you do an ordinary regression of one variable onto another. An example of this would be trying to capture the relationship between sales effort and sales achieved across many sales people or teams. In this completely fictitious illustration (Figure 4) the most detailed level is with 1,024 data points; the next level has 512 points by just averaging two data points from the full detail; the next level has 256 points by summarising again, and so on.

In this illustration the models built using the full detail are much more reliable, and their statistical robustness (shown in Figure 4 by the lower p values) is far better when detail is retained.

So if you think some variables are related, make a scatter plot and do regression using the least summarised values possible, not monthly or geographic totals or averages.

MULTIPLE REGRESSION

The power of modern statistical software can be intoxicating, and this leads to another rather common myth: the idea that regression with multiple predictor variables doesn't require much more data than other procedures. The problem lies in the contrast between ideal and real-life datasets.

With *ideal data* the performance of even multiple linear regression (the simplest, most traditional option) is excellent, easily finding the weight of 10 drivers from just 20 cases. With 50 cases it comfortably deals with some non-linearity or some multi-collinearity – two imperfections that challenge linear regression.

And yet, despite this apparently amazing performance, I have found multiple regression to be a bag of nerves with most real datasets. The weights recovered are unreliable and influenced by data that should not have any effect; often, nothing useful is found.

TWO POWERFUL FACTORS

To understand this we need to consider two factors that have a powerful effect on regression success: the number of variables that truly drive the output, and the number of those variables we use in the regression (as Figure 5 shows).

In most real-life regressions the outputs are, in truth, driven by many drivers and we have data for hardly any of them. That's why multiple regression is often disappointing.

In the illustration used to create Figure 5, I assumed that each driver was equally important to the output, but you can see that as the number of drivers grows, the importance of each individual driver shrinks.

If the drivers are not equally important and we are interested in one of the less important drivers, then the required sample size can shoot up. For example, if you try to find the weight of a factor and it is in fact just one tenth of the importance of each of the others, then the number of cases needed to estimate its importance jumps from 50 to nearer 5,000 (these are very rough figures just for illustration).

Another more subtle myth is the idea that the number of cases you need rises with the number of variables you use, so if you are struggling you can always cut some variables out of your model. In reality regression does better if it has data for more of the true drivers, even if this means dealing with more variables. The problem is

Figure 3: **As the actual rate across the whole population gets further from 50%, the sample needed to be confident that it is greater than 50% gets rapidly smaller**

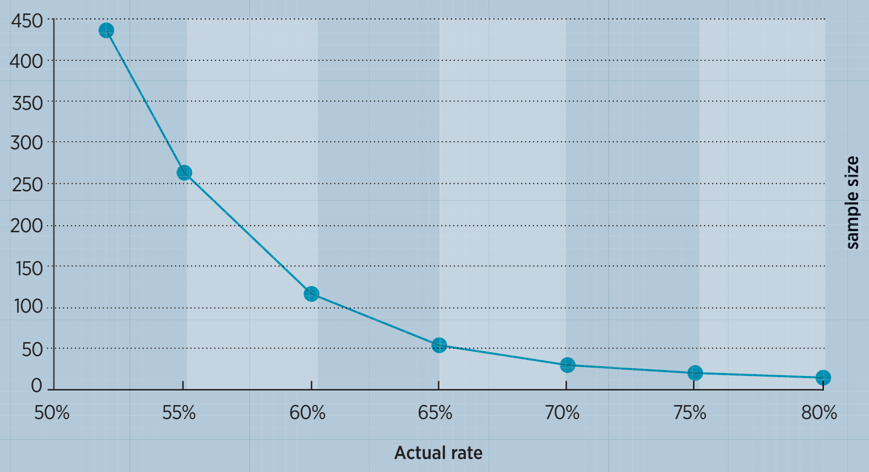


Figure 4: **Summarising data points by successively averaging from 1,024 points to just four reduces statistical confidence as measured by the p values.**

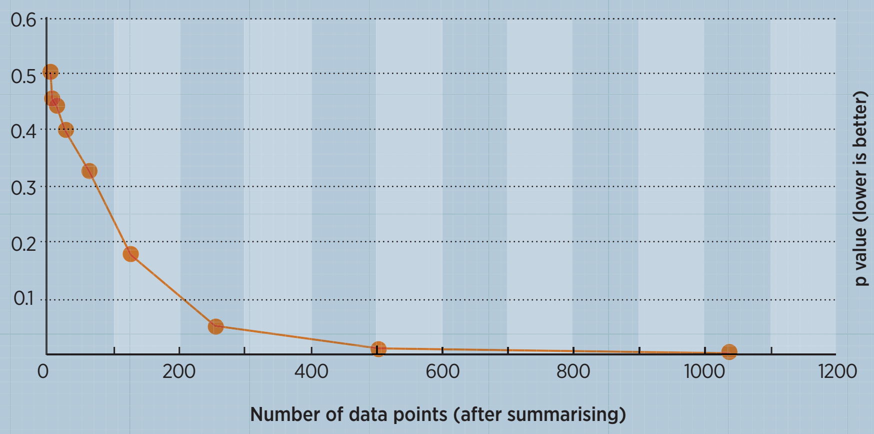
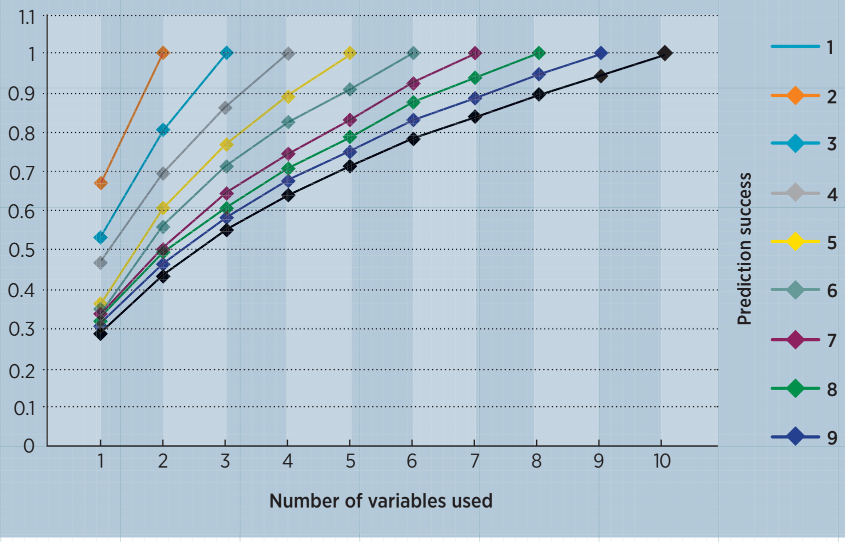


Figure 5: **Each curve represents a different number of variables that collectively and truly drive the output. The more drivers there are, the harder it is to predict successfully, but using more of those drivers in your regression increases prediction success (measured by correlation between predicted and actual values in a separate test sample)**



It is a mistake to think that data points are just data points or to imagine summaries contain all information in the detail below

not the number of variables you use but the number of variables that truly determine the output. It is better to use all you have that seem to be relevant.

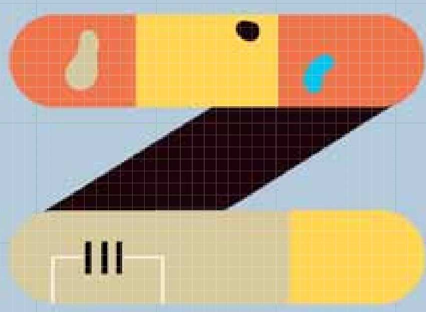
Regression struggles when it lacks a full set of driver variables. If we then ask it to work out the importance of a minor variable then the cases needed for statistical confidence skyrocket. We need big data to stand a chance of learning something reliable.

Having said that many cases are needed to confidently estimate the weight of individual factors, things are very different for prediction accuracy. Here, using bigger data is not important and 50,000 cases are little better than 500. What really makes a difference is finding and using more of the variables that truly drive your target.

CONCLUSION

We have seen that sometimes the sample needed for useful conclusions is smaller than we might think, and sometimes larger. The number we really need can only be guessed in advance because it depends on what the truth is, and we only know that after analysing the data.

In general we will be more successful with statistical analysis if we study effects that are strong and clear, preserve detail, use values for more of the variables that are important, and are content with modest conclusions rather than trying to discover tiny points from variables that give only part of the picture.



YENPITSU NEMOTO/IKON

Look to the future

The Finance for the Future awards recognise businesses delivering sustainable models and long-term value. We remember previous winners as this year's nominations open

Business success depends on a wide range of elements; but for many, environmental and social factors are much more prevalent than before. Whether this is because of risks from resource constraints, energy costs or customer pressure, we believe that the accountancy profession has a huge role to play, not only in describing and quantifying these risks and opportunities, but also in setting the strategic response to them, either as trusted advisers or as senior executives and board members.

The Finance for the Future awards, founded by ICAEW and HRH The Prince of Wales's Accounting for Sustainability Project six years ago and now in partnership with Deloitte, recognise financial leadership in developing sustainable business models that deliver long-term value.

Since its inception, the programme has been a key platform for organisations to showcase their initiatives demonstrating that finance leadership and innovation are essential in creating the businesses of tomorrow. Past winners include organisations such as Unilever, SSE, The Crown Estate, United Utilities and Coca-Cola Hellenic Bottling Company. These companies have not only demonstrated the significant benefits of embedding sustainability within their businesses but also showed how finance has led the way in moving towards a more sustainable economy.

Positive long-term impact, collaboration and integrated thinking shone through at the 2016 awards (pictured). The initiative of Bridges Ventures, 2016 winner of the new Investing and Financing category, was all about impact investing which brought together social investors wanting to foster social impact with social enterprises wishing to grow. Water and wastewater company United Utilities, winner of the new Communicating Integrated Thinking award, reaped the benefits from all the ways that integrated thinking had transformed both its processes and performance. Public Sector and Third Sector award winner Climate Disclosure Standards Boards demonstrated that collaboration was the solution to bringing together the world of sustainability and corporate reporting when creating their framework.

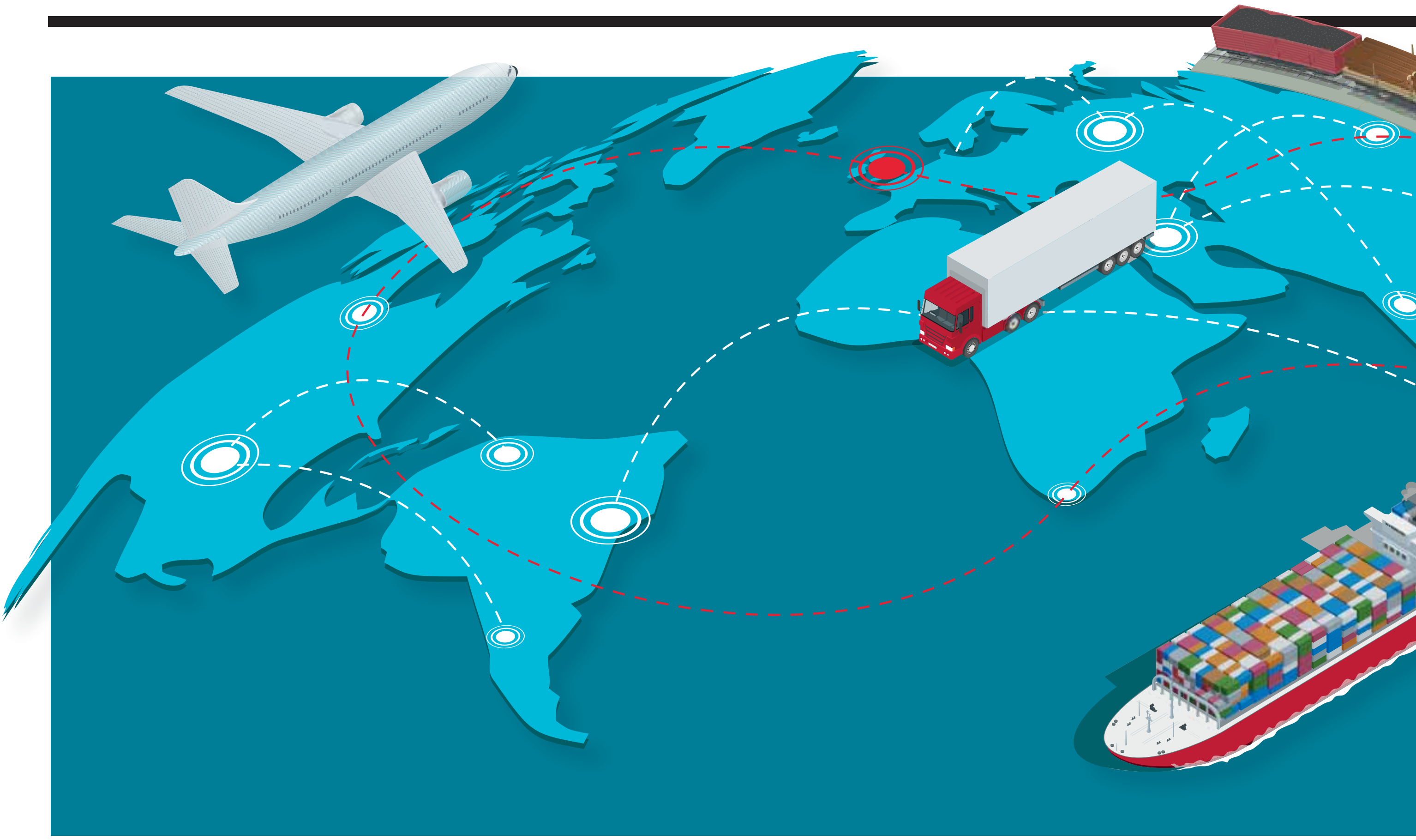
This year's awards will feature six categories - four for organisations: large business; start-up and growing enterprises; public sector and third sector; and communicating integrated thinking. One category will be for investors and financial services: investing and financing. And one category for individuals: innovative idea.

To read the 2016 awards winners' success stories and all the past winners' case studies, visit financeforthefuture.org/previous-winners

The awards are free to enter and open to all organisations globally; the deadline for entry submission is 5 May 2017. To submit an online application, please visit financeforthefuture.org

Russ Houlden, CFO of United Utilities, who won the award for Communicating integrated thinking said: "We are proud to have won this award against strong international competition. It recognises our unique Systems Thinking approach to running the business and the way in which we communicate the benefits to investors and other stakeholders. This reinforces our already strong ESG credentials which are a source of pride for our employees and a USP when we choose to recruit externally."

Gerhard Seidl, Coca-Cola HBC group supply chain finance director, who won in the Large business category said: "Winning was recognition for our efforts to actively improve our sustainability performance. This award has brought a lot of interest in our processes applied within and outside our company."



TRADE U-TURN

Despite declining numbers of exporters, the pressure is on UK plc to raise its exports game. **Nigel Hastilow** offers a roundup of the latest measures aimed at tackling the problem

Back in the days of the Merchant Venturers Britain was one of Europe's great trading nations doing business around the known world. Later it was an industrialised nation selling its inventions and infrastructure across every continent – Birmingham was 'the workshop of the world'. Today we don't manufacture as much, but we still sell goods and, more importantly, services to almost every country in the world.

We are, however, no longer a great trading nation. The UK's share of global trade has been falling throughout the past century. We're now 10th in the global export table with 2.7% of world trade – way down from before the First World War, when Britain controlled 50%. This fall is more to do with the rapid development of world economies than with the decline of UK manufacturing, but both play a part.

THE EU DILEMMA

Access to the European single market hasn't helped much. We have become such an all-consuming country – we are only too happy to import more from the EU than we send across the Channel. In December 2016 Britain added £7.7bn to its trade deficit with the EU.

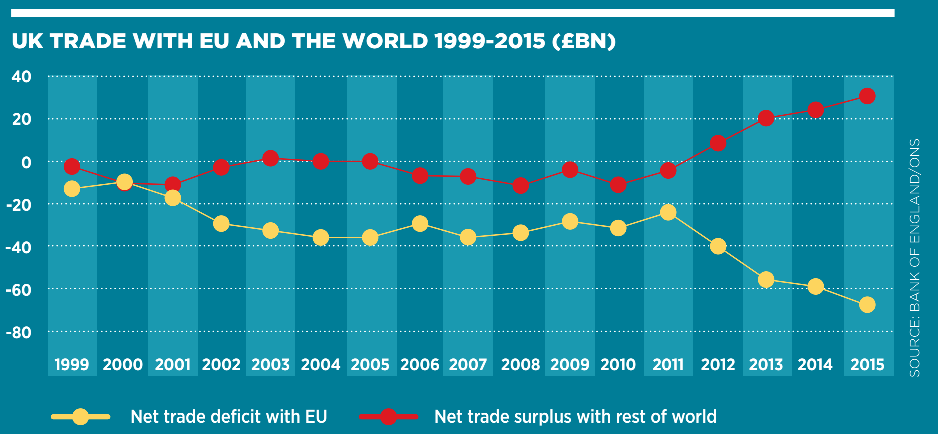
It could be argued that abandoning Commonwealth trading links in favour of the EU made Britain more complacent and less outward-looking. Indeed, the single market has not been particularly beneficial to Britain's balance of payments. In 2015 we enjoyed a trade surplus with non-EU countries of £31bn, and a deficit with Europe totalling £67.7bn (see table). So far, there is little indication that Brexit has changed much. However, the fall in sterling's value should lead to a boost in cheaper exports and a fall in expensive imports.

OUR EXPORT STRUGGLE

Setting to one side the daily political debates about what leaving the EU will actually mean to the average business, the question is whether that average business is actually looking beyond the horizon and searching out customers in the global market. The government is so concerned it has set up a whole new ministry, the Department for International Trade (DIT), no less. This has absorbed what used to be the government's export arm, UKTI, and is anxious to persuade businesses to 'make Britain great again', to coin a phrase.

The aim of seeing Britain's exports reach a value of £1trn by 2020 will not be reached, but as international trade secretary Liam Fox says there is nothing wrong with being ambitious. However, Fox didn't get off to a great start in this job after he was quoted complaining that Britain's businessmen would rather be on the golf course than out developing new markets.

While this may be a gross calumny, there is a tiny element of truth in his statement, because the proportion of companies exporting to the EU or anywhere else is actually shrinking. To reach its target the department reckons it needs to increase the number of exporters from 228,000 today to 288,000 in three years. It's going to be an uphill struggle.



10.4%
of British firms are currently exporting overseas, falling from 10.8% in the last year

26,000
British businesses give up exporting overseas every year

24,000
British businesses start exporting every year

FEWER EXPORTERS

The proportion of British firms exporting actually fell from 10.8% to 10.4% in the past year, and the churn is alarming – 26,000 exporters give up selling overseas every year and are replaced by only 24,000 newbies. To make matters worse, larger, more valuable exporters are, to quote one expert, "flowing out of the bucket at a much greater rate than new, mostly sole trader and micro firms are being put in".

It's not clear why so many businesses stop exporting, though in many cases they only started by accident after a customer sought them out. However, this indicates one of the major challenges Fox faces as he tries to demonstrate that leaving the EU will be beneficial to our balance of payments.

However, apart from big global companies, the problems facing small- and medium-sized businesses are quite basic. For them, developing new markets can be time-consuming, fraught with the difficulties of language, culture and regulation. These barriers often make it seem like exporting is simply too much trouble. Businesses that make one false move in a new, possibly strange, environment can be badly burnt, and the smaller the enterprise the greater the danger.

TIME FOR INCENTIVES

One way of reducing this risk, originally advocated by ICAEW members in business over the past two or three years, is to introduce a financial incentive to encourage SMEs to export. The original idea of export tax relief, along the lines of research and development credits – that have worked pretty well for some time now – has morphed into a voucher system instead.

Under the proposed scheme, companies would qualify for taxpayer-funded vouchers that could be used in part or full payment of the costs of seeking out new customers abroad. This might be for something as straightforward as the price of a plane ticket or as complicated as obtaining advice on the tax system in a new market.

Ministers and officials at the DIT are now looking seriously at these proposals, which might provide one answer to the question of why British businesses don't export as much as they might do.

OUR CHANCE TO HELP

At the same time, the DIT is changing its approach toward export advice. In the past, it has employed a small army of experts who offer their services to mainly medium-sized businesses. In future, the aim is to employ a smaller number of 'salespeople' who will make greater use of the existing private-sector expertise. This presents a potentially valuable opportunity for ICAEW chartered accountants with the skills to help SMEs interested in expanding their operations.

One of the arguments used to encourage exporting is that businesses that do trade internationally are more efficient, have better products and make greater profits. The problem with that argument is: which came first, the exports or the dynamic business?

Businesses that make one false move in a new, possibly strange, environment can be badly burnt, and the smaller the enterprise the greater the danger

Nigel Hastilow,
director, enterprise, ICAEW

Technical updates

Our regular roundup of legal and regulatory change

TAX

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

PENALTIES FOR ENABLERS OF DEFEATED TAX AVOIDANCE SCHEMES

The purpose behind these provisions is to discourage those who help facilitate tax avoidance schemes by levying a penalty on them when a scheme has been defeated.

A discussion draft was published last August and the Tax Faculty submitted its response (ICAEW REP 153/16) suggesting a number of significant changes. They wrote in: "We believe that the proposals as currently drafted are far too widely targeted and could catch ordinary commercial transactions and damage the UK as a place to transact business.

"The proposals need to be revised so that they are clearly targeted at the small but persistent minority engaged in exploiting the UK tax system in ways not intended by parliament. We believe that the proposals can be significantly improved."

The government listened to their concerns and the draft legislation is now better focused on the target.

You can read the faculty's detailed response at ICAEW REP 20/17.

TERMINATION PAYMENTS RULES NOW EVEN MORE COMPLEX

The Tax Faculty suspects that under the new rules the average employer is more likely than they currently would be to require professional advisers to help calculate the taxable and non-taxable elements of termination payments.

The calculation of non-contractual payments in lieu of notice will be very complicated, and differ across employers. In particular, ascertaining basic pay is likely to cause difficulties as it will be necessary to dissect pay to distinguish different elements such as contractual overtime, contractual pay in lieu of notice and contractual bonuses from discretionary elements as well as deferred elements of pay, which are common in the financial services sector.

NEW REPORT ON HOW TO HELP THE SELF-EMPLOYED

The Royal Society for the encouragement of the Arts, Manufactures and Commerce (RSA) has published a report on self-employment and microbusinesses in the UK, entitled *The Entrepreneurial Audit*. This was carried out by the RSA's Action and Research Centre in partnership with Crunch – an online accountant service for freelancers, contractors and small businesses.

The Entrepreneurial Audit looks into tax issues and into wider aspects that affect small enterprises, eg, welfare, pensions, business support and regulation. The report suggests closing the national insurance contribution gap between employed and self-employed earners as this confuses workers' rights and goes on to say there are better ways to address those issues.

The report picks up on the problems that the universal credits system presents for the self-employed (a topic the Tax Faculty has previously raised with the government) and recommends changes.

Other proposals include paternity allowance, compulsory earnings protection against illness and a more self-employment-friendly lifetime ISA.

IFS GREEN BUDGET 2017

The Institute for Fiscal Studies (IFS) launched its latest Green Budget in February with its annual analysis of the state of the economy and the public finances.

This is the third year that ICAEW has been involved with IFS in the Green Budget as a sponsor, and this year ICAEW provided two chapters.

There is now no fiscal target during the current parliament and the main target in the next parliament will be to return the public finances to balance as soon as possible. In practice the UK has only had a surplus in eight years over the past 60 years.

The full Green Budget, plus the individual chapters, can be downloaded from tinyurl.com/FM-IFSGreen

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

FRS 103 INSURANCE CONTRACTS REVISED

The Financial Reporting Council (FRC) has issued a revised edition of FRS 103 *Insurance Contracts*. The revised edition incorporates the amendments arising as a result of Solvency II that were issued in May 2016. A clarification is also included regarding the Solvency II Directive. The Department for Business, Energy and Industrial Strategy (BEIS) has written to the FRC confirming that there is no requirement to change the basis of accounting to one consistent with Solvency II.

FRC RELEASES ITS ANNUAL REVIEW OF CORPORATE REPORTING

The FRC has published its Annual Review of Corporate Reporting 2015/16. Based on the monitoring of 192 companies' reports as well as more recently performed thematic reviews, it looks at the financial statements and the strategic report, and concludes with an overall assessment of corporate reporting in the UK. tinyurl.com/FM-CorpRep

FRC LAB CASE STUDY ON MORRISON SUPERMARKETS

In recent years retailers have been providing enhanced information and disclosure focusing on different aspects of commercial income. According to the FRC, disclosures have varied considerably, from details of the impact of commercial income on the respective company's profit, to increased disclosure within accounting policies that explain types of income without identifying the overall impact.

Morrisons has provided a comprehensive set of disclosures covering the nature of commercial income - its size, controls and the processes surrounding recording and review. These are now the subject of an FRC Financial Reporting Lab case study report.

While the Lab report focuses on an issue of most relevance to the retail industry, its themes are applicable more widely. The report aims to provide insight into how investor views on reporting and disclosure on emergent issues evolve over time, and notes a strong opinion from investors that confidence in a company's finance processes and approach to transparency translates positively into confidence in the company.

Read the Lab report at tinyurl.com/FM-FRCLab

DIGITAL FORMATS FOR COMPANY INFORMATION

In December the European Securities and Markets Authority (ESMA) published a feedback statement providing an overview of comments received in response to its recent consultation on proposed new digital formats for EU issuers' financial reporting, as well as setting out its proposed approach to creating a single digital format that issuers will use to report their company information.

ESMA concluded that inline XBRL (iXBRL) is the most suitable technology for issuers to use to report their annual financial reports in a single electronic format, an EU requirement that will come into effect on 1 January 2020. The US Securities and Exchange Commission has announced that it will accept iXBRL filings, for qualifying entities, from 2020.

The ESMA consultation relates to a Transparency Directive (TD) provision that will require issuers listed on European regulated markets to prepare their annual financial reports in an electronic format, with the objectives of making submission easier for issuers and facilitating accessibility, analysis and comparability.

iXBRL is a format that allows filers to embed XBRL data directly into a HTML document that can be read as a paper report or digitally by IT systems, allowing for data comparability among other benefits. iXBRL is widely used globally, it is used by Companies House in the UK and is the same format currently required by the UK tax authorities for corporation tax filing.

iXBRL reports are human-readable, based on HTML and can contain unstructured data. This flexibility and the cost benefits are advantageous, especially given the flexibility inherent in IFRS financial reporting.

The main conclusions in ESMA's feedback statement, which are still only proposals at this stage, are:

- Issuers should prepare their annual financial reports in human readable format, which can be read by standard browsers without the need for specialised tools.
- Only where annual financial reports contain IFRS consolidated financial statements must issuers label this information using XBRL, which is machine-readable. The XBRL data is embedded directly into the documentation through the iXBRL format. ESMA may extend mandatory labelling of information using XBRL to other parts of the annual financial report or to financial statements prepared under third country GAAP at a later stage.
- The IFRS Foundation's taxonomy should be used to transfer financial information into structured data for the electronic reporting of IFRS financial statements.

The impact of Brexit may change the outcome for UK companies. These requirements could apply in the UK because they implement an aspect of the updated TD, which has already been transposed into UK law. More certain is a digital future; filing under iXBRL is gaining traction globally and is likely to influence UK policymakers and their consideration of future technologies for reporting purposes.

EMPLOYMENT LAW

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

THE GENDER PAY GAP

In December 2016 the government published the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, which will require large private sector employers to annually publish gender-based pay statistics. These regulations will apply from 30 April 2017 – effectively starting a 12-month countdown for employers to publish their pay information in April 2018. Employers will then need to produce these statistics each year and publish the results on the company's website.

The regulations apply to employers with 250 or more employees in England, Scotland and Wales. According to statistics from BEIS, this equates to about 7,000 companies covering about 10 million employees.

Regulations do not apply to 99.9% of UK companies, according to BEIS, but those approaching the threshold should be aware of the regulations.

The reporting regulations require an employer to publish their overall comparative mean and median hourly pay and bonus averages for their male and female employees. As well as this, they must provide information on the proportion of male to female bonus payments and comparative pay quartiles. The statistics will be affected by gender differences in part-time employment, early retirement, promotion, seniority and employee retention.

However, there is no specific sanction for companies who fail to comply, nor is there any requirement to improve figures or make proposals for improvement.

BRITS TOO 'UNRELIABLE' FOR SEASONAL JOBS

Sectors that rely on seasonal workers will face significant recruitment and retention challenges if immigration controls are tightened post-Brexit, MPs have heard – with the finger pointed at "unreliable" British employees.

The first regional hearing of the home affairs select committee inquiry into immigration included a panel of eight MPs led by Labour's Yvette Cooper. They heard concerns from businesses. Representatives from agriculture and horticulture said they rely heavily on staff from the EU to take on seasonal work, and told of the "detrimental" impact tightened immigration controls would have.

All reported already experiencing a sharp decline in applications for work from EU citizens in the wake of the referendum vote last June.

The Office for National Statistics *Labour Force Survey* estimates for 2015 showed that there were 3.3 million EU citizens in the UK, 2.1m of whom were in employment. ICAEW will look carefully how we can support businesses under any new immigration system.

On a lighter note

SHELLING OUT

Jaguar and Shell have teamed up to develop in-car payment for fuel, paying through the car's central console using Paypal, Apple Pay or Android Pay. The app will be available across the whole fleet of Jaguar/Land Rover and will work with all Shell garages. After it becomes operational in the UK, it will be rolled out to the world.

QUESTIONS OF PROVENANCE

The National Archaeological Museum in Athens has put a 7,000-year-old Neolithic statue on display despite not knowing what it represents or where it comes from. "It could depict a human-like figure with a bird-like face, or a bird-like entity that has nothing to do with man but with the ideology and symbolism of the Neolithic society," Katya Manteli, an archaeologist with the museum commented. "There are enigmatic aspects to it that make it charming."

EXCUSES, EXCUSES

ELAS, the employment law experts, collated the worst excuses provided by absent employees to their employer in 2016; they provided assurance that their clients reported all these excuses. They estimated the loss to the UK economy of unauthorised absence on the first Monday in February - the worst day for absence - is around £45m in lost wages. At the time ELAS advised employers that they are "perfectly entitled to challenge the authenticity of an absence". Here is the list of excuses ELAS compiled last month:

- I need to arrange a party for my dog's birthday.
- My friend is on annual leave so I can't get a lift.
- I was arrested.
- I lost my PPE (personal protection equipment).
- I'm too drunk to drive.
- My only pair of work trousers is in the wash.
- I stayed out too late partying last night.
- The dog ate my shoes.
- My wife earns more than me so I have to look after the kids.

£45m

PREDICTED LOSS TO THE UK ECONOMY OWING TO ABSENTEEISM ON THE FIRST MONDAY OF FEBRUARY

7,000

THE AGE IN YEARS OF A STATUE IN ATHENS

6

NUMBER OF MID-RANKING EXECUTIVES THAT HAD TO WRITE SELF-CRITICISMS AND MAKE PUBLIC APOLOGIES

WEAR YOUR HEART ON YOUR SLEEVE

Massachusetts Institute of Technology has created a device to be worn on the wrist that uses artificial intelligence to read the tone of conversations and notify the user if their conversation is becoming dull. The device, the size of a wristwatch, can measure and communicate pulse, blood pressure, temperature and movement, which it combines with audio analysis of a conversation's pitch, energy levels and vocabulary. Some versions could tell you if you're boring by collecting negative signs such as pauses, fidgeting and putting a hand to one's face.

A ONE-SIDED CONVERSATION

A study from cross-party think tank Demos confirmed the existence of the "echo chamber" in UK political thinking. The report, *Talking To Ourselves? Political Debate Online and the Echo Chamber Effect*, explains that this effect in essence means social media users are more likely to engage with people and media sources that share their political beliefs. It found this was more prevalent with SNP and UKIP supporters than other political supporters. Dimitrios Tsivrikos, a business psychologist at University College London, commented: "These algorithms [used in social media] feed us with stories that are completely tailored to us, which doesn't allow us to explore diversity to explore another opinion."

YOU SNOOZE, YOU LOSE

The Chinese Communist Party has asked six mid-ranking executives from Hubei to write self-criticisms and make public apologies after images of them falling asleep at a meeting went public. And the meeting? It was organised to discuss how to motivate lazy and sluggish bureaucrats.