Finance & Management

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The monthly newsletter for members, with news, views and updates on current topics.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Faculty of Finance and Management

'THE MEEK MAY INHERIT THE EARTH – BUT NOT ITS MINERAL RIGHTS... ' – J Paul Getty

FACULTY OF FINANCE AND MANAGEMENT

Committee elections 2003

Notice of elections

Notice is hereby given that elections will be held in 2003 for four seats on the Executive Committee of the Faculty of Finance and Management. Nominations must be received by the Executive Secretary of the Faculty by noon on 3 April 2003. Polling day will be on 15 May 2003. *See page 10*

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- The 'who' and how of dealing with risk
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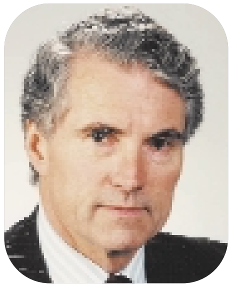
- Business continuity and crisis management

A busy outlook for 2003 and beyond



In a New Year message to members, Faculty chairman **Christopher Pearce** suggests that 2003 will present the profession, and the Faculty, with challenges which both are well equipped to meet.

The Faculty has continued to go from strength to strength during a period in which finance directors and the accountancy profession have faced some of their biggest challenges. Such challenges involved not only dealing with the continued difficult economic and trading conditions but also with the public focus on accounting and reporting following the corporate accounting scandals – particularly those in the US.

The media focus has, not surprisingly perhaps, been on the scandals. But it is the economic problems – particularly internationally and in business sectors – that are continuing to require work and attention from most of you in business. Keeping up to date on new developments in this climate presents a real challenge but is even more important than ever.

The Faculty wishes members and all readers of F&M a happy and prosperous New Year

Fortunately, corporate governance and accounting in the UK are in better shape than the US, following our own problems in the 1980s and the responses to these through the Cadbury and Hampel codes and Sir David Tweedie's work at the Accounting Standards Board.

However, we should never be complacent and further improvements can and will undoubtedly be made. Members of the Faculty have been involved in the Institute's input to the UK government's enquiries into these problems so that the views of finance professionals in business are taken into account in the debate.

We have also been active in keeping members up to date with other new developments, problems and challenges. For example, we have had events and guidance on reporting non-financial information to shareholders and the market and also on assessing and managing risk. These are important aspects of ensuring that companies are run and managed – and results reported – in the

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THE FACULTY OF FINANCE AND MANAGEMENT

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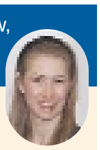
THE FACULTY COMMITTEE

A message from Caron Bradshaw, head of the ethics advisory services at the ICAEW



SUPPORT AND GUIDANCE WHEN THE HEAT IS ON...

You may come under pressure to disguise financial difficulties or to inflate the well-being of the business, to extend banking facilities, entice new customers, or maintain a façade of prosperity and success.

The Institute provides **free** and **confidential** advice and guidance to members on all ethical issues – somewhere you can turn when faced with such pressures.

The ethics advisory services (replacing 'IMACE' and 'CAASE') provide prompt, skilful and sympathetic assistance on everything from your responsibilities in business to inappropriate behaviour of a colleague.

Visit our web pages on:
www.icaew.co.uk/ethicsadvice
call: 01908 248258 or
e-mail: ethics@icaew.co.uk

New Year *– from page 1*

way that investors expect. In particular, we researched and produced the Institute's updated guidance on risk management – 'Risk management for SMEs'.

Another current area of importance we have covered is the problems of pension funds. FRS 17 presents a particularly sobering view of a pension fund's solvency but, even so, it has highlighted both the real and the accounting cost of final salary schemes particularly with the current stock market difficulties.

Many companies are moving to defined contribution schemes to control these costs but the previous schemes will still need managing to control risks and produce the best returns to ensure the lowest cost to the sponsoring companies.

Future challenges that are emerging, and on which the Faculty is working to provide guidance, are the move to international accounting standards (IAS) and changes to the 'operating and financial review' (OFR), particularly those in the new company law white paper. The move to IAS is likely to require major changes, for example in expensing share options, an updated version of FRS17, and accounting for derivatives. There will be periods of consultation on these and the other changes but it is, of course, you, the financial managers, who have to implement all of these new requirements. Similarly, the changes to company law, including the new OFR, will present further implementation work.

In addition to the high profile work which goes on behind the scenes, we commit most of our resources to supporting you in your everyday work. We have continued to focus on marketing, strategy, people management and financial management. We have provided a wide range of articles and events to keep Faculty members up to date, and ahead of the game. We will continue to do this in 2003.

The Institute has a new technical director, Robert Hodgkinson (see below), who has the skills and knowledge to provide technical leadership to the Institute and the Faculty. I look forward to the contribution that Robert will make to the work of the Faculty.

The Faculty committee and staff are following all of these developments and preparing guidance to keep you up to date and in the forefront of finance and management professionals. F&M

New technical director

Robert Hodgkinson was appointed technical director of the Institute late last year He also represents the UK accounting profession at the Fédération des Experts Comptables Européens (FEE), where he has led the FEE's initiative for the adoption of international standards on auditing by 2005.

Hodgkinson has chaired a number of technical working parties and committees for the Institute, notably the Financial Reporting Committee. As chairman of the Institute's Steering Group on Prospective Financial Information, he has taken the lead in developing best practice guidance in market reporting for directors of UK publicly traded companies. He is the lead Institute spokesperson on technical affairs and has responsibility for all technical activities and policies, including the work of The Centre for Business Performance.

He represents FEE at both the European Commission Committee on Auditing and the International Auditing and Assurance Standards Board Consultative Advisory Group. As a former partner of Arthur Andersen, Hodgkinson was responsible for maintaining UK guidance in a wide range of technical areas.

The challenge of sustainability

Independent consultant **Nick Brown**, who was formerly KPMG's head of comprehensive performance reporting, looks at the growing corporate interest in 'sustainability', and the movement towards wider stakeholder reporting.

Nick Brown is a chartered accountant and an independent consultant. Tel: 01483 576 265.

'Sustainability' and 'corporate social responsibility' are concepts that have been in the news recently and are now regularly heard at the boardroom table. But what do they mean and what action should business take?

The Brundtland Report, published in 1987, defined the term sustainable development or sustainability as: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In practice, this means recognising the wider impacts of human and business activity, whether consuming the earth's natural resources or interacting with local communities.

Whilst sustainability is a macro-economic concept, it is now regularly applied to individual businesses. However in the business context, its meaning is far from clear, making it difficult for management to decide on the most appropriate response. In this article I aim to illuminate some of the challenges posed by sustainability, suggest some appropriate management strategies and, with an eye to the future, anticipate what may be next on the sustainability agenda.

Sustainability and business

In a business context, sustainability has come to mean behaving in a responsible manner, securing a 'licence to operate' so as to ensure the durability of a company over the longer term and recognising that there are more factors to be managed than short term profit in delivering shareholder value.

In essence, companies should:

- avoid being wasteful;
- minimise pollution;
- recognise the broader role played by business in society; and
- remember that in this new world, business has responsibilities to more than just investors.

The term corporate social responsibility is often used interchangeably with sustainability to encompass these ideas.

Drivers of change

Two factors are driving the growth in adoption of sustainable behaviour. Firstly, the UK government has embraced this as a matter of national policy and expects all parts of society, including business, to make a positive contribution. The aggregate and landfill taxes are an obvious example.

> Stakeholders are activist – and can both reward and damage a company

Secondly, there is growing recognition that sustainable behaviour is a proxy for good corporate management. Sustainability is a set of business risks. And those companies that have identified these risks and set out to manage them should be better managers of risk. Consequently good sustainable behaviour is often taken as a proxy for good management – and one that has the prospects of being measurable. So, whilst at present there is no proven business case for corporate sustainability, anecdotally at least there appears to be a strong case in support of it.

Conventionally, the UK business model has always put the interests of shareholders first. Company law still requires that this be the case. One of the main features within sustainability is the prominence given to stakeholders other than shareholders, be they employees, customers or the environmental lobby.

These stakeholders are increasingly activist and have the ability to both reward and damage a company for what they see as inappropriate behaviour. This can have real financial consequences with effects ranging from adverse publicity through to boycotts of a company's products or services. The key asset for many a business in the 21st century, and a major driver of value, is its own name.

Such assets can take years to develop and seconds to destroy. The case of Gerald Ratner is a real, if extreme, example illustrating the range of challenges faced.

Current responses

Shell and its Brent Spar platform was one of the first cases to demonstrate that things had moved on from a former world in which big business was implicitly trusted to the 'show me' world we live in today. Since then, a range of solutions has been developed to deal with this challenge.

This range started with environment reports, initially superficial in nature and tagged as 'greenwash' with the oil and other so-called ‘dirty’ companies leading the way.

Such environmental reports have since become increasingly more sophisticated – to a point where they now communicate a range of processes and outcomes against a set of targets, with the reports being subject to assurance by external auditors. But the investment required to produce such a report is considerable. Hence, despite government attempts to ‘name and shame’ those companies not participating, the level and quality of reports still remains relatively low.

> Environmental reports have become sophisticated

These reports, in any case, met the needs of only a select group of stakeholders. However recent developments have seen a broadening in the issues covered and the stakeholders addressed by companies as they begin to produce social reports and more recently, corporate social responsibility reports. These have followed the development trend of environmental reports. However, whilst the basic principles are well established (the Association of British Insurers recently issued its own guidelines on CSR), reporters are still grappling with a number of issues, eg:

- how to measure sustainability – profit is well established; environmental impacts can be quantified in terms of emissions and impacts; but social effects and economic assets such as a customer base or workforce are much harder to measure; and
- how to ensure that the needs of stakeholders are reflected in reports – this entails prioritisation as well as a process for understanding stakeholder needs. This stakeholder engagement and management needs careful handling if a gap is not to arise between the expectations of stakeholders and the intentions of management in delivering the business strategy. Consequently this is an essential activity if all applicable business risks are to be identified, but one that is not without risks in its own right. However if handled carefully, this process offers the opportunity to establish genuine symbiosis where both company and stakeholders can benefit.

And these issues keep on being compounded. Meeting the demands of stakeholders for sustainable investments, socially responsible investment (SRI) has grown to a point where pension and other investment funds have been established which only invest in ‘responsible’ companies.

At present, the amounts are small, but growing rapidly, facilitated by investment indices such as FTSE4Good and the Dow Jones’ specific index for SRI. Given that responsible companies are viewed as being lower risk, when capital is rationed, sustainable companies are likely to have access to equity markets when others are denied and generally enjoy a lower cost of capital.

Next steps

We have reached a position where companies are making significant investments in reporting to stakeholders, often through the annual report, environmental report, community report and in some cases reports to individual stakeholders. However this still remains the province of the early adopter, through altruism, pressing need or business acumen. Additionally, in this context, rating agencies require companies to complete questionnaires which – though requiring broadly the same information – all want it in a slightly different form, putting a further burden on management time. And even amongst the early adopters there is no consistency on what to report, or how to measure it.

This situation is likely to change. Internationally, the Global Reporting Initiative (GRI) is seeking to standardise metrics and their definitions. This project is still in its early stages, however measures for environmental and social aspects of sustainability are relatively well developed. Whilst in the UK, there is currently no regulatory pressure to embrace GRI, this is likely to come from stakeholders and a need for sustainability reports to have credibility with their audience.

Sadly, the position in respect of economic sustainability is less well developed. This is a key issue for many businesses, encompassing their own economic assets as well as their interaction in their local economies and is clearly linked to their long term durability.

In the UK, the first integrated performance reports (IPRs) have recently emerged – linking the resource(s) usage to the company’s core activities. Whilst still in its infancy, this trend looks like the way forward. Although an integrated report cannot meet the needs of all stakeholders, it does provide a mechanism for providing a balanced, cost effective perspective of a company’s activity and wealth generation.

Separate reports will probably still need to be made to a number of specific stakeholder groups, however, and the internet provides a cost effective method of disseminating them.

> Sustainability stands for good business

The UK’s Company Law review will provide a further push in this direction. Affecting the top 1000 companies, it will require the production of a comprehensive Operating and Financial Review (OFR). In time, and as the techniques become available, we believe that this OFR will become subject to audit as with financial information.

This will provide managements with the opportunity to showcase their businesses, but it will also require much information that has previously been confidential to be released. Our concern is that as with other statements, such as the Corporate Governance Statement, it will be reduced to ‘boiler plate’ status. If this happens management will have passed up an opportunity to enhance the company’s worth and engage with key stakeholders.

Sustainability may be a complex sounding term, but in reality it stands for good business. Able managers will embrace and reap the rewards whereas cynics may come to rue the day that they ignored the needs of their stakeholders. F&M

UK companies report quicker than US groups

Debate continues as to whether UK companies with a listing in the US will need to be fully compliant with new US legislation set out in the Sarbanes-Oxley Act. The SEC has also introduced tough new reporting cycle times for US companies. Parson Consulting's **Scott Parker** looks at how US and UK companies reporting times compare.

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For further details of the Parson Consulting survey contact Matthew Jervois
Tel: 020 7417 4175

There has been much recent comment, particularly around UK companies that have a debt/equity listing in the US, as to whether they need to be fully compliant with new corporate governance legislation set out in the Sarbanes–Oxley Act.

In context, the 'umbrella' requirements of the act make no distinction between US and foreign private issuers listed in the States; though former chairman of the Securities and Exchange Commission (SEC) Harvey Pitt said there would be some leeway in the interpretation of home country requirements and regulatory approaches. No doubt a certain amount of flexibility will be afforded to European companies, although I believe it is unlikely that the basic thrusts of the legislation will fall into this category.

Tightening up reporting deadlines

One of the cornerstones of the act has been to improve the transparency of financial information for investors. Following the introduction of the act, the SEC has looked at enhancing reporting and disclosure requirements, specifically tightening up quarterly and annual reporting deadlines.

Companies listed in the US now have to file their quarterly reports within 45 days, reducing to 40 days next year and 35 days in 2004; for annual reports this is currently 90 days, 75 days next year and 60 days in 2004.

Legally, UK companies will not have to comply. However as a survey carried out by Parson Consulting demonstrates, the managers of risk capital, the institutional investors, place a premium on companies that move towards greater transparency and adherence to corporate governance principles. Also, the EU is considering the introduction of quarterly reporting deadlines. A convergence between the US and EU is likely.

The survey researched interim reporting cycles for the FTSE100 and the S&P 500 in the US, and produced some stark findings. More than half – 58 out of the FTSE100 – take longer than 35 days, including 70% in the consumer sector (covering retailers), and 65% of those in the service sector (covering media, transport, support services, telecoms and property).

(Full marks, though, for the health and pharmaceutical sector FTSE100 constituents, which all reported within 35 days.)

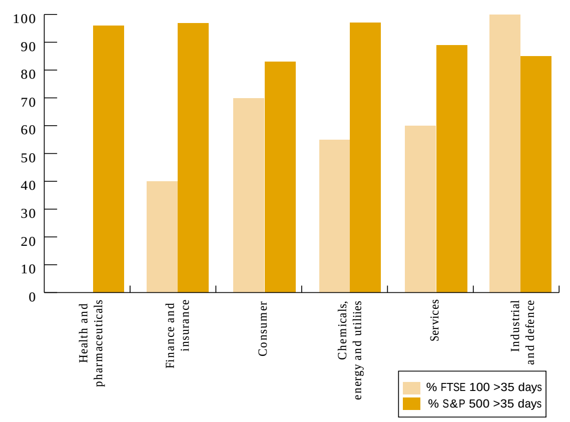
Valuation linked to reporting time?

Moreover, the survey uncovers a distinct pattern between shorter reporting times and corresponding valuation. The average price/earnings (P/E) ratio of UK FTSE companies filing their interim results within 35 days was 24.3 compared with 18.1 for companies filing outside 35 days. This valuation gap is staggering, with a 34% P/E ratio premium awarded to those companies reporting fastest.

This 'fast reporting' premium was even greater than for similarly swift S&P 500 companies. In the US only 11% reported within 35 days, and enjoyed a P/E premium of 19.5%.

No doubt there are other factors that affect these companies' market values. But arguably the market is giving a clear signal and time is ticking away for companies that need to address the issue of providing the proper infrastructure in order that finance functions can instigate a clear audit trail. The key to providing greater accountability is transparency of information. Companies need to address this issue immediately as they cannot afford to jeopardise 'Mr Market's' favourable view, irrespective of where they are domiciled. F&M

Figure 1 'Late' reporters – UK and US



Intangibles – selecting the right tools for the job

Daniel Andriessen, a senior manager at KPMG Knowledge Advisory Services unit in the Netherlands, is writing a PhD thesis on the valuation of knowledge. Tel: +31 20 6568190; e-mail: andriessen.daan@kpmg.nl

Intangible assets, intellectual capital, knowledge-based resources, human capital – such a deluge of new concepts and techniques has surfaced to name and measure intangible resources that it has become difficult to see the wood for the trees. Managers should start by asking themselves 'what is the problem I'm trying to solve here?'. **Daniel Andriessen**, a senior manager at KPMG, provides you with a checklist.

The intangibles perspective

Once every few years a new perspective on organisations is born, providing management with a new point of view and offering new solutions to newly identified problems. A perspective that has attracted considerable attention in recent years is looking at an organisation as a combination of tangible, financial and intangible resources. Intangible resources have become more and more important in producing products and services.

Companies have gone 'soft', shifting from tangible to intangible, so that many are now virtually weightless. The drivers of wealth are brands, networks, knowledge, competences, corporate culture and leadership, just to name a few.

> More time should be spent on managing resources

Adopting this perspective is forcing companies to see things in a new way, identifying new problems and risks. For example, typically, much time is spent optimising the process of managing financial and tangible resources, but far less on managing important resources like knowledge or brands. Accounting systems are very sophisticated when accounting for financial and tangible assets, but tend to treat most investments in intangibles as expenses.

Performance of financial intangible assets is always measured, but information on the performance of intangible resources is generally lacking.

The solution generators

With this new perspective came the solution providers and sellers of consulting services. Over the past five years a tremendous amount of literature has been published on the measurement and management of intangibles, stemming from various communities:

- the intellectual capital community builds on the work of people like Thomas Stewart and Leif Edvinsson and offers various models for measuring intellectual capital;
- the accounting community is struggling with a decrease in relevance of traditional financial information and is working on ways to recognise intangible assets in financial statements;
- the performance measurement community has adopted the concept of intangibles to add credibility to its approaches for measuring performance, like the balanced scorecard;
- the valuation community is creating more and more sophisticated tools for coping with the highly uncertain nature of intangible value, using concepts like real options;
- the financial analysts' community is working on new ways to measure the true value of companies, using tools like economic value added (EVA™); and
- within the human resources community we are seeing a revival of the human resource accounting (HRA) techniques from the 1970s.

Er... what was the problem?

With so many solutions floating around, you stand to lose sight of the problems these approaches try to solve. In many cases these tools seem to be 'solutions in search of a cause'. Therefore, when you are considering implementing a tool for measuring intangibles, you should first consider what the problem is you are trying to crack. The box (opposite) provides a checklist of common problem definitions found in the literature regarding the measurement of intangible resources.

> Some tools are 'solutions in search of a cause'

As it shows, there are many ways of defining the intangibles measurement problem. Some problem definitions may partially overlap, others will correlate. In general one can distinguish between problems associated with the internal management of the organisation and problems that have to do with external reporting. You can use this checklist to determine your key area of interest regarding intangibles and then select the appropriate tools. Each of the 10 problems is discussed briefly.

IMPROVING INTERNAL MANAGEMENT

Improving the management of intangibles?

Tools claiming to improve the management of intangibles are often based on the notion that intangible resources (commonly named intellec-

Checklist of problem definitions

Improving internal management

- ✔ Improving the management of intangibles
- ✔ Creating business strategies
- ✔ Improving financial results
- ✔ Weighing investment opportunities
- ✔ Enhancing the management of the business

Improving external reporting

- ✔ Closing the value gap between book and market value
- ✔ Improving predictability of future performance
- ✔ Reducing information asymmetry
- ✔ Clarifying and controlling communications with stakeholders
- ✔ Enhancing corporate reputation

tual capital) are the most important drivers of business value, but receive the least management attention. Based on the adage, 'what gets measured, gets managed', they promote the detailed measurement of stocks and flows of intellectual capital, using all sorts of indicators. A well-known example is the 'Navigator', developed by the swedish insurance firm Skandia and promoted by Leif Edvinsson.

Creating business strategies

Kaplan and Norton in their latest book, 'The strategy focused organisation', admit that their balanced scorecard is not so much a tool for solving the performance measurement problem as a tool to clarify and implement strategies. Many companies are looking for ways to align business strategy to opportunities offered by the knowledge-based economy. A method like KPMG's Value Explorer® provides insight into the stock of intangible resources that companies can use to develop new resources-based strategies.

Improving financial results

Knowledge-intensive companies that operate with little financial and tangible assets and that invest heavily in intangibles like research and development (R&D), often show poor financial performance. Then it becomes tempting to improve the balance sheet and current profits by capitalising investments in intangible assets that are otherwise treated as an expense. Current accounting regulations offer limited possibilities for doing so. Some authors claim that the '500 year old system' should therefore be drastically reformed; others warn we should not throw out the baby with the bath water.

Weighing investment opportunities

The intangible value measurement (IVM™) approach developed by Professor Philip M'Pherson of Systems & Value Ltd is one of the most robust approaches to the measurement of intangible resources I have come across. A similar tool, the IC-Index, has been developed by the London-based Intellectual Capital Services (ICS). Using a series of indicators the method calculates one overall measure of business value. This tool is especially suited to measuring the impact on business value of investment opportunities and it serves as an aid for cost-benefit analysis.

Enhancing the management of the business

Some tools claim to enhance the management of a business as a whole by focusing on the creation of intangible value. For example the economic value added (EVA™) concept introduced by Stern Stewart can be used to measure whether the overall management of a business is aimed at creating shareholder value.

> Book and market values cannot be compared

IMPROVING EXTERNAL REPORTING

Closing the value gap between book and market value?

A popular misconception in literature is that the difference between the book value and market value of a company equals the value of its intangible resources. Even more popular is the notion that this value gap poses a problem and needs to be closed.

Comparing book and market values is like comparing apples and pears. It is not possible mathematically to subtract one from the other.
The gap has many causes, including the rising importance of intangibles. As such it is not a problem, as it has never been the objective of financial statements to make stockholders' equity equal market capitalisation.

Improving predictability of future performance

What is more worrisome is the fact that reported earnings are playing a decreasing role in the total information affecting investors' decisions.

Research shows a decreasing pattern of association between stock prices and key financial variables, such as earnings, cash flow and equity values. Of course investment decisions are made based on more information than available through the financial statements. Research shows this information is becoming more important. This may lead to an increase in information asymmetry among parties operating on the stock market, ie between the 'knowers' and the 'don't knowers'. This in turn may increase the cost of capital.

Reducing information asymmetry

Reducing information asymmetry is the objective of the value chain scoreboard™ proposed by Baruch Lev. Its aim is to enable all constituencies – from individual investors to professional financial analysts – to make decisions at the level of professional investors and managers. This is in line with what Baruch calls, 'the democratisation of the capital markets'. In essence, his scoreboard is a set of indicators at each stage of the enterprise's value chain, to be reported on a regular basis. These indicators focus in particular on intangibles.

Clarifying and controlling communications with stakeholders

As financial statements become less relevant and the instant availability of other enterprise-related information is increasing (as a result of the media and the internet), clear and focused communication to stakeholders becomes paramount. This includes information on where the real value – current and future – lies in an organisation. KPMG's 'Beyond numbers™' approach deals with all aspects of non-financial performance reporting. It helps companies build a total value reporting culture and to deliver the right corporate messages to the right stakeholders at the right time. This allows more informed commentary by analysts, thereby bringing share prices to levels more commensurate with business performance.

Enhancing corporate reputation

Investors increasingly incorporate social, environmental and ethical performance into their decision-making process. As a result there is an increasing demand for information on non-financial performance. Companies need to prove they are behaving responsibly at the risk of losing reputation. This includes a responsible way of managing their intangible resources. (This demand not only acts as a threat but also an opportunity as was proven by Skandia. The exposure created by the Skandia Navigator boosted the market recognition of its brand.)

> The intangibles problem is often part of a larger issue

Conclusion

There are many good reasons for measuring and reporting intangible resources. Selecting the appropriate approach is often difficult. The key is to define carefully the problem you want to solve. Each problem will require a different approach. In most cases this problem will stretch further than managing or reporting intangibles. As is clear from the checklist, the intangibles problem is often part of a larger business issue. Therefore in most cases the adopted solution will need to go beyond pure measurement of intangibles. F&M

Daniel Andriessen is the author, with Professor René Tissen, of the Financial Times Prentice Hall publication 'Weightless wealth; Find your real value in a future of intangible assets' (ISBN 0-273-64922-1).

Leadership – harder than the Labours of Hercules

You can't control the strategy of your business – you can only influence the conversation you happen to be in at the moment, says **Steven Sonsino**, of the London Business School. Below is his view of a better way to lead, on which his November 'Leadership Unplugged' workshop (see box, opposite) was based.

Every time you open your mouth do you put your foot in it? Do you seem to complicate rather than simplify things? Create problems instead of solving them? And – worst of all – do you demotivate people who were pretty effective before?

Sorry, if this line of questioning is somewhat provocative, but having worked with board-level directors across the UK, I would guess you may be struggling with some of the same problems as they do.

You and the other senior executives and managers leading businesses in the 21st century face an enormous challenge. Not even the Labours of Hercules were as onerous as the series of tasks you must undertake. However – unlike Hercules – you have no god-like powers or superhuman strength to help. Instead you have a mere three abilities – to think strategically, to manage change and to lead people. What does this particular skillset mean for you in your day-to-day battle to keep your businesses afloat and profitable?

The traditional business school conception of strategy – that vision of where the organisation ought to be in the long-term – has been fundamentally shattered by the phenomenal pace of business today. Nobody in government or commerce has any clue nowadays about what the phrase 'long-term strategy' really means. (And the problems afflict public sector as well as private sector businesses.)

Are you struggling with budgets, or with governmental targets and regulations which seem to contradict one another hopelessly? Can't find reliable business partners to outsource to? Trying to find good functional specialists to run the day-to-day performance of the organisation, as well as attempting to identify and nurture the leaders of tomorrow?

Apparently everyone has the mother of all leadership problems. And it seems the finance function has the worst of all possible worlds.

Responsible for monitoring the efficient use of resources, deciding which resources can be safely canned and identifying the value that all resources bring to the organisation. Yet, sadly, for the most part unable to communicate its wealth of experience, knowledge and insight in a way other than pompous, pedantic and penny pinching.

Develop and articulate a view

To handle the delights of leadership in practice you need to think strategically, being clear how you develop and articulate a view of what your organisation needs to look like, to deliver the targets you've been set.

Documents flying around the place calling themselves 'a strategy for the 21st century' are only sets of numbers. Targets plucked from thin air to measure progress are all very well – after all what gets measured gets done – but I've yet to come across measures that can satisfactorily address the human cost of strategy.

How do you measure a positive organisational culture, healthy morale and inspired motivation? Because more than any other resources – including cash – these three will have the most impact on your strategy if you can resurrect, nurture and instil them across the organisation. And such factors are not being addressed in a substantive way in any of the weighty strategic plans sitting on my desk.

A few simple questions

If you have been given the task of moving your organisation into the future you should be asking a few simple questions. Where and how do we compete in the future?

Then, what do we have to look like to compete there? In some ways you could argue that that decision has already been made for you with the recent market upheavals: 'Restructure!', goes the rallying cry. 'Simplify!' – but I question whether organisational structure actually means anything. I tend more to the view of Petronius Arbiter who 2,000 years ago said: "Every time we were beginning to form up into teams, we would be disbanded. I was to learn later in life that we tend to meet any new situation by reorganising; and a wonderful method it can be for giving the illusion of progress, whilst producing confusion, inefficiency and utter demoralisation."

So, you have a certain amount of power to ignore the organisational chart and use the people working within your organisation to achieve the goals of the organisation. Don't get hamstrung by the boxes, lines and arrows on the pieces of paper.

Ask yourself, what do we look like now? Have we got the right people in the right jobs? And, crucially, how do we get from where we are now to competition-ready? This is the critical plan you need to develop with your people. Not the abstract 'we'll-do-this-much-by-then' kind of plan. The most effective change plans address how you move into the future, one step, one conversation at a time.

Steven Sonsino is a tutor and writer specialising in strategic leadership and change management. He is a Fellow in the Centre for Management Development at London Business School
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Of course, the most pressing question of all is, when do we start? My guess is that while you at the senior echelons of the organisation might have been thinking and talking about this for months, many of the rank and file footsoldiers have been busy trying to ignore the apparently

The workshop – and the feedback

Steven Sonsino advocates a return to the simple art of persuasion rather than the tyranny of dictation, and at his November workshop around 70 members of the Faculty heard him outline why finance executives need to consider becoming more influential and more persuasive within their organisations.

The participants then looked briefly at the work of Jan Carlzon, former chief executive officer (CEO) of SAS Airlines. They analysed how Carlzon communicated his vision for the organisation in an innovative and persuasive manner, appealing to different people in different ways. Carlzon not only presented the brutal figures relating to corporate performance, but also used simple cartoons and humour to make his point.

Next, they discussed the relevance of Carlzon's approach to their own task of analysing and understanding people in their own stakeholder networks. Using simple questions, such as 'what's going on?', 'what does this mean for us?' and 'what do we do now?', participants began to feel that they too could become more influential – not by concerted use of 'the numbers', but by a more open and explanatory style, involving simple conversations, using questions and careful listening.

From the feedback they gave, the participants evidently picked up on the key themes very quickly.

Mark Hutchings of BAT said: "There is so much common sense in the subject but it is amazing that we lose track of it when we are absorbed in our work – stepping back and thinking about an approach in different scenarios is fundamental to gaining better acceptance in our companies."

The point was made that adopting a more persuasive approach would enable finance people to better pitch an argument to the board and balance the proposition.

Fiona Stancombe of QAS agreed with this, saying that relating to the board was crucial. The workshop had helped her by suggesting that asking questions and listening more were keys to providing more effective information for the board.

"It may sound trivial but asking questions will really help", said another participant from the transport industry. He suggested we should also be concerned with tailoring communications to what the listener needs.

Russell Stilwell of Boyden picked up on the 'listening' theme, pointing out that listening to what others want or need is essential to achieve change, while others built on that, stressing the importance of remembering that each person has a different point of view.

The upshot of applying the lessons from the session, Simon Mander of Tramtrack Croydon observed, would be to enhance the influence of finance people. Chris Turner of Clifford Chance summed up for many, suggesting that he would "endeavour to listen... and then to listen more".

Self-evidently, the key message from the session was the need to 'listen furiously'. As Sonsino concluded, "Leadership isn't about telling people what to do. People will never do what you want them to do. But leadership is about the way YOU do things. Simply. With common sense.. like the musicians in the acoustic MTV concerts – unplugged."

mindless pontificating at the top and get on with the job. While in some ways this is salutary – ignore or even cut off the head and the body carries on running around – this is no way to run any business today.

However, not all is lost. Today's business environment is becoming ever more complex, but that complexity means you have more choices in terms of how, personally, to lead. I believe you should take stock of how you lead and, if you're not getting everything you can from your peers, superiors and subordinates, now is the time to change.

It seems obvious that in a hyper-turbulent business arena it is impossible to control some abstract notion of a strategic plan, focused on the future. I believe that the only thing that you are able to control, or rather influence, is the conversation you happen to be in at the moment. So you'd better be sure you're good at it. Talking, I mean.

'Leadership unplugged'
Your personal success as a leader is governed by your ability to develop and to make strategy on the hoof, in real-time conversations. And none of us can afford to be an 'old dog', pretending we can't learn new tricks. Only those with a clear leadership vision and strategy will succeed. The whole point in all my writing, teaching and consulting is to help you develop your role as a strategic leader faster and more effectively than you have to date and I call this philosophy 'leadership unplugged'.

Exactly what is leadership unplugged? Who could benefit from its methods and tools and how do you 'do' it? As a working definition, leadership unplugged is a practical guide to the art and science of strategic conversation. It tells you clearly:

- what should be on your leadership agenda;
- who should be in the conversation; and
- how to influence the people around you to bring the strategy to life.

> We need to create a professional working culture

Astonishing as it is, there is still life left in the question 'What is leadership?'. No one seems to know, even after thousands of years of scholarship and debate. We have constantly launched change programmes, re-engineering initiatives and new strategic directions. We are ever eager to learn what will make us 'the best'. Yet striving to be 'the best', and encouraging others to follow suit, can sometimes be counterproductive.

It can be counterproductive when it's time to stop trying to be someone or something or some organisation that we quite blatently are not. I believe that now is that time. Time to take stock of what we've learned from our own lifetime's experience. Time to set aside all the styles and traits and other bolt-on leadership extras we've been toying with. Time to focus on the realities of day-to-day business life. We need to be really clear about ourselves – both who we are and what we stand for – and our objectives – both personally and for the organisation. In addition, and perhaps most importantly, we need to lead by working with those significant other individuals who make a real difference both inside and outside the organisation.

We've been fighting against each other for too long. In your organisation everyone is on the same side. But they do their jobs in different ways. And the finance function is probably the most arcane. We need to create a professional working culture where all functional specialists as well as the generalists are respected for what they do and how they do it. Where motivation is not some abstract concept idly borrowed from a textbook, but a meaningful tool to encourage and drive better performance from everyone you work with. All I ask is that you think about this the next time you open your mouth. F&M

Steven Sonsino's fourth book, 'Leadership unplugged', is published in Spring 2003 by Palgrave Macmillan.

FACULTY OF FINANCE AND MANAGEMENT – COMMITTEE ELECTIONS 2003

Your Faculty needs you!

Would you like to have some influence on how your Faculty develops? We are on the lookout for enthusiastic Faculty members who would appreciate the challenge of joining the organising committee.

The committee works with the Faculty team (see our names and faces on Page 2) to develop a programme for members and to ensure that what is delivered to them is of the highest quality, accessible and practical. The committee meets four times a year and works mainly by email.

Twelve of the committee members are elected, with four seats coming up for election each year, so candidates expect to serve on the committee for three years – in this case, from May 2003 to May 2006.

Members of the committee come from a wide range of backgrounds. They are all chartered accountants, most work in commerce or industry, and a few come from practice and from academic life.

If you are interested in standing, please contact me (see details on page 2, or on the back page) and I'll answer your questions and provide further details.

Chris Jackson
HEAD OF FACULTY

MQ article wins international award

The article in *Management Quarterly* by Richard Taffler, 'Behavioural finance and the finance director' won second place in the International Federation of Accountants' (IFAC) ninth annual Articles of Merit Awards Programme. Helen Fearnley reports.

Richard Taffler, professor of accounting and finance, Cranfield School of Management, received his award from Ruth Bender, Faculty committee member and lecturer in finance and accounting at Cranfield. Ruth was the editor of *Management Quarterly* for four years to October 2002.

At the end of December, Cranfield professor Richard Taffler received his IFAC award for the article he wrote for the Faculty's *Management Quarterly* publication over a year earlier. The article was selected as one of the 10 outstanding articles on finance and management accounting topics in 2001. IFAC has 156 accountancy body members, representing 2.4 million members world-wide.

Taffler's article examined the issue of whether financial decision making is based on reason or whether we are susceptible to personal and market psychology.

Taffler's views now appear in IFAC's book 'Articles of Merit 2002'. This collection is published as part of IFAC's Articles of Merit Awards Programme.* This programme – now in its ninth year – aims to give recognition to, and a wider audience for, published articles which have made a distinct and valuable contribution to the advance of management accounting.

Topics

Other topics featuring in this IFAC 'top 10' are internal reporting of derivatives, equity restructuring techniques, activity based costing/management, budgeting and environmental politics.

The winning article, 'Calculating the economic value of customers to an organisation', by Paul Andon, Jane Baxter and Graham Bradley, originally appeared in the Australian Accounting Review. It examines the practical calculation of the economic value of an organisation's customers, reporting on the saga of Schlitz Brewing. In the 1970s, the group had reduced brewery labour cost per barrel, switched to low cost hops and shortened the brewing cycle by 50%, making its costs the lowest in the industry. By 1974 profits had soared, as had the share price. However, there was degradation of the product quality, and although consumers were slow to react to this, by 1976 there were continual complaints and market share was slipping. Some 10 million bottles of beer failed quality tests that year and were destroyed.

Two years later Schlitz management tried to restore its quality, but consumers' opinion of the product was so low that there was no chance of recovery. By 1981 Schlitz's market position had slipped from its 1974 number two slot to seventh, and its share price from A$69 to A$5. The importance of creating customer value had been dramatically demonstrated.

Taffler's, 'Behavioural finance and the finance director' argues the case for recognising that individuals do not always act rationally – as economists argue they should – and that psychology should also be taken into account. In particular, he focuses on that branch of psychology known as behavioural finance, which applies the discipline's insights to the financial behaviour of market participants and financial decision makers. By recognising our own decision errors, the biases of judgement to which we are prone, and understanding the reasons for these, goes the argument; we will be better placed to avoid future mistakes.

Crucial

The field of behavioural finance research is already beginning to answer such crucial questions as, inter alia, why stock price volatility is so high, why the trading volume in financial markets is excessive, why acquisitions are on the whole bad news, and why investors sell winning shares too soon and hold losing ones for too long.

Taffler points to the tendency – due to cognitive limitations – to have inbuilt key biases in our judgement; to the practice of resorting to heuristics (trial and error) to simplify complex judgements; and to the tendency to make decisions based on stereotypes rather than underlying characteristics. He also goes into 'representativeness heuristic'; 'anchoring and adjustment heuristic'; 'frame dependence bias'; 'loss aversion bias'; 'hindsight bias'; 'attribution bias'; and many more potential pitfalls.

He concludes that, far from necessitating abandonment of all finance theory, if we exploit our understanding of human behaviour we will be in a better position to achieve competitive advantage. F&M

* *The booklet can be downloaded (free, with registration) from the IFAC web site, www.ifac.org.*

Ways to save energy – and money

Dr Andy Lewry is manager of the enhanced capital allowance (ECA) scheme at the Carbon Trust. Web site: www.eca.gov.uk Helpline: 0800 58 57 94.

There has been recent criticism of the Climate Change Levy (CCL)*, introduced in April 2002 and paid via energy bills by industry, commerce, agriculture and the public sector. However, there are positive benefits from saving energy, as the Carbon Trust's **Andy Lewry** explains.

The UK ambitiously set itself a carbon dioxide reduction goal far beyond the Kyoto treaty targets of a 20% reduction of 1990 levels by 2010. As part of the resulting UK Climate Change Programme, the government introduced the 100% first year enhanced capital allowance (ECA) scheme for businesses making investments in designated energy saving equipment. The scheme initiates carbon savings by providing a financial incentive to businesses investing in energy saving technologies or equipment.

As outlined in this month's Tax Update (opposite) the scheme enables businesses investing in designated energy saving products published in the approved Energy Technology Product List (ETPL)to claim 100% first year allowances on their investment.

Identification of qualifying energy efficient equipment is possible through:

- an ETPL symbol (see below right) allowing manufacturers and suppliers of qualifying products to signal that their product appears on the list and that an enhanced capital allowance can be claimed;
- a new on-line exhibition, launched at www.eca.gov.uk, showing approved products and technologies, and giving contact details for manufacturers; and
- a contact helpline: 0800 58 57 94

ECAs are claimed when completing the tax return for the year of purchase. A business only needs a formal certificate of energy-efficiency for combined heat and power (CHP) to certify that the particular plant meets designated efficiency standards. Investments in the other technologies can qualify if the particular product is listed on the ETPL at the time the business makes the purchase, and the invoice or other evidence of purchase can be produced. A business does not need a special certificate from the manufacturer.

The government-backed Carbon Trust, as well as managing the ECA scheme, also manages other programmes sharing the same common goal of helping UK businesses and public sector organisations reduce carbon emissions. These are:

- *Action Energy* – formerly known as the Energy Efficiency Best Practice programme – encourages the spread of energy efficiency technologies and techniques throughout UK industry and the national building stock. It currently helps UK organisations save over £800 million per annum.
  Tel: 0800 58 57 94; or visit: www.actionenergy.org.uk;
- *Energy Loans* – a new £10 million interest free loan scheme introduced in England and Wales in 2002 to help small businesses make investments in energy-saving equipment – loans are available from between £5,000 and £50,000 repayable over five years. Similar loan schemes are also well established in Scotland and Northern Ireland; and
- *the Low Carbon Innovation Programme* – the Carbon Trust's principal vehicle for accelerating the development of new and emerging low carbon technologies in the UK. It will assist these technologies in overcoming the barriers in the innovation chain and help to develop a UK industry sector that will capitalise on a low carbon future. The foundation programme is the first product to have been launched within the Low Carbon Innovation Programme and will make up to £75 million available over a three-year period to a range of partners including researchers, the public sector, investors and entrepreneurs. For further information, visit: www.thecarbontrust.co.uk/foundation. F&M

Sign of success: the list symbol

** The CCL affects all but the smallest UK businesses. It applies to electricity, gas, coal and LPG consumption. Consumers in energy intensive sectors signing up to agreed targets are eligible for an 80% discount on the levy.*

Queries about climate change agreements should be addressed to Alan Clifford, e-mail: levy.agreements@defra.gsi.gov.uk

For general advice, visit: www.hmce.gov.uk/bus/excise/climchg.htm

TAX

How green is your plant?

Frank Haskew is senior technical manager of the Institute's Faculty of Taxation.

The government is very keen to encourage 'green' practices and technology. In his latest Tax Update **Frank Haskew** explains the detail of how companies can benefit from the enhanced capital allowances introduced in 2001.

To encourage businesses to buy green products, the government introduced in 2001 enhanced capital allowances (ECAs) for capital expenditure on certain energy-saving plant and machinery.

To recap – the normal rates for plant and machinery allowances are:

- *small and medium sized businesses* – a 40% first year allowance and 25% annual writing down allowances thereafter; and
- *large businesses* – a 25% annual writing down allowance.

However, ECAs include a 100% first year allowance for all qualifying businesses.

The key questions

This raises some key questions. Businesses purchasing energy-saving equipment will want to know whether it qualifies for ECAs. Manufacturers of such equipment will want to know whether their customers can claim ECAs.

The ECA web site

In order to help businesses answer these questions, ECAs have a special web site (www.eca.gov.uk) run by the Carbon Trust in association with the Inland Revenue and the Department of Enterprise, Food and Rural Affairs.

What plant/machinery qualifies?

In order to qualify:

- the technology itself must be on the 'energy technology list'; and
- the particular plant in question must then be on the product list.

The technologies that currently appear on the energy technology list are listed in the box, left. Remember that even if the technology is on the list, a specific product may not be.

The energy-saving criterion

The basic criterion is that the product must provide energy saving features at least equal to defined standards. Evidence must be submitted to demonstrate the energy saving. For example, boiler condensers increase boiler efficiency by about 9%. In order to qualify for ECAs, manufacturers of condensers must submit test data to show that the condenser increases the boiler efficiency by at least 9%.

The ECA web site provides a search facility which allows you to check for products that meet the energy-saving requirement.

How do I get equipment on the list?

Manufacturers need to submit an on-line application. There is a tracker facility to see how your application is coming along. If the Carbon Trust is satisfied that the product meets the criteria, the manufacturer will receive a letter of acceptance and the specified product(s) will qualify for ECAs from the date of the letter.

If a product is not accepted for ECAs, the manufacturer will be invited to re-submit an application, supplying further evidence as necessary. There are different procedures for CHP, lighting or pipework insulation categories, as these involve bespoke systems.

What other costs qualify for ECAs?

Purchasers will usually incur additional costs when purchasing the product and will want to know whether these also qualify for 100% ECAs. Certain direct costs can be claimed:

- direct transportation and installation costs can be regarded as expenditure on the provision of plant or machinery. The ECA lists project management costs, installation, modifications to existing plant and machinery and commissioning; and
- professional fees qualify only if they are directly related to the acquisition and installation of assets that are plant or machinery.

Unfortunately, fees incurred on such things as feasibility studies or design work are generally too remote from the acquisition and installation to qualify. However, the costs of altering an existing building to accommodate the qualifying plant and machinery may be eligible for ECAs. F&M

The energy technology list

- Boilers and related equipment
- Refrigeration equipment
- Motors and drives
- Thermal screens (for glasshouses)
- Heat pumps for space heating
- Radiant and warm air heaters
- Solar heaters – specifically thermal systems
- Compressed air equipment
- Combined heat and power (CHP) plants – broadly small scale electricity and heat generation plants
- Lighting
- Pipework insulation

TREASURY

Looking out for on-line security

Chris Mansell is a former treasurer and is now a director of several companies.

In his regular Update column, **Chris Mansell** looks at the need for vigilance in security arrangements, the popularity of outsourcing by treasurers and cheaper banking in the euro area.

Security has only ever meant keeping one step ahead of the villains. It's a dynamic environment and needs reviewing and worrying about regularly. With on-line banking available and offering efficiency improvements to businesses of all sizes, the security of the new processes is of concern to all.

The major financial institutions are meeting this challenge both by continual investment in sophisticated systems and software to establish effective safeguards, and by involving users directly in the security process.

The first line of defence is access control – authentication of the intending user's identity. The simple use of one or two static passwords has now evolved to a dynamic process that puts up multiple barriers to entry. For example, many systems use an interactive device which generates a unique and unrepeated code. Assigning an expiry date to passwords (linked to a static ID reference) is another technique. Most systems also limit the allowable number of bad entry attempts with written requests only allowed to re-establish passwords.

Encryption – mathematical codes for protecting sensitive information – has become much more complex in recent years. The keys – particular values which when applied to plain text encrypts it and when applied to cypher text decrypts – are the cornerstone. The greater the number of bits – and the current is the 128-bit – the more difficult it is to break the code. At present the odds are apparently one in one septillion against.

At the next level, network security and intrusion detection becomes critical, especially the location of the web server between the external and internal firewall. These barriers should have state-of-the-art intrusion detectors.

Within the business itself, the watchwords are definition and responsibilities. Who controls who may have access to what. The designated security manager sets up the user profiles which govern access to the different facilities and when that may occur.

Outsourcing gains in popularity

Businesses contemplating outsourcing would normally sign a treasury management agreement with their chosen partner. The main areas that would be covered are:

- counterparty list and credit limits;
- permitted deposits and term limits;
- authorised signatories;
- frequency and format of reports; and
- performance benchmarks.

Aditionally the agreement will define the key operational service levels to be provided.

Treasurers who have taken the plunge into outsourcing appear to be pleased with the outcome. A survey by GT News has identified improved process efficiency as the main source of benefit, while a comfortable majority of respondents felt that internal resources had been better utilised. Cost savings were evident, but considered of secondary importance. Sharper market and transaction rates were the least significant factor. The activities most frequently outsourced were the lowest added-value activities such as investment and liquidity management. F&M

Cheaper euro banking

Companies trading with the single currency countries will have experienced with irritation the expense and poor delivery of euro-based transmissions, being in effect treated as a normal foreign transaction. The stated intention of the European Commission and Parliament is, however, that all cross-border payment transactions in Europe, expressed in euros, should be treated as domestic.

A widely representative European payments council is being created to provide a governance structure for creating a single euro payments area. An international bank account number will introduce a commonly structured and validated format for the expression of an account number, while a new interbank message standard on SWIFT will enable lower costs at greater speed.

From 1 July 2003 banks will no longer be able to charge a higher price for cross-border euro payments up to €12,500 between euro countries, than if processed internally. The European Banking Association is developing a STEP2 service that will become a regional centre for bulk payments in euros. The initial phase is scheduled for early 2003.

FORTHCOMING FACULTY EVENTS

To attend any Faculty event, please fill out the form which adjoins this page, remove it by tearing along the perforation, and mail it or fax it to the services manager at the Faculty's address given on the bottom of the form. If you have any queries relating to these or other events, please contact the services manager on 020 7920 8486.

2003

22 January EVENING LECTURE (Chartered Accountants' Hall, London)	*'LINKING VALUE WITH VALUES – THE BEHAVIOURAL ASPECTS OF FINANCE' – MALCOLM LEWIS, STRATEGIC VALUE PARTNERS* With people and organisations moving ever faster, Malcolm Lewis of Strategic Value Partners will discuss 'hard' and 'soft' organisatonal issues, showing that linking value with values is the key to creating long-term success. Registration is at 5.45pm; the lecture is at 6.00pm; the wine, buffet and networking start at 7.00pm.
19 February EVENING LECTURE (Chartered Accountants' Hall, London)	*'FINANCE OF THE FUTURE' – SCOTT PARKER, PARSON CONSULTING* Scott Parker, managing director of Parson Consulting, will discuss the pressures on the finance function, including reliability of information, speed, efficiency, complexity and increasing demands from the business. Registration is at 5.45pm; the lecture is at 6.00pm; the wine, buffet and networking start at 7.00pm.
27 February EVENING LECTURE (Chartered Accountants' Hall, London)	*'TRANSACTION MANAGEMENT' – JAMES HADDOCK* Project management alone won't get you a good deal, but sound processes can prevent you getting a bad deal. James Haddock, a transaction management expert, explores what finance directors need to consider before and during the process to minimise the risk of failure. Registration is at 5.45pm; the lecture is at 6.00pm; the wine, buffet and networking start at 7.00pm.
27 March EVENING LECTURE (Chartered Accountants' Hall, London)	*'THE CHANGING ATTITUDE TOWARDS RISK MANAGEMENT' – RICHARD SHARMAN, KPMG* Richard Sharman, head of risk management at KPMG, explores ways to assess the real value delivered by your risk management framework and the return on your investment in the risk management process. Registration is at 5.45pm; the lecture is at 6.00pm; the wine, buffet and networking start at 7.00pm.

RECORDINGS OF FACULTY LECTURES

The following lectures and conferences held by the Faculty in 2002 are available, in both **audio** and **video** format.

To obtain a recording, please tick the audio and/or video box on the tear-off response form opposite.

There is a charge of £5.00 for audio recordings and £10.00 for video.

28 JAN	MANAGING THE CHANGE – PERFORMANCE MEASUREMENT IN THE PUBLIC SECTOR **Tony Dart** of the Highways Agency explains the changes he has made to the planning and implementation system at the agency, and looks at the future of the finance function.
18 FEB	VALUEREPORTING – A REVOLUTION? **David Phillips** of PricewaterhouseCoopers explains this new technique including how to manage for value and the benefits of greater transparency.
15 APR	STRATEGIC ENTERPRISE MANAGEMENT **Martin Fahy** of the National University of Ireland, Galway, discusses strategic management accounting decisions aimed at increasing shareholder value.
28 MAY	PAY FOR PERFORMANCE – DIRECTORS' REMUNERATION **Ruth Bender** of Cranfield School of Management discusses the structure of directors' remuneration in the context of creating value for shareholders.
18 SEP	HUMAN CAPITAL – MEASURING PEOPLE AS ASSETS **Andrew Mayo**, a consultant on international human resource management, discusses how to balance people's cost with a quantitative measure of their value.
8 OCT	ENTERPRISE PLANNING (ERP) SYSTEMS – DO THEY MEASURE UP? **Dennis Keeling** of BASDA, the international software standards body, explores the pros and cons of these systems and looks at software industry trends.

How to deliver bad news on jobs

Cary Cooper is BUPA Professor of Organisational Psychology and Health at the University of Manchester Institute of Technology

When redundancies have to be made, nobody wants to be the harbinger of doom, but sometimes managers have no other choice. However, there are good and bad ways of delivering unwelcome news to the unlucky recipients, as **Cary Cooper** explains.

Probably the best way to arm managers with the techniques for delivering bad news humanely is by telling them what not to do. The following, therefore, are what I call 'Cooper's no-nos'.

1 Don't do it by fax, post, e-mail, telephone or voicemail

I would never recommend an impersonal method – bad news should always be given face to face.

2 Make it very clear that the redundancy is nothing to do with them or their skills... even if it is

Doing otherwise is inhumane and poor psychology. Besides, it's just dumb to alienate them. They may get another – high-powered – job and impose a 'ban' on your company and its services.

Instead, stress that their redundancy is one of many, and that there are logical and non-personal reasons for letting them go. Acceptable reasons are that the company is not getting enough business in their area of expertise, or carries too many people in that activity, or that there is a policy of last-in-first-out.

3 Don't use words like 'redundant', or 'dead wood'

Nobody likes to feel useless. If they are made to feel bad about their contribution (or lack of it), they will only go and badmouth the organisation elsewhere. And given that the informal network, particularly in the finance profession, is very powerful, the result could be the undermining of your corporate brand.

4 Make an effort to help them find other jobs

Find a way to support those who are losing their jobs, even if this means using an outplacement service, or providing more generous redundancy terms than you are legally required to. This 'buys' the ex-employees time, and is good public relations.

5 Avoid the 'clear your desk by tonight' attitude

Even though the financial sector is famous for its 'black bag syndrome', of expecting outgoing employees to exit immediately, this is usually when they already have another job lined up, frequently with a direct competitor, and there is a real fear of information being leaked. The case of a redundancy is quite different.

So as much as possible allow people to choose their own time of leaving. Some of them will no doubt feel ashamed, and want to sneak away fast. However others will have strong networks of friends within the organisation and will want to take their leave in a more considered fashion. A little extra time won't break the bank. F&M

IN FEBRUARY'S MAILING...

Finance & Management, Issue 96

- Budgeting – extracting value from performance
- Company law review – what FDs need to know
- Future of the finance function
- The key role of strategy in creating wealth

(Please note – F&M contents may change)

Manager Update, Issue 24

- Finance and the revolution in corporate risk management
- Marketing in 'mobile' and 'conventional' markets
- Call centres and human resource management
- Learning from experience

Finance & Management

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