Finance & Management

ICAEW FINANCE & MANAGEMENT FACULTY

ISSUE 221
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SPRINGING FORWARD?
UK ECONOMIC STRENGTH VERSUS PRODUCTIVITY

LET THE RIGHT ONE IN
HOW TO RECRUIT THE RIGHT PERSON FOR THE JOB

THE BUSINESS OF INFLUENCE
Expert tips for a perfect presentation

A FACULTY MEMBERSHIP PUBLICATION

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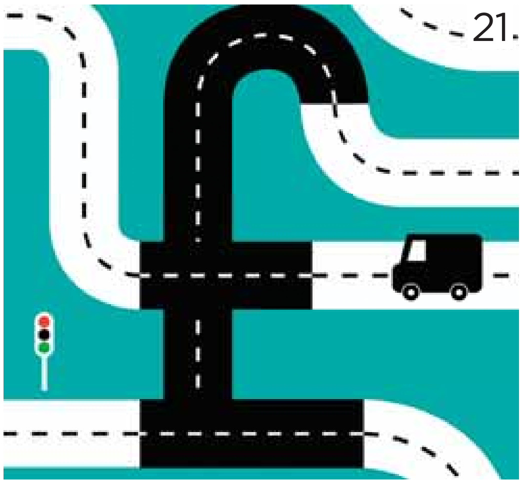
Issue 221
May 2014



"The benefits of smashing the 'middle management concrete' are twofold: it takes cost out of the business, but it also makes staff feel more empowered"

Richard Close
is CEO of Briggs Equipment

10

COVER: GETTY

Maximising happiness

FINANCE & MANAGEMENT FACULTY

What is the biggest constraint on your life? For some, it's health impairment, but many would say it's either time or money. Economic theory offers us some insight into the trade-off between the two.

Individuals are happy to trade their time for additional cash to increase their total utility. The trade-off is broadly linear until the marginal rate of utility gained from extra income is equal to the marginal rate of utility of free time. This diminishing utility of income (where every additional penny provides slightly less benefit than the previous penny) leads eventually to a point where there is virtually no marginal gain from any pay increase. Where we sit on the line is a matter of personal choice and circumstance; economic theory states that rational beings will seek to maximise their utility and will therefore seek to optimise their work/life balance. It is however, not always the case that we behave rationally in our decision-making process and it takes some external shock to provide us with the impetus to address any disproportion in our work/life balance.

The average pay for finance directors in business has increased from £76,200 to £92,600 over the five years to 2013, according to the ICAEW salary survey (although median salaries are £79,300 as there are a few lucky FDs earning significant sums, which distort the average). This increase should mean that money is less likely to be as critical a constraint as it may have been five years ago. The survey does not ask how many hours a week are devoted to work in exchange for salaries, so we can't plot a time/income graph using these income data.

A research paper published by the University of Southern California Law School, *Diminishing Marginal Utility of Income? A Caveat*, [Easterlin, 2004], showed that the more money people have, generally the happier they purport to be, with diminishing marginal gain with higher incomes, proving the theory. However, the paper also pulled data of average income and average happiness over a 22-year period. Mean per capita income doubled to $27,000 in 1994 from $12,000 in 1972, but happiness didn't budge over the same period. Their conclusion "Happiness fails to reproduce, over time, its point-of-time relationship to income. There is not diminishing marginal utility of income, but zero marginal utility" provides food for thought.

We hope that you enjoy May's issue – please contact **Robert.russell@icaew.com** or **Stephen.ibbotson@icaew.com** if you have any thoughts or suggestions for the magazine or the faculty.

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News

CORBIS

HEY BIG SPENDERS

Consumer spending at both the value and luxury ends of the retail market has grown significantly, diverting consumer spending away from the remainder of retail outlets – or the middle market – in March, according to data released by Barclaycard, which processes nearly half of all card transactions in the UK. Spending in value retail rose by 21% and in luxury retail by 6% against a total overall spend growth of no more than 1.1%.

Consumers are focusing on value for money, pushing the 'squeezed middle' to face flat or falling growth as a consequence. Valerie Soranno Keating, CEO of Barclaycard, said: "The challenge for those retailers caught in the middle is how to adapt to meet the demand for greater value – whether that's through the prices they charge, the products they stock or the channels they use."

IS YOUR STREET UP TO SPEED?

According to the uSwitch.com research – based on 1.9m speed tests run by UK broadband users over the six months to January 2014 – residents in Loundes Road in Unstone, Derbyshire, enjoy broadband download speeds of 57.6Mbps, some 96-times faster than that in the slowest areas, listed below.

Just 15% of UK residents have access to speeds of less than 30Mbps, and separate figures from Ofcom confirm that superfast broadband (ie, more than 30Mpbs) is available to 73% of UK residents, but the findings suggest that only 10% can use it. See the whole list of UK broadband speeds at **bit.ly/1iPjOAb**

	Street name and location	Average download speed (Mbps)
1	**Erw Fawr**, Henryd, Conwy, **Wales**	**0.60**
1	**Wheatley Road**, Corringham, Stanford-le-Hope, **Essex**	**0.60**
3	**Station Road**, Swineshead, Boston, **Lincolnshire**	**0.65**
4	**Kelvin Grove**, North Shields, **Tyne and Wear**	**0.74**
5	**Maple Crescent**, Alveley, Bridgnorth, **Shropshire**	**0.91**
6	**Evesham Road** (nr Church Lane), Norton, Evesham, **Worcestershire**	**0.92**
7	**Meadow View** (nr Rectory Road), Castle Carrock, Brampton, **Cumbria**	**0.94**
8	**Canal Street**, Oakthorpe, Swadlincote, **Leicestershire**	**0.96**
9	**Pickleys Lane**, Doveridge, Ashbourne, **Derbyshire**	**0.99**
10	**Dereham Road** (nr Chancel Lane), Garvestone, Norwich, **Norfolk**	**1.03**

COUNTDOWN TO 2014 INTERNATIONAL FESTIVAL OF BUSINESS

The International Festival for Business (IFB) promises to be the largest global concentration of business events in 2014. The 50-day festival, held in Liverpool in June and July, will offer more than 150 business-focused events as a key part of the government's export and investment targets. The organisers say they are "placing an explicit focus on creating new international and domestic business-to-business relationships and commercial openings for small, medium and large UK companies". More information at **ifb2014.com**

CROWDFUNDING SUCCESSES

Two interesting start-up companies recently announced that they have met their funding targets. UK-based Morpher, which makes foldable cycle helmets, raised more than $68,000 late last year and is now looking to go into production. The company has already applied for worldwide patents and says the helmets will be robust as well as being completely recyclable. More information is available at **morpherhelmet.com**

Meanwhile the 'Chui doorbell' idea also managed to exceed its $30,000 target. Raising just over $50,000, the doorbell emails homeowners when their doorbell is rung and can relay tailored messages to recognised callers. The developers hope that homeowners will eventually be able to remotely open the door. Pre-order and find at more at **preorder.getchui.com**

Events

EVENTS CALENDAR

FINANCE DIRECTORS' CONFERENCE
Tuesday 20 May, 08:15 – 17:00
From £345 + VAT
Join us at the ICAEW's annual FD conference with themes throughout the day to give you the technical expertise you need to ensure your organisation is built on solid foundations. A choice of breakout sessions covering topical issues and regulatory updates are being introduced for the first time, in order to make the event as tailored as possible.

To book a place, please visit icaew.com/fdconference2014

WOMEN IN FINANCE NETWORK: FINDING YOUR INNER LEADER THROUGH PSYCHOMETRIC TESTING
Wednesday 11 June, 18:00 – 20:00
Martin Goodwill of the Realise Group talks us through the positive use of testing to identify your current leadership strengths and weaknesses and how to develop 'Leadership Charisma'. The webinar looks at how to increase people engagement and enhance your ability to deal with the increasing demands of being an FD. A short sample test will be sent to each registrant and the overall results and their interpretation will be incorporated into the event.

To book a place, please visit Icaew.com/wifjunevent

CLARITY AND IMPACT FOR FINANCE PROFESSIONALS
Thursday 12 June, 09.00 – 16.30
Location: Chartered Insurance Institute, London
Price: £310 + VAT for faculty members
Imagine writing documents that have clarity and impact, that people praise and envy, and that win new business or impress the board. Chartered accountant Jon Moon will help you transform your work, from notes and reports to information packs and slides, by focusing on key elements: "Words in Tables" (an alternative to bullet points that has three times the impact), graphs and layout.

To book a place, please visit icaew.com/fmfjunclarity

All events are free for F&M members, unless otherwise stated, and charged from £45 plus VAT for non-members.

Events are held at Chartered Accountants' Hall, Moorgate, London, unless otherwise stated.

SAVE THE DATE

FINANCE BUSINESS PARTNERING: MASTERING THE DILEMMAS
Thursday 26 June
18:00 – 20:00
This event will continue the theme from last year's well-received event and will cover understanding the business and its commercial drivers, overcoming resistance to business partnering, and balancing support and challenge; 'going native' and independence.

WEBINARS

HOW TO CREATE AND IMPLEMENT A STAFF EXPENSES POLICY
Thursday 15 May
This webinar, delivered in conjunction with Concur, a provider of integrated travel and expense management solutions, will take us through the basics of creating and implementing an expenses policy, incorporating both the change management and the behavioural implications of introducing such a policy in companies where one does not currently exist. This webinar will assist you to better control staff expense claims in your business.

To book on this webinar, please visit icaew.com/fmfmay2webinar

KEY PERFORMANCE INDICATORS
Thursday 22 May
David Parmenter, best-selling author of *Winning CFOs*, talks us through the Key Performance Indicators (KPIs) that will assist you in better measuring your business's effectiveness. He'll identify the four main types of performance measures, look at how to ascertain your organisation's critical success factors and their related KPIs and how they should be reported. This webinar should assist you in identifying the KPIs that you need to focus on in your business.

To book on this webinar, please visit icaew.com/fmfmaywebinar

DO YOU WANT YOUR BUSINESS TO BE EXCEPTIONAL? FOLLOW THE RULES!
Thursday 12 June, 16:00 – 17:00
Michael Raynor, co-author of *The Three Rules: How Exceptional Companies Think*, presents this webinar on his three rules for organisations to follow in order to succeed. In brief, they are:

1. **Better before cheaper**
2. **Revenue before cost**
3. **There are no other rules**

To book, visit icaew.com/fmfjunwebinar

All webinars are free for F&M members and charged from £25 plus VAT for non-members. All webinars are held at 10am unless otherwise stated.

CAUTION CAUTION CAUTION

Do not **outsource** before reading this!

Paying someone to do a better job for less is the premise that makes the outsourcing of a service so popular.

Across the world, this is a multi-billion pound industry. In IT, the outsourcing of development work has been popular for many years. Finance has taken some time longer to become mainstream, mainly due to technology and skills now being more advanced.

Reaping the benefits of any outsourcing deal, isn't just about simply signing on the dotted line. Let's discuss how we can avoid the business equivalent of a bad marriage and a costly divorce:

1. Don't concentrate just on short-term profits

Outsourcing agreements are based on cost savings, but to focus too hard on squeezing suppliers down to rock-bottom may be a mistake. You may get a cheaper price, but this may come with minimal service levels and inflexible conditions. Suppliers struggling to break even have little incentive to improve and may try to cut corners where possible.

The supplier needs to be motivated and have the will to deliver. If they're not making any money on the contract, they're not likely to be. Investment in technology and resources are a key pre-requisite to deliver projects successfully.

2. Teamwork is the key to success

If you want the working relationship to be successful in the long term, the relationship needs to be fair and allow any issues to be swiftly addressed. If there has been an underinvestment in relationship management, then there is the potential that issues can escalate much faster.

Having a proficient troubleshooter available to you is essential to managing the relationship.

If a major incident occurs, the client needs access to an account manager with delegated authority to agree a solution or able to bring the provider's CEO into the discussions.

3. Investment up front

Moving to an outsourced model or changing supplier is a major change for most companies.

Outsourcing relationships are usually long-term relationships and will be more painful if things start off on the wrong foot.

Having an on-the-ground presence from both sides should ensure a smooth transition.

Strong management at the transition stage makes all the difference to the success of the project. The outsourcer brings their own best practice to the deal whilst embedding the customer's DNA into the business.

4. Co-operation

Equilibrium with trust countered by power is not easy. Optimal results are achieved by outsourcing clients when this balance is achieved. Penalties should not be a stick to beat a vendor and similarly have sufficient incentive to deal with the issues at hand and not just pay the penalties.

5. Adjust as required

Finding the right length to an outsourcing contract is tricky. Long-term deals offer a promise of bigger savings with a risk that if the agreement is too long, for a supplier's dedication to wane over time. On the flip side, constant changes involve high switching cost with disruption to the smooth running of the business.

For some customers, rolling three or four year contracts can be the answer. There needs to be sufficient flexibility in the terms if circumstances should change.

Vipul Sheth ACA CTA
Managing Director, AdvanceTrack® Outsourcing

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Simple Personal Fair

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Simple Personal Fair
What a bank should be

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GfK NOP Research: Santander Business Satisfaction survey Q4'13. 1,628 respondents interviewed.

Strength to strength

2013 ICAEW Annual Review and AGM

Earlier this month, ICAEW published its 2013 Annual Review and Financial Statements. The Review gives an account of how ICAEW helped build a stronger global profession. Member numbers increased above 140,000 and in the past year there was a record intake of students at 7,478 (including ICAEW's entry qualification, CFAB).

The financial news is also good, with ICAEW income up by £4.9m to £87.6m, generating a net surplus of £2.2m. The organisation's net assets at 31 December 2013 were £27.4m.

The year's highlights include:

- ICAEW's work on a stronger global chartered accountant brand, Chartered Accountants Worldwide;
- the progress of our work on the future of audit through the Audit Futures project, with the Finance Lab;
- the launch and development of our Business Futures project; and
- the UK Department for International Development's (DFID) A* score for our capacity building work with the SEC in Nigeria.

As in previous years, the review follows an Integrated Reporting template, showing how ICAEW creates value as an organisation through its people, relationships and ideas, reporting against targets, reviewing the past year and looking ahead. More information can be obtained at **icaew.com/review**

ICAEW chief executive Michael Izza invites you to an open forum when he will be answering questions online. Please log on at icaew.com/askicaew on 22 May at 09:30 BST or email chief.executive@icaew.com if you have a question about our progress in 2013 or our plans for 2014.

For 2014, we will be focusing on tax and new initiatives, for example Access Accountancy, to broaden access to the profession.

ICAEW's Annual General Meeting will be held on 3 June. All members are invited to vote online or in person at Chartered Accountants' Hall, Moorgate, London, EC2R 6EA on Tuesday 3 June at 11am. More details available at **icaew.com/agm**

Five steps out of failure

Richard Close recently spoke to Finance & Management Faculty members about his long experience in turning around failing businesses. Here, Christian Doherty summarises his five-point plan for achieving success

A qualified accountant, Richard Close is currently chief executive of Briggs Equipment. His presentation to the faculty drew on 25 years of experience in the automotive, manufacturing and distribution sectors where Close has worked in finance and chief executive roles.

"At Briggs Equipment, we arrived at the business in 2006," says Close. "It was a distressed sale, and at that point it had a £120m turnover, but was losing £10m a year, with 1,000 demoralised employees. It now has a turnover of a little more than £80m, having made £5m, with 600 fully engaged employees. And trust me, the two are linked: one was a cost from demoralised employees and two, it's the employees that turned the business around, all we did was provide the resources to do it." So, where to start?

1

SORT THE TOP TEAM OUT

What's the first thing you do when you've got a seriously underperforming business? In my view you've got to sort the top team out. The team that reports to the management board, that's where it all stems from. You have to ask yourself, does the top team have the right attitude? Are they glass half full or glass half empty people? You need to work out who to keep and who should go.

Once you've decided that, it's a question of asking who the influencers are in the business. It may be the car park attendant, it may be the canteen lady, but whoever the person that everyone turns to is, it's probably not the management or the union rep. Make sure you can identify who the influencers are, because they're the ones the staff will turn to when they want to understand something that's going on in the business.

2

MAKING PLANS FOR BRIAN

The next point that has to be tackled is the 'middle management concrete', typified by a guy I call 'Brian'. At the car dealership I used to run, the typical Brian was about 48, sitting in the corner office hanging on to be paid off. His inability to make a decision becomes a blockage, and he represents a single level of power in the business that's not needed. So we took Brian out and we gave reception staff at the front desk more authority to make customer service decisions.

How do you get rid of Brian? Well, partly by making him accountable for the top line results - you give Brian some objectives and every month you call him in and you measure him against them. In addition to that, you empower the staff below him. On many occasions I'll have an open session with the staff who work with Brian. I will say to them, "Look, if management does not give you the right answer, challenge them hard and you have my permission to challenge them until they give you the right answer".

The benefits of smashing the middle management concrete are twofold: it takes cost out of the business, but it also makes the staff feel more empowered. It gives them responsibility. Those staff on reception are now more motivated and they feel the company is behind them.

3

ENCOURAGE IDEAS

During a turnaround every idea is precious, so encourage your people's creativity. Ask, "Are there any ideas? What's the one thing you want me to do to make your job easier?" Every time, they will come up with something: it could be the way in which invoices are handled is wrong, or the phones are in the wrong place. I did it in my current office, where we've got 300-400 people. There was a tension around the place, and I asked, "What's the one thing you'd want me to do?"

The answer? Move the waste paper bin. Someone had moved the recycling bin during an office reorganisation and it had really left people annoyed. It sounds patronising, but it's not. So you listen and it makes their life easier and you ensure they feel valued. And if they do ask you a question or challenge you on the way the company is run, then you go back to them and respond. They may not always agree with what you say, but just going back is part of the process.

4

USE YOUR WINDOW WISELY

This is absolutely critical, because time is short. Let me give you an example of credibility with staff that gets them onboard when you've got to turn a business around. We bought our current business in 2006. It had a turnover of £120m, but was losing £10m a year. Once the deal was done, the sales force was brought in for a meeting to find out what was going on.

The managing director of the company we'd bought stood up in front of them and introduced himself to them. He said, "I'm your managing director and we've just sold you, so cheerio". When I took the microphone I was immediately in favour, because he never engaged with the staff. We were seen as heroes at that point. So, when you have previous bad management you get a window of opportunity and the trick is to try to capitalise on that as much as you can. Don't waste your window.

5

TACKLE THE BLIND SPOT

In the four turnarounds I've completed, 'the blind spot' is usually glaringly obvious, and it is either an acquisition gone wrong, a strategy that isn't working, or the wrong person in a top job.

When I took NACCO over it was a manufacturer with 1,000 plants. In the late 1990s it had decided to go into distribution and retail. It was a huge error. I came into a business that was losing £30m a year, all from the retail operation. It was obvious that was the problem if you looked at the accounts, but no one was talking about it because the board had been told to get into retail by the chairman. You've got to use your window of opportunity and tackle the chairman on what needs fixing.

If you have a board that is split and doesn't want to tackle something, you've got to get the CEO or the chairman on side. I told NACCO's chairman to get out of retail. He agreed. But none of the previous management had ever dared suggest it because he'd been the one that wanted to go into retail. It just shows that by using your opportunity, you can turn even the flattest business around.

MIND THE GAP

The UK economy seems to have a spring in its step and be moving steadily in the right direction. Why, then, is productivity lower than expected? Nick Huber asks a few difficult questions

As chancellor George Osborne highlighted in his March Budget, unemployment is falling and the economy is growing faster than any other advanced economy. But while Osborne was careful not to seem complacent when he presented his fifth Budget – stressing that the job of "putting Britain right" was "far from done" – there was little, if any, mention of what some economists reckon is Britain's biggest economic weakness: productivity.

Figures published by the Office for National Statistics in February showed that output per hour in the UK was 21% below the average for the rest of the major G7 industrialised economies in 2012 – the widest productivity gap since 1992.

On an output per worker basis, UK productivity was 25% below the average for the rest of the G7 group of industrialised nations in 2012.

In 2012, UK output per hour and output per worker fell compared with the previous year and was 3% below its level in the pre-recession year of 2007.

Economists, politicians and some businesses are worried – if productivity remains low, it will take longer to reduce the deficit. Some experts reckon the UK's economic recovery won't be sustainable unless productivity improves significantly.

The UK's low productivity is sometimes referred to as a puzzle. Output in the economy is up, but output per hour is down. Stronger economic growth has increased the number of people in work, but workers' output is down. Why? And how can finance directors help measure and improve it?

Economic explanations for the UK's low productivity include decades of under-investment, a lack of skilled workers and falling wages. Industrial relations and workplace psychology are other possible explanations, which are worth considering in more detail.

UK PRODUCTIVITY

was 25% below the average for the rest of the G7 group of industrialised nations in 2012.

Source: ONS

twentyfive%

EXPLANATION ONE
UNDER-INVESTMENT

Productivity is affected by two main factors – financial capital and labour.

John Glen, a senior lecturer in economics at Cranfield School of Management, says that UK businesses haven't invested enough in either over the past 30 years.

The under-investment includes machinery and computers, but also less obvious stuff such as office design.

"Some office designs are more optimal [for productivity] than others," Glen says. "For example in open offices, people can interact and communicate more effectively; more people bump into each other and can share ideas rather than being locked away in their own offices."

Glen also argues that UK employers have attempted to suppress wages and invest less in training and machinery.

"When labour becomes very cheap, you tend to employ more labour in relation to high-tech machinery and technology," he says. "You may have machines that are 25 years old."

Trade unions are significantly less powerful than they were in the 1970s, which further keeps wages down. "In the short term [low wages] makes company profitability look good, but then you end up with businesses with low-skilled labour and old machinery," Glen says.

Other experts think the link between investment and productivity is more complex.

"Business investment does influence productivity, but productivity also influences investment," says Ian Stewart, chief UK economist at accounting firm Deloitte. "It is an incentive to invest."

Theoretically, capital should seek out highest returns – so if you've got very high productivity the returns should be very high, he continues.

EXPLANATION TWO
RISK-AVERSE PENSION INVESTMENTS

Glen thinks that UK pension funds could afford to invest more speculatively. He cites research from Towers Watson, a professional services firm, into how much pension funds in different countries invest in alternative investments. This includes private equity and hedge funds that finance start-up businesses, some of which could become the Googles or manufacturing giants of tomorrow.

US pension funds allocate 20% of funds under management compared with 14% in the UK, Glen says.

Given that the size of the UK pensions market is about \$3.2trn (£1.8trn), an extra 6% allocated to alternatives would be about \$200bn (£120.2bn), of which about a quarter would be hedge and private equity investment, Glen says.

"If the UK had the same propensity to take risks as US pension funds it would cause a \$50bn (£30.2bn) increase in the investment available for start-up and SME-type investment." That could provide a major boost to productivity.

EXPLANATION THREE
WORKER PSYCHOLOGY

The amount of capital that companies in advanced economies can access will vary, but are national differences enough to explain the UK's low productivity?

Ajay Bhalla, professor of global innovation management at Cass Business School, →

ICT AND PRODUCTIVITY

The contribution of ICT to office worker productivity per hour is nearly five times more than what it was in the 1970s, according to research published last October.

Cheaper and more powerful technology means that workers can get more done in less time at a lower cost, according to the research from 02 Business and the Centre for Economic and Business Research.

In 1980, for example, a gigabyte of hard disk space cost £120,000 in today's money. The current cost of a gigabyte is approximately 5p.

Productivity related to ICT in the office fell to its lowest level during the mid-1980s. Nevertheless, it was during this time that the products such as the mobile phone were launched, which would eventually transform how we work and communicate.

In the 1990s there were some big IT advances – Microsoft Windows 3.0 (1990), dial-up Internet (1992), and Google search engine (1998).

But any estimate for IT's overall impact on productivity needs to factor in the drawbacks, such as IT failures.

One report by CA Technologies published in 2011 estimated that around 37 million working hours were lost per year in European organisations due to IT downtime and data recovery. In the UK 5.5 million working hours were lost.

When IT systems fail an organisation's staff need to find alternative ways to work. But because many business operations are becoming wholly reliant on the use of access to networks, any failure often means staff are unable to do their job, as the report noted. Productivity drops, and so can revenue.

And of course, technology such as email, social media (Twitter and Facebook, for example), and the Internet itself, which can help people with their work, can also distract them.

thinks not. He reckons the UK's low productivity is largely due to skimping on training and failing to make workers feel valued.

"I think the UK falls down in relation to labour markets, including employees, skills, motivation and, most importantly, involvement," he says.

Increasing worker productivity isn't just a matter of re-jigging balance sheets and trimming costs. Getting workers to work longer or do tasks differently will be easier if they are motivated and if they trust management, some experts argue.

There has been a lot of talk about trust (and the lack of it) in UK business since the financial crisis - and not solely in relation to banks and energy companies.

There has been debate in some quarters about the widening gap between the pay of UK chief executives and the average pay of their workers.

Between 1998 and 2011, the average pay package of chief executives for FTSE 100 companies has increased from around £1m, to £4.8m, with no corresponding improvement in business performance, according to the High Pay Centre, an independent think tank. It states that vast £4.8m is approximately 185 times the income of the average UK worker of £26,000.

This position is contentious, however, given that in the US pay differentials between the top and bottom are higher than in the UK, yet US firms report better productivity rates. But clearly, maintaining an engaged workforce counts. Studies have shown that higher employee engagement improves business performance by increasing productivity and reducing staff turnover, and days lost to unexplained absence.

"Why would employees be willing to take initiatives and, for example to do unpaid overtime if they don't trust the management?" Bhalla asks. "If senior executive pay is distorted, workers slow the wheels, they will 'do the job', but won't put in any extra effort. When your heart isn't in the job, productivity will slow."

WORKER PSYCHOLOGY

£4.8m

the average pay package of chief executives for FTSE 100 companies, up from £1m between 1998 and 2011. This is approximately

x185

the income of the average UK worker at £26,000. This gap is thought to be one issue in productivity

EXPLANATION FOUR
PRODUCTIVITY IS CYCLICAL

Another explanation for low UK productivity is that it is linked to the economy. When economies slow, output tends to fall more than costs such as wages, says Deloitte's Stewart.

In the long term, productivity tends to rise when the economy gets stronger, he continues. High productivity, then, should generate better returns. But economists argue over whether this link is as straightforward, with some believing other factors, such as labour market imbalances, have a role to play

FDs AND PRODUCTIVITY

So if those are the possible causes and issues, how can finance directors spot falling productivity in their business and either guard against it or address it?

The warning signs are fairly obvious - employing more workers to achieve the same output and lower profit margin does nothing for productivity. But spotting and measuring this is tricky, and has become something of a Holy Grail for economic theorists.

"The common corporate view is that the CFO is the 'CF-No', but that's not a bad starting point. If you want funding, come back and fight for it"

Measuring productivity depends on the nature of the business. Businesses which make things and have production lines may be easily measurable, service business – such as finance, law and accountancy – less so, although looking at revenues and costs can help.

"In business services and financial services, revenues are very high so productivity is generally very high," Stewart says. "One person can be dealing with billions of pounds of transactions which can generate billions of pounds of revenues. But in sectors such as entertainment and catering, revenues are much lower; someone who is washing dishes in a restaurant would be classed as being in a lower productivity role."

Bob Eastoe is finance director of Hypnos, a bed maker in Prince Risborough, Buckinghamshire, with a turnover of about £30m. Eastoe uses "costing processes" – how much the business thinks materials, labour and overheads should cost. "At the end of a period we compare this with what it actually cost to make those products, so we can see if we are buying at the right price, making it in the right time, recovering our overheads in total to assess manufacturing productivity," Eastoe explains. "We measure sales productivity looking at the volume of business won against targets and the margin achieved."

Eastoe agrees that training can help increase business productivity. Hypnos is "multi-skilling" its production staff in order to reduce the number of steps involved in making a bed.

"When I joined we had 350 people in the business. At the end of my first year, in 2008, we had 220 staff who had changed from piece-rate to hourly pay. Our productivity increased massively because our turnover didn't change much [despite having 130 fewer staff]."

Gains in productivity often involve risk, of course – whether it's spending cash reserves on developing new products or services, entering new markets or making acquisitions. FDs can play an important role here by rationing funds and assessing potential returns from training and investment (increased productivity, profits etc) against likely risks (increased costs, damage to business reputation etc).

"The finance director will take a load of flak," Glen says. "The common corporate view is that the CFO is the 'CF-No', but that's not a bad starting point [when trying to boost productivity]. If you want funding, come back and fight for it. You need to come up with a good business case with lots of evidence and argue for it."

Increasing spending on training can also help make workers more engaged, and this can increase productivity, research suggests.

Increasing UK productivity will take years and require business and government to break some ingrained habits – short termism and under-investment among them.

Any improvement will largely rely on finance directors who typically are in the job for longer than chief executives and therefore have more opportunity to think longer term. Ignoring productivity isn't an option. As economist Paul Krugman said: "Productivity isn't everything, but in the long run it is almost everything."

PITCH PERFECT: HOW TO PRESENT

In business today, it's not just your number-crunching skills that have to shine. Christian Doherty talks to the communications experts who know how to help FDs create perfect presentations

The ability to communicate is perhaps not the first skill that many outside the finance function associate with accountants. Indeed, to some, more jaded souls, those in finance are characterised by discomfort with presenting both themselves and the key business data. But there's no avoiding it - the need for good presentation skills is becoming more pressing.

According to a recent EY report, "CFOs are increasingly pressured to become world-class communicators. They are challenged by the need to convey complex issues to a variety of audiences - investors, financial analysts, customers, partners and employees - as stakeholders demand accurate information and transparency in real-time."

And there are real benefits: that same survey showed CFOs of companies that have increased revenue by at least 5% over the past 12 months are more likely to think that communication and presentation skills will be important for CFOs in the future than those with either no change or a decrease in revenue.

But where to start? "What difference would it make to your career for communication skills to be viewed as a strength of yours?" asks Freddie Daniels, a business skills coach and member of the Toastmasters, the organisation dedicated to promoting better public speaking. "Is it worth it being viewed as a strength? If it is, are you prepared to dedicate the time?"

In Daniels's view, developing and improving presentation skills cannot be achieved overnight. "It's like being an accountant or a lawyer. The fact is we have to spend time learning skills, so if we want to be good at this, we need to make a conscious effort to become a good public speaker."

Richard Plenty is managing director of This Is, a consultancy that works with senior executives on coaching and development. He agrees time is required, and recommends that FDs in particular focus on understanding what their message is.

"You've got to make up your mind what you're trying to achieve. Then you have to work out what's the best way of displaying that and talking it through. Too much information and too many numbers are never a good thing. You need these as a backup, but you don't need them to start with. You need to get the points across."

Plenty advises his clients to consider a number of questions: What are the main messages? How do you illustrate them? "It doesn't hurt having a variety of mechanisms to communicate. You need to use a few graphs from time to time, where that's appropriate.

"Ultimately, you should use the facts for illumination and not like the drunk uses the lamppost for support. Some people put loads of facts into a presentation and nothing else. But that's not really picking up the points they're trying to make." His suggestion: practice your script and keep PowerPoint in check.

One FD who prefers to remain anonymous remembers standing in front of 150 people doing a 30-minute speech at a business seminar. "I was 20-25 minutes in and thinking, 'I've lost this audience' and I couldn't work out why. Then I realised I'd just been reading the slides for the past 10-15 minutes.

"We can read far faster than we can speak. The typical person can read at about 400-500 words a minute, while we speak at about 100-150 words a minute.

COMPANY CFOs

A recent EY report showed that CFOs of companies that have increased revenue by

5%

in the last 12 months are more likely to think that presentation skills will be important for future CFOs than those with no change or a revenue decrease

“So if you put text up on the screen, your audience will go ahead and read it. My audience was sitting around waiting for me to catch up and their minds started to wander; they think about other things and you’ve lost your audience.”

Freddie Daniels says one of his tasks is often to wean an audience off of their reliance on PowerPoint. “In the old days we used to describe it as a visual aid, and I think we’ve lost that today,” he says. “It’s not seen as a visual aid any more. People come to hear you speak, they don’t come to see a bunch of slides.

“The quickest way to stop is to make sure you write your presentation anywhere but in PowerPoint. Once you start putting those bullet points in, in my experience, they’re a devil to get rid of.”

Instead, Daniels says, write directly into Word, using the outlining mode. “Then I look at my speech at the end and ask what visual aids I need to reinforce the messages here.

“There are some instances where I recommend people use slides. One is where there is something that is complex and perhaps it would be useful to have a picture or a diagram or something that shows relationships, or whatever it happens to be, and definitely something with complexity.”

The only other time Daniels recommends using a slide is to make an emotional connection. “That could be a shocking statistic, or an engaging image – a derelict factory or a fire.”

But it’s not just ditching PowerPoint and taking a lead on presenting your message. FDs in particular, perhaps schooled in simply rolling out graphs, can often neglect the importance of honing their tone and delivery style. And that often involves developing the confidence to move away from a purely scripted presentation.

Consider that most communication in real life, with our

FIVE DOs AND DON’Ts WHEN PRESENTING TO AN AUDIENCE

DO connect with your audience. Eye contact, interaction, movement: they all make you a compelling watch. Not everyone can be Steve Jobs unveiling the new iPad, but practice ‘walking and talking’ in the mirror – you may find moving away from the lectern liberates your delivery and gets the message across better.

DO humanise your message and tell a story. Respected journalist Lawrence Wright teaches at a number of US universities. In both his writing and presentations he uses what he calls his ‘donkey’: a figure that delivers the key messages in an otherwise complicated story. “All this information you want to shove down the audience’s throat, the donkey can carry that if the reader or listener cares about that figure,” he has said. “It makes them willing to swallow what you have to offer.” Maybe your donkey is a real person, or an invention. Either way, put a story on his back and he should deliver your message effectively.

DO keep it varied. It’s not easy when delivering financial information, but mixing up techniques will keep the audience’s attention. Some information will work as a graph, some as a story, others still as a set of bullet points. Don’t get carried away with the differences, keep it varied and you will hold the audience’s attention.

DON’T forget your audience. Sara James is a writing and presentations coach and works with FDs on both report writing and presentation skills. “One thing I say to people on the course when they start worrying about every single comma and split infinitive is ‘Look, how much sleep do you get on average?’ And they say ‘Oh, five or six hours. It’s okay’.

“It’s the same for the chief executive. He’s tired, he’s busy, he may be coming down with a cold. In other words, he’s human. Don’t bombard his eyes and his brain with anything that’s going to make his life harder than it is.” Try to put yourself in the place of the person watching you: they want a short, snappy, entertaining and clear presentation.

DON’T get too carried away with PowerPoint’s gizmos. That animated hamster in a wheel might look cool when you’re playing around, but chances are it will detract from the message.

family, friends and colleagues, is done using certain tools: we tell people about the things that happen in life, usually through stories. We ask them about their lives, share humorous anecdotes and so on.

"There's something about the moment when we become business speakers, we suddenly feel that these tools are no longer applicable, so we focus very much on facts and figures and graphs," says Daniels. He believes this is when the "basic tools of connection and engagement like stories and questions" get lost. "If you're pulling together a presentation for someone, ask yourself, 'What are the three or four key points that are going to reinforce the message, and then what content can we use to best make those points?' There will be a

> "If you're pulling together a presentation for someone, ask yourself, 'What are the three or four key points that are going to reinforce the message?'"

mix of facts and figures, but also let's see if we can share some experiences people can relate to, to bring the situation alive."

Improving these skills should be a continued professional development (CPD) issue, according to Daniels, with the same level of attention dedicated to learning not just the basics, but attaining a higher level of mastery. And that may mean engaging professional help or demanding feedback from colleagues.

Daniels cited an anecdote where a client had a pre-conceived idea of their public speaking difficulties and was nervous about using filler words. "It turned out that 20% of the words he spoke started off with, 'You probably can't read this slide at the back', and then he spent 20% of the words, ie, two minutes out of the 10, explaining the slides. If he'd watched the videos of himself, I'm sure he would have picked that up much more quickly."

The final word of advice comes from our unnamed FD who for years struggled with presentations. For him the best approach was to practice, hone and perfect his skills and to recognise that crafting and delivering a good presentation takes time: "I can't tell you how many times I've come across people who are doing big pitches or shareholder presentations who have spent three or four hours [just] writing a presentation.

"I never deliver a speech without first running it past a colleague, improving it and getting it just right."

GALLERY STOCK, GETTY, TRUNK ARCHIVE

AROUND THE WORLD

Declan Mulkeen of communications consultancy Communicaid looks at the pitfalls of presenting to an international audience

Presenting around the world introduces a number of challenges for professionals if they do not adapt their presentation style. Here are three of the most important aspects to incorporate when presenting abroad:

1 PRESENTATION CONTENT

Some cultures, such as a German audience, expect word-heavy presentations, where great detail is appreciated and enhances credibility. Other cultures may prefer a few bullet points and then expect the presenter to tell their story verbally. Other cultures, such as in much of the Arab world, prefer visual presentations that contain graphs, flowcharts and pictures.

Presenters should also be careful about other cultural sensitivities. For example, colours and numbers are highly symbolic in China. Using the wrong colour or showing a photo with groups of four items may convey a very different message to what was intended.

2 PRESENTATION STYLE AND USE OF HUMOUR

The level of expected formality in a presentation can vary considerably from culture to culture. For example in Japan, the well-dressed presenter is expected to be an authority figure who should never be openly challenged. Attendees expect to absorb the content of the presentation without question; disagreements or clarifications would be raised after the presentation is over, usually at a subsequent meeting.

On the other hand, the British tend to be much less formal. Interaction with the audience is usually expected and often welcome. Attendees may directly challenge the presenter. The British may present in a style that is understated and may imply rather than spell out their points clearly. They may also include humour, which often works very effectively with a British audience but may be poorly received by other cultures that may not have understood it. Humour does not travel well.

3 INTERNATIONAL ENGLISH

Presenters should take care to use clear, simple English whenever they are presenting to a multilingual audience. Slang, acronyms and local cultural references should be avoided. The presenter should speak more slowly and should be careful with pronunciation and diction, especially if they have a strong regional accent that could be difficult for others to understand.

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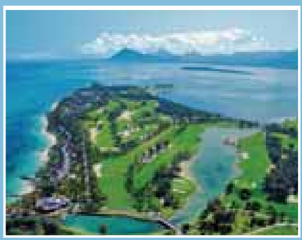

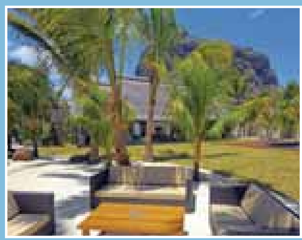

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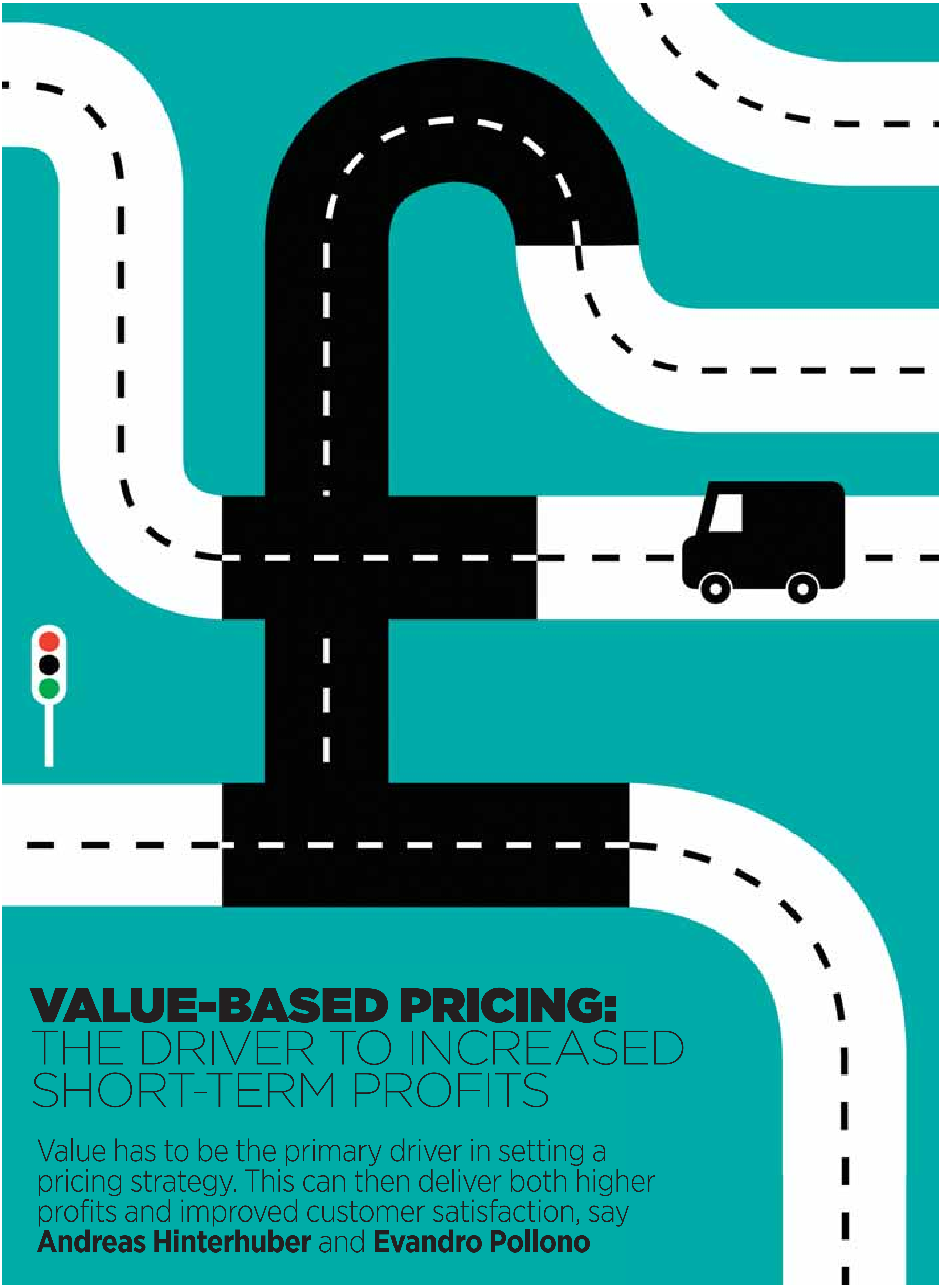


ROBERT HANSON / IKON

VALUE-BASED PRICING: THE DRIVER TO INCREASED SHORT-TERM PROFITS

Value has to be the primary driver in setting a pricing strategy. This can then deliver both higher profits and improved customer satisfaction, say **Andreas Hinterhuber** and **Evandro Pollono**

No business can afford to ignore the importance of pricing. Ensuring you are competitive as well as profitable is a central element of the FD role in any industry. For many FDs, though, pricing strategies are often left to out-of-date formulae and allowed to stagnate. Perhaps a new approach is needed.

PRICING – THE PROFIT DRIVER

Pricing has a dramatic but frequently underappreciated effect on profits. A study of a sample of Fortune 500 companies (see Figure A below) showed the impact of pricing exceeded the impact of other elements of the marketing mix on profitability (Hinterhuber, 2004). An increase in average selling prices of 5% increases EBIT by an average of 22%, while other activities, such as revenue growth or cost reduction tend to have a much smaller impact.

So why does pricing have a bigger impact on profitability than other tactical measures, such as growth or cost reductions? The answer lies in understanding and analysing customer value.

VALUE-BASED PRICING

Pricing is clearly a key profit driver; however most companies get it wrong. They base prices on costs or on competitor benchmarks. Of course both of these should influence the pricing decision, but they should never be top of the list. Conversely, only a minority of companies - between 15% and 20% - based their prices primarily on customer value (Hinterhuber, 2008). Substantial empirical research over the last few years has confirmed that value-based pricing is the only pricing approach that leads to higher profits (Liozu & Hinterhuber, 2013). By contrast, cost-based and competition-based pricing are likely to be detrimental to company profitability.

So what do we mean by 'customer value'? It is the willingness of the customer to pay and is the sum of the combined benefits that accrue to the customer as a result of purchasing a given offering. It can be calculated and quantified as "the price of the customer's best alternative - reference value - plus the value of whatever differentiates the offering from the alternative - differentiation value" (Nagle & Holden, 2002).

Value-based pricing is especially appropriate for highly differentiated products. But it would be a mistake to assume it is only appropriate for products with a clear competitive advantage, such as branded tablet PCs or life-saving pharmaceuticals. Value-based pricing should guide pricing decisions for apparent commodity products as well.

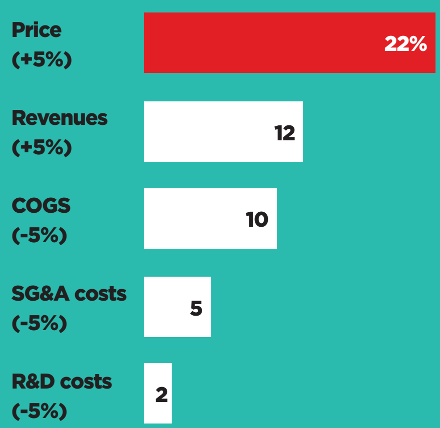
Consider a recent case study in the highly-competitive global chemical industry. Executives at this company assume themselves to be operating in a commodities industry, and are convinced that - in order to achieve meaningful sales - prices for the chemical in question need to be set at parity to price levels of the industry leader (indexed at 100 in Figure B). Workshops with executives and focus groups with core customers and distributors led to the discovery of a number of differentiating factors between the company's main competitor and its own offering.

While there was not a dramatic difference between the two products, we found a number of small but meaningful distinguishing characteristics between the two products. Using internal evaluation and field-value-in-use assessments, we tentatively quantified the additional customer value for these differentiating features.

We found small differences in logistical know-how, in product quality, in ordering costs and complexity, in vendor competence and in customer knowledge added up to a positive differentiation value of 8%, allowing the product price to be up to 8% higher than the customer's best alternative. The highest possible price is, of course, not necessarily the best price. But after applying a series of price optimisations, competitive simulations and estimates of customer reactions, we calculated the most profitable price point to be 5% above the best available alternative. The final price of 105 will - although higher than competitive prices by 5% - still be convenient for customers, since this price is below the maximum value of 108.

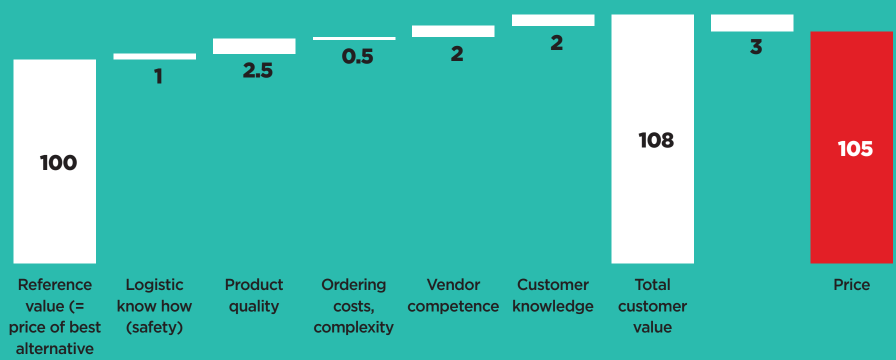
The main learnings of this short case study are also applicable to other B2B and B2C industry settings: (a) even so-called 'commodities' can and need to be differentiated; (b) the sum of many small

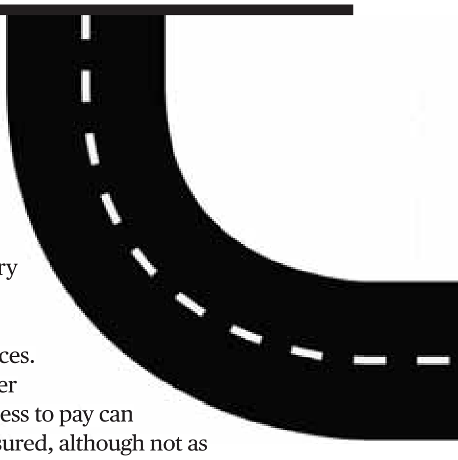
A) IMPACT OF PRICE, COSTS, REVENUES ON EBIT (% improvement of EBIT)



B) VALUE-BASED PRICING FOR B2B COMMODITIES

Key learnings: Even commodities can/need to be differentiated • sum of many small differences makes a big difference • price premium of 5% leads to dramatic differences in profitability • need to sustain price and premium





differences in product characteristics can add up to a significant difference in customer value; (c) even apparently small price premiums over competitive products (eg, 5%) translate into significant profitability differences between companies; (d) the price and value premium between two competitive offerings needs to be sustained over time.

STEPS TO IMPLEMENTATION

Clarity on goals

The first step in the successful implementation of value-based pricing is to define the objective of the company. As much as improving profitability seems a straightforward objective, different companies may pursue different objectives during different stages of their own life cycle. Growth in absolute revenues (as opposed to growth in profits) is frequently an important goal - especially for products with network externalities. Finally, the growth for ancillary products (eg, razors versus blades) may be the main consideration behind the overall pricing strategy in case of interdependencies between products. The mutually incompatible goals of profit maximisation, revenue maximisation, and the maximisation of sales of ancillary products do require substantially different pricing strategies.

Know your customer

Customers have a subjective measure when deciding to buy or not - value. The value a customer assigns to the product and which determines the price a company should charge can be assessed by asking a few questions:

a) What is the underlying need customers are willing to pay for? Answering this question allows a business to understand how customers are best served, what variables of the product or service make them chose you over competitors and ultimately allows the company to assign a monetary value to the variables that are important to customers. And of course, charging for them.

b) What of market segmentation and segment selection? What are commonalities and differences between market segments that affect customer willingness to pay? This question is probably the most crucial for companies willing to charge different prices for different segments, yet it is still relevant for those who have only one price. Theatres leverage the willingness of different customer segments and offer lower prices during weekdays and afternoons, in order to maximise the profit from a perishable offer.

c) How much more is the customer willing to pay? How can that threshold be increased? Some products can be easily customised and in this case, willingness to pay appears on a single-sale basis. For other products, customers self-select and companies must look at what makes their products unique against comparable competitors' products and then analyse the monetary value to such differences. Customer willingness to pay can be measured, although not as easily as companies analyse their costs. The most widely-used approach for measuring customer willingness to pay is conjoint analysis, which, if augmented with qualitative data - eg, focus groups, customer observations, ethnographic research - yields actionable results. We need to keep in mind that customers need change. The champions of value-based pricing routinely analyse how changes in customers need affect perceptions of value, and so the maximum willingness to pay. It is dangerous to base prices on factors that were relevant for customers in the past, but are not anymore.

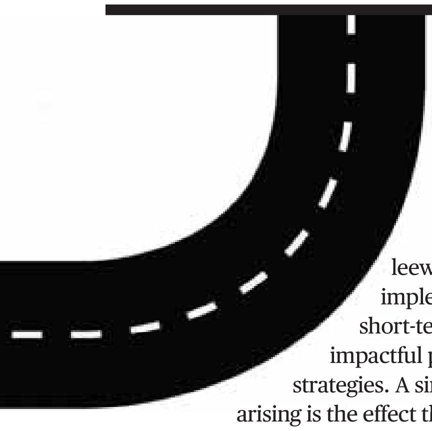
d) How do different price points affect the bottom line? Once data is gathered, a company must understand how these new price points will impact sales. The result can often be in terms of different prices for different segments and one must ask what is the likely economic value created based on the weight of each segment, which is useful data to take into account for the second and next key element of pricing decision.

Know your company

Each company is different and different cost structures will allow different degrees of

C) CONTRIBUTION MARGIN (%)

		10	20	30	40	50	60	70	80	90
		Required volume increase to maintain same level of profit								
Price decrease %	-30	-	-	-	300	150	100	75	60	50
	-25	-	-	500	167	100	71	56	45	38
	-20	-	-	200	100	67	50	40	33	29
	-15	-	300	100	60	43	33	27	23	20
	-10	-	100	50	33	25	20	17	14	13
	-5	100	33	20	14	11	9	8	7	6
		Affordable volume loss to maintain same level of profit								
Price increase %	5	-33	-20	-14	-11	-9	-8	-7	-6	-5
	10	-50	-33	-25	-20	-17	-14	-13	-11	-10
	15	-60	-43	-33	-27	-23	-20	-18	-16	-14
	20	-67	-50	-40	-33	-29	-25	-22	-20	-18
	25	-71	-56	-45	-38	-33	-29	-26	-24	-22
	30	-75	-60	-50	-43	-38	-33	-30	-27	-25



leeway for implementing short-term, impactful pricing strategies. A simple issue arising is the effect that an increase in price might have on demand. Since even small price changes have a substantial effect on profitability, we need a structured approach to understand how price and volume affect profits. A structured way to calculate this is through CVP (cost-volume profit) analysis. The following table provides an overview of the volume impact of price changes. It allows us to calculate the required volume increase to compensate for price reductions, and the maximum affordable volume loss associated with price increases, if the overall goal is to maintain profits.

For example, a product or service has a 30% contribution margin. A 10% price reduction – eg, a special one-off discount granted to a customer – requires an increase of 50% in sales to keep overall profits constant. The implied price elasticity of demand is unlikely in practice. Conversely, a 10% price increase for the same product maintains its profitability even if volumes decline by up to 14%. The implied price elasticity of demand for price increases is considerably lower. This table (see Figure C on page 23) visualises the substantial volume implications of price reductions and increases and allows pinpointing of opportunities for price increases, especially for those products providing substantial customer value.

Know your competition

Competitive analysis is an important aspect to take into account when deciding what strategy to implement. A thoughtful look at competition may show unexplored markets, or better segmentations by others, as well as unserved niches or needs that the firm can tackle. It can also be important to assess the effectiveness the strategy is going to have in the arena. Price wars often come from overlooking the power of pricing, such as when companies with new superior products charge the market average without considering the value they create; this forces competition to respond fiercely.

In other situations, and against common sense, companies may charge a premium to gain market share by eliciting exclusiveness and high quality in the mind of customers, as well as distinguishing their offering from the competition. In some situations, the pricing strategy adopted by some players may influence and actually determine the competitive structure.

MAKING IT WORK

The final step on the road to successful pricing is to implement and follow up the pricing decision. It all comes down to setting price and leveraging the newly discovered value of the company's product or service.

The decision to change price in itself is not enough – a correct implementation is key. A few guidelines can ensure that the price orientation (the ability to set prices based on value), matches the price realisation (the ability to enforce the prices):

- Communicate value. The company will gain a better understanding of its own value proposition when it analyses the key attributes of its consumers. What emerges from that stage should be constantly communicated and the consumer reminded of the reasons why he or she chooses you over competitors. This is particularly true when the customers are big companies whose purchasing departments have to justify expenditures: they must be able to explain the "value they are getting" not "the money they are spending".
- Company effort. Having the support of all stakeholders in the company helps make better decisions. Also in a previous stage, technical developers and sales managers can provide useful, if not critical, insights on value since they are the ones dealing directly with the product and the customers.
- Pricing rules. Those responsible for the change must make sure there won't be deviations from list prices, unless specified and for given order sizes. For example, when dealing with a sales force paid on revenue rather than profitability, sales managers may be inclined to give discounts to close a deal.
- Negotiation and value communication. Companies that champion price realisation tend to have a sales force that knows why the price reflects the value the company is delivering, and is able to communicate this factor, escaping the downward spiral of negotiating price reductions.

In conclusion, pricing is one area where small changes can set a company apart from competition. Value-based pricing is a road that secures results in the short run; it also sets the direction for a path toward serving customers better, in light of the understanding of what value really means to them.

VALUE-BASED PRICING IS MORE THAN PERFORMANCE PRICING

We have to make one aspect clear. Performance pricing is an example of value-based pricing, not more: value-based pricing is more than performance pricing. Take the global advertising industry. In the old days, agency fees were based on man-hours, pricing was strictly cost-based. Today, an increasing number of clients and agencies alike are linking fees to performance, eg, incremental sales. It ensures that client and agency interests are aligned – prices reflects performance and agencies have every incentive to perform. But two considerations are important. First, it risks not rewarding agencies for performance improvements that are difficult to measure, such as change in preferences and attitudes towards a brand; furthermore, in this case performance pricing can lead to corrode agency efforts towards building short-term sales as opposed to investing in building long-term brand equity. Second: we need to stress that value-based pricing is indeed possible without performance pricing. After all, we do not pay for our car (or toaster for that matter) after the last mile (or loaf of bread), but we are all prepared to pay for superior safety, durability, status – ie, value. Value-based pricing means customers pay for higher expected performance, and not necessarily for higher actual performance.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FIT FOR PURPOSE?

Martin Goodwill counts the cost of poor recruitment techniques and outlines the value of assessments in getting the right person for the job

Suppose a manager in your business came to you asking for £10,000 with only a 25% likelihood of you ever seeing it again, let alone earning a return on it, would you give them the money? Probably not.

Yet that is exactly what your organisation does every time it allows its people to recruit new employees in the 'traditional' way (CV, interview, references).

Research in this area shows that every time you recruit someone who is unsuitable for the role they're hired to perform, by the time you've added together all the elements (including recruitment costs, salary, benefits, training, management time spent attempting to improve performance, opportunity cost of having underperforming headcount, etc) it equates to at least six months of that individual's total costs (not just their salary).

At The Realise Group, we worked with a company that estimated the cost of recruiting the wrong sales executive at more than $250,000 (£150,000), once the training costs were added in.

What is the staff turnover in your business? How many of those people left the organisation in the first six months of employment? What were their total costs to the company during

£150k

approximate amount one company spent recruiting the wrong sales executive

75%

likelihood of success if the right assessment is used when recruiting

their time with you? If you can answer these questions, and estimate the other costs involved, you can begin to see the size of the problem.

Recruitment is, of course, somewhat subjective and the right person for one organisation may well be entirely wrong for another. We are aware that many candidates exaggerate their CV and often a highly polished performance in an interview is not necessarily a candid view of the candidate. It's down to you and your managers to find a way to get more information and, as with most business decisions, the more information you can gather, the more effective the result.

Most candidates who fail in an organisation don't do so because of their education and experience; you can check these and exclude those without the requisite background and education. Where they fail is because they don't have the personality traits that allow them to use that knowledge and experience to maximum effect in your organisation - that is, they don't fit in.

This is a soft-skill issue and no amount of interviewing, other than using highly technical, competency-based interviews, will do more than scratch the surface in this area; and most recruiting managers don't have the skills needed to do it. This means your organisation takes a big risk with your company's money every time it recruits.

Many HR people will say that they use assessments. But if your business still has a problem, are they using the wrong type of assessment?

Yet while this may be a problem today, it also provides a fantastic opportunity for improved performance.

Companies that succeed in this area have one thing in common. They use assessments to complement the information they can glean from more traditional methods.

If you have high staff 'churn' in your business, particularly during the first few months of employment, ask your HR people whether they use assessments. Many, if not most, will say that they do. So you then need to ask yourself - and them - a simple question: if they are already using assessments but your business still has a problem, are they using the wrong type of assessment? If the answer is yes, you not only have the problem of employee turnover, you're also paying even more for information that does nothing to improve the situation.

Many assessments claim to help predict how someone will perform in a new role, but a large number of these have no predictive capability whatsoever and organisations often buy them solely based on cost. Examples of these would include those associated with DISC (dominant, induced, submissive or compliant), classifying people into four categories. All assessments should be validated for the results they are designed to achieve - and, as with so many things in life, you get what you pay for.

If your business is using assessments, but not obtaining lower staff turnover, then it's time to review. If your organisation has high churn and isn't using assessments, then perhaps you should seriously consider them.

Martin Goodwill is a director of The Realise Group. He'll be presenting June's 'Women in Finance' event

WHAT DOES AN EFFECTIVE RECRUITMENT ASSESSMENT LOOK LIKE?

1 It will be validated to predict a person's likely success in a new role. Make sure that whoever is responsible for deciding on your choice of assessment provider asks that question.

2 Effective assessments will not be short and, while they do not need to be exorbitantly expensive, they will not be the cheapest on the market. Such assessments should ask candidates a high number of questions (our assessment of choice asks 245!) across a range of areas in order to generate a comprehensive report about the individual. Shorter and cheaper assessments will give you some information but may not be as effective, nor give you the result you need.

3 As a result of the depth and complexity of the information gathered, the highest-performing assessments will take an hour or more to complete. When used for recruitment, they not only assess the person but also the role.

4 As for the output from a highly effective assessment, the reports produced should not need to be translated for the average employing manager. They should be written in plain English and, with a minimal amount of training, a manager should be able to look at the report and understand exactly what it is telling them. If an assessment needs a highly trained person to translate the results, it will not be practical – or cost-effective.

5 A high-performing assessment will significantly increase the probability of getting the right person first time, every time. Without assessments you have a 25% likelihood of success. With the *right* assessment, this can improve to 75% and the person you recruit will fit in, be more productive and highly motivated by the role you've given them.

So, if your organisation isn't getting the biggest bang for your buck from the way you recruit today, there is something more you can do – and with an ROI that you can, most certainly, take to the bank. You may even be laughing all the way there.

All being well…

CABA has released the results of its second annual Wellbeing Survey, looking in detail at the work and personal lives of chartered accountants. **Simon Wells** reviews some of the most interesting results

CABA's *Wellbeing Survey* provides a unique insight into the lives and attitudes of chartered accountants. In a professional world dominated by facts and figures, it asks some fundamental questions, such as whether you are happy in your chosen career.

For the second annual survey, completed earlier this year, the charity looked at trends in six areas of personal wellbeing – emotional, financial, physical, community, friends and family, and career. Almost 1,000 chartered accountants were questioned.

The majority of accountants are content in their careers – with "14% extremely happy" and 49% "happy". It's good that 63% of accountants are pleased to be working in the profession and represents a slight increase from 61% a year ago. Generally, the 2014 survey shows a higher level of satisfaction than last year in most areas of wellbeing and this finding underlines that impression.

The percentage of accountants who have seen redundancies in their workplace during the last year has remained unchanged at 38%. This is a further reminder that the underlying economic picture is still unsettled, although we know that many companies delay restructuring until their own position becomes more stable, and so sadly this level of redundancy may well continue for a few more years.

Financial security has increased in the last year – 24% are now "extremely secure" against 18% a year earlier.

There is a positive theme running through the *Wellbeing Survey* that the worst of the recession is finally over and that growth, however muted, is present. An indication of this is a marked increase in the percentage of accountants who describe themselves as "extremely secure". At the other end of the scale, however, the percentage of those who see themselves as "not at all secure" has fallen by just one point to 18%, indicating perhaps the risk inherent in being a finance director in business. An interesting finding is that the unemployed are much less stressed about money issues than they were a year ago, possibly indicating that they are now feeling more confident about their prospects.

Another interesting finding is that those working in smaller organisations tend to be more content in their professional lives. Chartered accountants working in practice tend to feel more valued, enjoy greater job security and have a more manageable workload. By contrast, 33% of those in larger organisations mention that long hours are an issue and 49% say that their company does not have enough personnel for the current workload.

Stress is a common theme, and the 32% who report feeling stressed in their day-to-day life is an almost identical figure to last year. What is more interesting is that the percentage who say that they have taken time off due to stress is 15% in the new survey as opposed to just 8% previously, suggesting that the issue is having more and more of an impact in the workplace. Those signed off from work with stress has also almost doubled from 4% to 7%.

More than nine out of 10 chartered accountants feel that they have a support network they can call upon. It is obviously essential to have family and friends who you can call on in times of need, and the survey shows 92% of accountants feel that they have strong personal support networks. Demand for help with unemployment has been CABA's biggest growth area during the past 12 months, showing that there are members of the profession who are still struggling with the effects of the recession in the most fundamental sense. However, we are also pleased to report that the new services we have introduced to help these accountants have been very successful.

> Chartered accountants working in practice tend to feel more valued, enjoy greater job security and have a more manageable workload

One of the reasons to be proud of the profession is the time that chartered accountants freely give to worthy causes. Asking about volunteer work for the first time, the *Wellbeing Survey* shows a widespread and long-lasting commitment to supporting communities. Just under half (44%) of you are involved in some kind of volunteer work – and 52% of those volunteers have been for more than 10 years.

More information is at **caba.org.uk/wellbeing-survey-results**

CHARTERED ACCOUNTANTS' WELLBEING - HOW ARE THEY FEELING?

AT WORK

32% **feel secure** in their job

43% think they will be in the **same job** next year

35% feel their **workload** is too **high**

25% are **concerend** about long hours they work

32% are **concerned** about their job security

TAKE A LOOK AT OUR CAREER ADAPTABILITY COURSES

IN THE COMMUNITY

forty four%

are **giving something back to their community** through volunteering

CHECK OUT ICAEWVOLUNTEERS.COM

FINANCIAL

63% feel **financially secure**

67% are **comfortably living** within their means

18% are **worried** about their finances

1/3 are **concerned** about increases in the cost of living

DOWNLOAD THE CABA GUIDE TO FINANCIAL WELLBEING

PHYSICAL EMOTION

have **low levels** of stress 39%

have **strong** personal support networks 92%

WEIGHT IS THE KEY HEALTH CONCERN

32% feel **stressed** in day to day life

23% have experienced mental health issues

TALK TO US ABOUT OUR COUNSELLING SERVICES

From the faculties

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

TO BOLDLY GOOGLE

CHARTECH

Whether you're a Mac or a PC user, chances are you will have Googled something at one time or another. The world's number one search engine, launched in 1998, has changed how, what and when we search. So just how much of an influence does it have over what we see online?

The proof was in the pudding last autumn, when Google changed its search algorithm – the mechanism it uses to determine what results come top of its search – and many websites reported losing up to 85% of their traffic. One site even reported 1.7 million fewer visits in a day. So why all the upheaval? Google wants users to find exactly what they are looking for so they don't go elsewhere, but it equally doesn't want the thousands of search engine optimised businesses getting to the top of the list artificially.

And the influence doesn't stop there. As well as Android apps, the tech giant has moved into video (it bought YouTube in 2006), operating systems and mapping services. But the battle for rule of mobile devices rages on – Comscore data from September 2013 showed that 35 million US iPhone users used Apple Maps, compared to six million for Google Maps. And what of China? It can't see location data from 270 million Apple devices, thus creating a data and advertising black hole.

Clearly, there is still work to be done – it seems you'll be Googling for some time yet.

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

RAY OF LIGHT

FS FOCUS

George Osborne's 19 March Budget brought the somewhat unexpected news that the Treasury's cherished policy on pension annuities was to be abolished. It's now possible to take the first 25% of your pot tax-free, and the rest at your marginal rate of tax.

The reaction had a big impact on shares – the stock market marked down shares on all major insurance companies – Partnership Assurance saw its value drop from £1.8bn to £500m. The media and stock markets also decided that people with a large enough pension to make drawdown a consideration probably wouldn't buy annuities.

However, there are some who think this may be an overeaction. Although gilt yields have been at an all-time low, which have in turn meant low annuity rates, these should return to better levels, meaning annuity rates should follow suit.

So what's the future for annuities? Tim Gosden, chief pensions strategist at Legal & General, thinks they could be used to cover basic retirement outgoings, while part-time work or investments and falling back on the state pension could cover the rest.

There is concern the new policy could cause some to make bad decisions. But while some believe the announcement gives people the freedom to do what they think best with their cash, higher earners with big pots have an added sweetener: a 40% tax rate after taking the first 25% – a 15% cut from the pre-Budget 55%.

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

STEPPING UP

CORPORATE FINANCIER

With economic growth crucial to recovery, the UK government has committed £3.9bn to its new British Business Bank. The Bank's remit is to attract private capital in order to create £10bn of lending. Business secretary Vince Cable said British industry had lacked the "long-term finance that is quite normal elsewhere. We need a British business bank with a clean balance sheet and a mandate to expand lending rapidly." The idea gained momentum after 2012's Breedon report on non-bank finance.

Once EU State aid approval is granted, the Bank will become its own legal entity. Over five years, its mandate is to leverage committed resources with private sector capital, by operating "with and through the market" according to CEO Keith Morgan.

He is clear on the Bank's purpose: "We are here to fulfil a public sector goal, which is to help ensure SME finance markets work efficiently and effectively in areas where the market is not working perfectly."

The Bank identified four areas to address: the difficulty smaller SMEs have in securing equity, debt and working capital; a broad lack of long-term development capital; lenders being capital constrained; and a high concentration of SME lending which led to a lack of funding choices.

Morgan firmly believes the Bank can work with private sector lenders and investors to support companies as the economy moves out of recession.

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

Technical updates

Our regular round-up of legal and regulatory change

TAX

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

HMRC PENSIONS ROUND-UP

There are several changes to look out for in the next couple of years, as reported by HMRC in a newsletter.

New rules from 27 March

The newsletter reminds the reader of the increase in pension flexibility announced in the Budget and effective from 27 March 2014:

- The minimum income requirement for flexible drawdown is reduced from £20,000 to £12,000.
- The capped drawdown limit is increased from 120% to 150% of an equivalent annuity.
- The limit for trivial commutation is increased to £30,000 from £18,000 for entire pension savings. Scheme members can now take a lump sum of the entire pension fund for three pension pots with a value up to £10,000; previously the limit was two pots with a £2,000 limit.

Individual protection 2014

There is also a reminder that Individual Protection 2014 is now available. This is for individuals with a pension pot in excess of £1.25m at 5 April 2014 to give protection to funds up to £1.5m. Unlike Fixed Protection, a member can continue to make pension contributions, but if the total pot exceeds £1.5m, the excess will be subject to the lifetime allowance charge.

Pensions liberation

There is a note about the Finance Bill 2014 giving HMRC new powers to prevent pension liberation schemes being registered and to de-register existing schemes.

2015 changes

Further flexibility on pensions will be introduced, so that from April 2015 any person aged 55 or over will be able to draw their entire pension fund, though any payment in excess of the 25% lump sum will be liable to income tax at their marginal rate of tax. HM Treasury is consulting on this, see *Freedom and Choice in Pensions*.

And finally...

A couple of other points are reported:

- The Government will review the dependants' scheme pension rules and undertake an informal consultation on potential changes.
- The Government will also explore the possibility of allowing individuals aged 75 and over to claim tax relief on their pension contributions.

Noticeable by its absence is any mention in the newsletter of the intention to consult on the 55% tax rate imposed on certain pension funds on the death of the member.

GOVERNMENT PLANS TO TACKLE OFFSHORE TAX EVASION

Concerns about new HMRC powers which would make having offshore income, which is taxable and undeclared, a criminal offence with no need to prove motive.

In a speech on Friday 11 April chancellor George Osborne announced new sanctions to tackle offshore tax evasion.

The Government intends to introduce a new "strict liability" criminal offence for failing to declare untaxed offshore assets. This means that HMRC would no longer need to prove that individuals who have undeclared income offshore intended to evade tax, in order for a criminal conviction to be handed down. HMRC would only have to demonstrate the income was taxable and undeclared.

There will be a consultation but it has not yet been published.

Paul Aplin, chairman of the ICAEW Tax Faculty's Technical Committee, said: "As a profession, we are fully behind the Government's and HMRC's efforts to tackle tax evasion. However, we have considerable concerns about these new proposals. Should such sweeping powers be introduced, there needs to be strong safeguards to protect innocent tax payers from the risk of mistakes or misuse by HMRC."

Following the announcement, on Monday 14 April, HMRC published an update to its offshore evasion strategy which gives more details about this and other proposals.

The document *No Safe Havens* 2014 details the progress made in tackling offshore tax evasion, the new actions being taken, and how HMRC intends to exploit data sources better and influence behaviour.

EMPLOYMENT LAW

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

REMINDER OF APRIL CHANGES

Many changes to employment law were introduced on 6 April. Here is a reminder of some of the key items implemented:

- ACAS early conciliation started on an optional basis and it will be compulsory from 6 May 2014;
- statutory discrimination questionnaires were abolished;
- a re-classification of the type of claims - including equal pay and failure to inform and consult under TUPE - that require payment of the higher fee (£250 issue and £950 hearing) to bring an Employment Tribunal claim;
- increase in employment tribunal fees. Employers who lose at tribunals could face financial penalties of up to £5,000 - this is payable to the State not to the Claimant;
- new compensation awards limits have been introduced. A week's pay rises from £450 to £464 and the maximum unfair dismissal cap will rise from £74,200 to £76,574;
- statutory maternity, paternity and adoption pay have risen to £138.18 per week;
- employers are no longer required to keep records of employees' sickness. However, also abolished is the Percentage Threshold Scheme, which enabled employers to reclaim statutory sick pay payments from their national insurance contributions;
- statutory sick pay up to £87.55 per week;
- transferee employers have the option of matching the transferor employer's level of employee pension contributions as an alternative to the requirement to match the employee's contributions up to 6%.

NEW BLOG LAUNCHED BY BIS

The Department for Business, Innovation and Skills has started a new employment law blog. Keep up to date with news from experts at BIS on **employmentlaw.blog.gov.uk**

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

DISCLOSURE INITIATIVE

The International Accounting Standards Board (IASB) has published an exposure draft outlining proposed amendments to IAS 1 *Presentation of Financial Statements* as part of its wider disclosure initiative.

ED/2014/1 proposes narrow-focus clarifying amendments to IAS 1 to address some of the concerns expressed about existing presentation and disclosure requirements, and to ensure entities are able to use judgement when preparing their financial statements.

The proposed amendments are as follows:

- clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of overwhelming useful information with immaterial information;
- clarify that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- add requirements for how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order;

- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy; and
- clarify how an entity should present the share of other comprehensive income arising from associates and joint ventures accounted for using the equity method.

For more information on ED/2014/1, visit icaew.com/frf

INTANGIBLE ASSETS

The UK's Financial Reporting Council (FRC) recently issued a paper outlining the results of research which set out to discover investor views on the accounting for intangible assets under International Financial Reporting Standards (IFRS).

The research, conducted by the FRC's Accounting and Reporting Policy (ARP) team, sought the views of investors on both the accounting treatment of intangible assets in the statement of financial position and their amortisation in the income statement. It covered:

- intangible assets acquired in a business combination;
- internally generated intangible assets;
- separately acquired intangible assets; and
- adequacy of presentation and disclosure.

The main message of the paper appears to be that some of the 27 investors who contributed views have significant concerns over the accounting for intangible assets, whether arising from a disagreement with the underlying requirements of the accounting standards or with their application.

One area of particular concern relates to the accounting for intangible assets acquired in a business combination. Many respondents stated that they would prefer a different accounting treatment to that required under IAS 38 *Intangible Assets* and some even suggested alternative treatments, such as distinguishing between 'wasting' and 'organically replaced' intangible assets (whereby the latter would be capitalised but not separated from goodwill).

Interestingly, while the paper indicates that this was the most popular alternative suggested by investors, it was by no means the only approach proposed. So, while there appears to be concern over the accounting for intangibles among investors, there is no clear agreement on the best way forward.

Another key finding of the research relates to the quality of disclosures on intangible assets - some of the additional information investors requested is already covered by existing IFRS disclosure requirements, which may suggest that either preparers are failing to comply with those requirements or are not presenting the information with sufficient clarity.

For more information or download the research paper, visit frc.org.uk.

2014 IFRS RED BOOK AVAILABLE

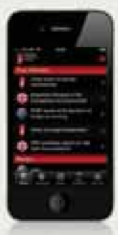
The IFRS Foundation has launched its 2014 *IFRS Red Book* which includes the consolidated text of all IASB pronouncements as at 1 January 2014. It includes standards with an effective date after 1 January 2014 but not those that they will replace.

The 2014 *IFRS Red Book* can be downloaded by Financial Reporting Faculty members via eIFRS. Visit icaew.com/joinfrf

REVENUE RECOGNITION

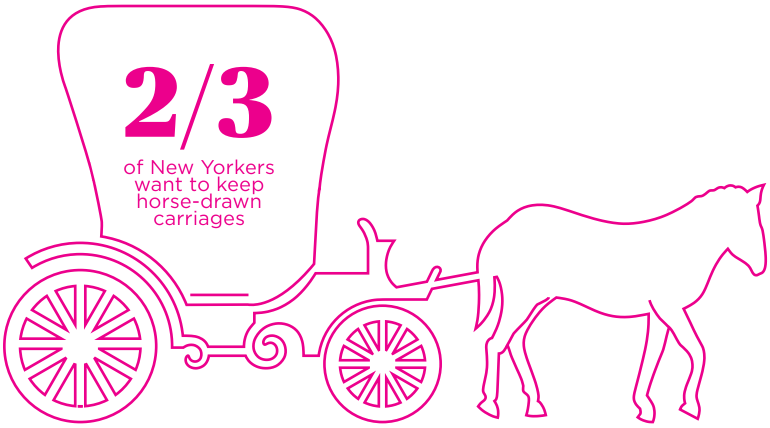
On 21 May the Financial Reporting Faculty will host a webinar on the soon to be released new IFRS on revenue recognition. To register, visit icaew.com/frfevents (there is a fee for those who are not Financial Reporting Faculty members).

FINANCIAL REPORTING IPHONE, IPAD AND ANDROID APPS



Read the latest news and preview selected Financial Reporting Faculty member-only content providing practical help in IFRS and UK GAAP. For more information, visit **icaew.com/frfapp** or to download the free app, simply visit Apple's App Store or Google Play and search for 'ICAEW Financial Reporting Faculty'.

On a lighter note...



ELECTRIC CARS TO REPLACE HORSE-DRAWN CARRIAGES?

Tourist rides in New York's horse-drawn carriages could come to a close as the city's new mayor, backed by animal rights groups, is pushing for their replacement with electric carriages. The abolition of horse-drawn carriages from the city is being resisted by union leaders, who argue that their loss would adversely affect both tourist numbers and employment. Two-thirds of New Yorkers were in favour of keeping the horses, according to a CBS poll.

THE ONLY WAY IS UP

Hitachi has announced the development of the world's fastest lift, which will travel at speeds of up to 45mph – up from the existing highest speed of 40mph – to allow passengers to rise from the ground to the 95th floor in 43 seconds. Two of the lifts will be placed in a skyscraper in Guangzhou, China, when it opens in 2016. To counteract passenger discomfort, the lift cabin is pressurised to minimise the rapid fall (on the way up) and rise (on the way down) in air pressure. And ceramic brakes are incorporated. Hitachi have not provided information on the time taken to pressurise and depressurise the cabin if it were to stop at every floor on the way up.

$3.6m

DOMAIN SALES

Electronics giant Xiaomi paid $3.6m for mi.com in April from an unknown domain squatter, making this the most expensive domain name so far this year. The world-record price paid for a web address remains the $35m, which was paid for vacationrentals.com in 2007.

LIGHTER THAN WHITE

Pennsylvania State University issued a paper last month on the perception of white fabric under different types of lighting. White clothes tend to oxydise to yellow over time; we don't see the tinge owing to the fluorescent whitening agents (FWAs) that have been incorporated into detergent products for decades. These FWAs nestle in the fibres of clothes, masking the yellowing, and work by converting ultraviolet (UV) light into visible blue light, so whites appear brighter. This works well outdoors and under UV office lighting, but detergent manufacturers are concerned about the proliferation of LED lighting, which does not emit UV light. The LED lighting market is also expected to grow 12-fold over the next decade. The report concludes that the best option would be to add UV light to LED bulbs so that we can carry on, safe in the knowledge that even if our shirts are actually yellow, we can pretend that they are white.

TOO HOT TO HANDLE?

A $50 million hot sauce factory in Irwindale, California has been causing some irritation to local residents. The spicy smell emanating from the factory during the Sriracha-making process is causing residents headaches and making their eyes water, forcing some to stay indoors.

The residents won an injunction against the factory owners of Sriracha (Huy Fong Foods) to desist manufacturing, but mayor Mark Breceda has given them a reprieve to see if an alternative solution can be found. "I'm positive we can resolve the issue," Breceda said.

Although Sriracha scores 2,000 on the Scoville scale (the industry standard for chillis and chilli-derived sauces) – Tabasco sauce measures a mild 700 – the Guinness record is held by Blair's 16 Million Reserve, which measures an extraordinary 16 million – it is so hot that it is transported in wax-coated crystals because it burns skin on contact.