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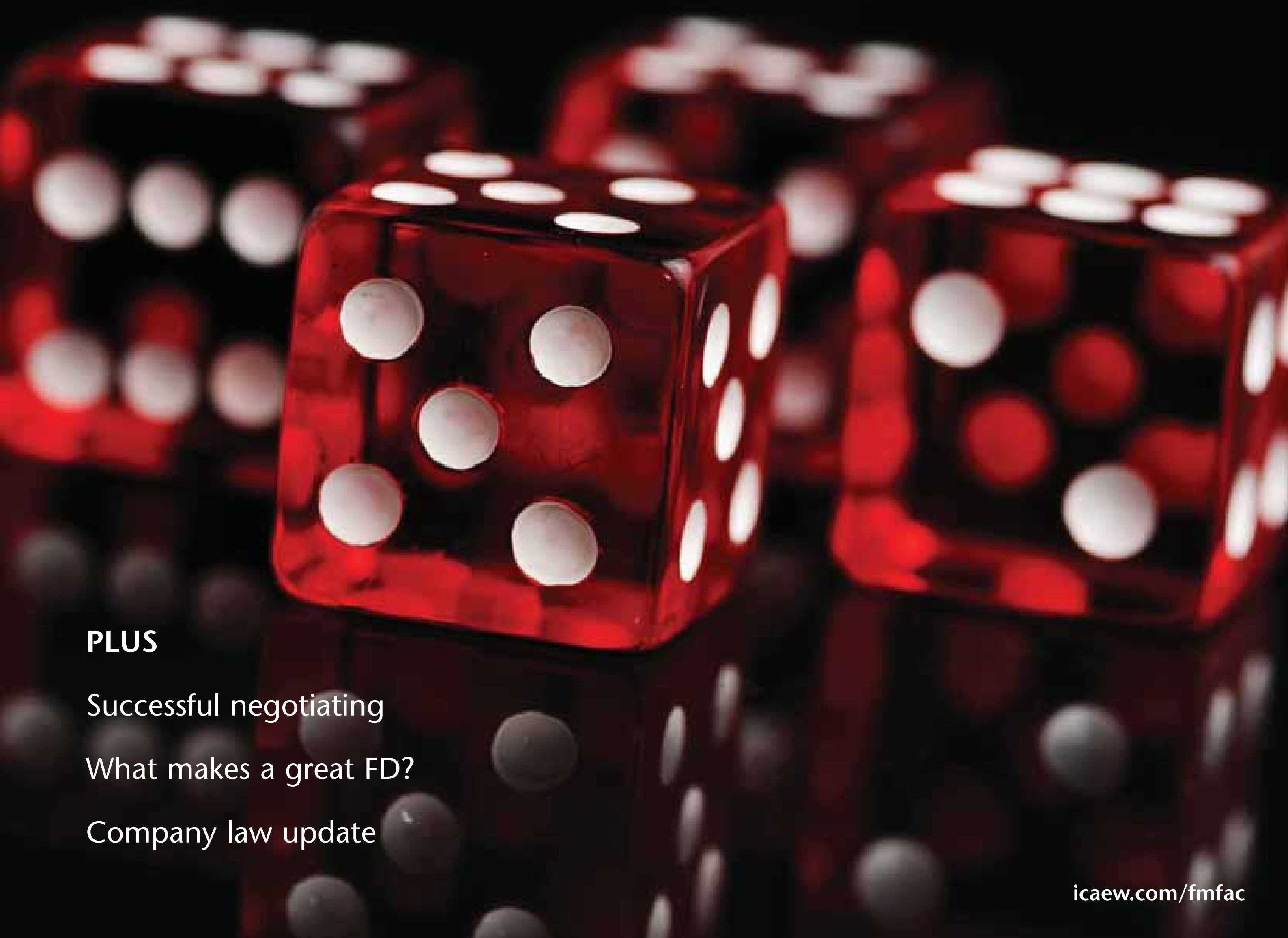
ICAEW FINANCE & MANAGEMENT FACULTY

FINANCE & MANAGEMENT

BUSINESS MEMBERS' MAGAZINE

RISKS AND OPPORTUNITIES

How best to represent your business to credit agencies and funders



PLUS

Successful negotiating

What makes a great FD?

Company law update

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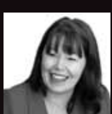

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WHEN GOOD IS BETTER THAN BEST

We have always tried to avoid the stock phrase 'best practice' in faculty publications, for the simple reason that in financial management there are no silver bullets. There are many good practices but it is the choice of the ideal one for your specific situation that makes it 'best'. Even when we find the 'best' solution, it is unlikely to remain ideal for very long.

Budgeting in particular creates endless debate. This issue of *F&M* sees businessman John Timpson challenging the budgeting model. His company, Timpson, has scrapped the budgetary process and now compares performance with that of the preceding year because, when it had formerly dutifully produced forecasts 'customers clearly didn't realise how much they were expected to spend'. Timpson believes talking to people works better than relying on budgets and figures.

In the Management Extra section, Morgan Witzel relates the story of Alfred P Sloan who, finding that all his directors agreed with a particular point, sent them away to try and think of some reasons to disagree. This is reminiscent of the concept of 'radical transparency', developed by Ray Dalio, founder and head of a US hedge fund, where all staff are encouraged to challenge each other openly in search of the right answer.

In many ways this issue of *F&M* is a typical one, with a mix of technical content, practical skills and opinion pieces. Good solid CPD but also hopefully both fun and challenging.

We also include our annual 'meet the committee' piece, providing information about the backgrounds and working knowledge of our faculty committee members. If you would also be interested in joining our committee please get in touch.

JACKSON TAKES A BITE OUT OF THE BIG APPLE

It is with great regret that we say goodbye to Chris Jackson, head of the Finance and Management Faculty. Chris was brought in to set up the faculty in 1991 and has done a tremendous job over the past 20 years, not only in terms of the offering that he has created for business members, but also the strong relationships he has built up with volunteers and other professionals.

Chris is crossing the Atlantic to New York where he will take up the position of technical manager on the International Ethics Standards Board for Accountants. Many of you will have met Chris over the years and I am sure that you would like to join us at ICAEW as we offer our congratulations and wish him the very best of luck in the Big Apple!

EMMA RIDDELL

FINANCE & MANAGEMENT

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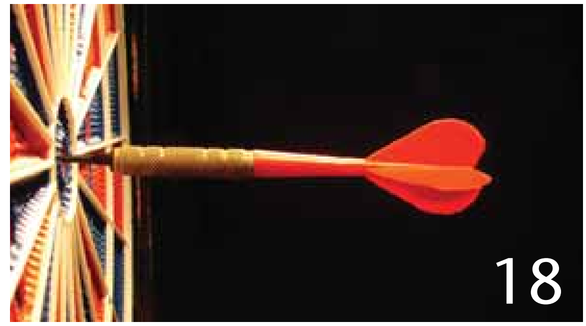

News and views

Features

In focus

Briefing

Technical updates

Management extra

BUSINESS UPDATE

BUSINESS CONFIDENCE TAKES AN AUSTERITY KNOCK

The latest findings from the ICAEW/Grant Thornton UK Business Confidence Monitor (BCM) show the Q3 2011 Confidence Index stands at 8.1, down by 5.6 points on the previous quarter and down 13.4 points on a year ago.

The Confidence Index stands at its lowest level since Q3 2009, when economic output was still contracting. Though a fall in the Confidence Index is expected following the post-recession bounce-back, the most recent decline is also likely to reflect fears about the strength of the global economy. In conjunction with lacklustre growth in the UK, the US recovery continues to disappoint while the eurozone faces a major sovereign debt crisis.

The overall share of businesses more confident about the coming 12 months is down from last quarter at 39% compared with 45%. This is the lowest share since Q2 2009.

More positively, the share of businesses less confident about the future has not increased sharply this quarter.

For more information and full survey results see icaew.com/en/about-icaew/what-we-do/business-confidence-monitor

BUSINESS ADVICE SERVICE LAUNCHED

Expert business advice will be available without charge to SMEs across the country thanks to a new ICAEW service that was launched at the end of September.

To date, over 1,400 firms of chartered accountants have signed up to participate in ICAEW's Business Advice Service which aims partly to fill the 'advice gap' left by the scaling-down of the government's Business Link network.

Firms taking part in the service have agreed to offer any SME one free consultation on a topic of its choice from a wide range offered.

The Business Advice Service's network of firms can be found at www.businessadviceservice.com. This site features a searchable database of firms as well as blogs, news items and advice for SMEs.

NEWS IN BRIEF

RIOTS' EFFECT ON HIGH STREET

Rioting and widespread disorder across England failed to deter shoppers from visiting the high street in August, according to the Springboard National High Street Index. Footfall across the UK fell by 1.5% in the month compared with a year earlier, the smallest annual decline for August since 2007. Greater London saw footfall increase by 0.9%, while Birmingham saw a fall of 25%. For more visit www.atcm.org

AUTUMN STATEMENT DATE

Chancellor George Osborne has announced that he will make his autumn statement on 29 November. This will follow the Office for Budget Responsibility's latest economic forecasts, which will be released earlier that day. See www.hm-treasury.gov.uk

CAR SALES RISE

New car sales in the UK rose for the first time in more than a year in August, according to the Society of Motor Manufacturers and Traders (SMMT). There were 59,346 new cars registered during the month, a rise of 7.3% on a year earlier, while sales of smaller cars rose by a third. For more see www.smmt.co.uk

WHAT DOES MY FACULTY MEMBERSHIP PROVIDE?

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

Here at the faculty we want our members to have access to the best value CPD, plus services which will help advance their careers.

Do you make full use of everything available to you as a member of the Finance & Management Faculty? Don't forget your:

- monthly magazine;
- in-depth regular special reports;
- monthly electronic newsletter;
- free online access to any article or report published by the faculty;
- regular events with discounted rates for faculty members;
- opportunities to network with your peers through our two LinkedIn groups;
- Women in Finance network; and
- chance to be part of our thought leadership project.

Plus new from 2011:

- shorter, sharper webcasts available to watch on demand.

FROM INNOVATION TO REVOLUTION

50 Best Business Ideas: How 50 Great Ideas Revolutionised Business Today
by Crimson
Paperback, 256pp, Crimson
ISBN: 978-1854586711 £12.99
This book looks back at the past 50 years to reveal the innovations that have changed how we do business: from the humble post-it note to the revolutionary fax machine that formed the beginnings of the speedier, fast-moving business world we now know. The ideas are selected by a panel of top business leaders, entrepreneurs, journalists and inventors who offer insights into these ideas' contribution to business.

Management Tips From Harvard Business Review
by Harvard Business Review
Hardback, 224pp, Harvard Business School Press
ISBN: 978-1422158784 £12.99
This book is a compilation of *HBR*'s 'Manager's Tip of the Day', providing a guide for both emerging and veteran leaders. Organised into three categories – managing yourself, managing your team and managing your business – the book teaches the soft and hard skills required to succeed in the workplace. It aims to help readers learn a range of skills, from managing your time to inspiring a team and motivating customers.

Management Ethics
by Professor Domènec Melé
Hardback, 256pp, Palgrave Macmillan
ISBN: 978-0230246300 £26.00
The recent financial crisis has awakened a sensibility to ethics in business and management, and an increasing understanding of how ethics and economics are intertwined. This books aims to show managers and executives how to use ethical behaviour to strengthen and benefit their organisation.

TOP LINKEDIN THREADS

1. Ethics risk and management's responsibilities.
2. Getting onto an ACA training scheme.
3. Web hosting and domain registration for small businesses.

To enter the debate join our group – ICAEW Finance & Management Faculty at www.linkedin.com

THE GURUS
'To think is easy. To act is difficult. To act as one thinks is the most difficult.'
JOHANN WOLFGANG VON GOETHE, writer, philosopher and civil servant

RISK MANAGEMENT

EXPLAINING YOUR BU RISK TO AGENCIES AN FUNDERS

FEATURES

Presenting your business in the best light to secure a good credit rating can be daunting. **Martin O'Donovan** explains how to go about it, and offers tips that will also be useful when seeking extra funding.*

* This article is based on 'Corporate credit ratings: what information to give a credit rating agency', first published in the *International Treasurer's Handbook 2011*.

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Before a banker can reach a lending decision or a credit rating agency (CRA) allocate a rating, they will need sufficient information to understand your business. The more you can help them gain that understanding the better the chance that they will come to a fair decision.

So, while this article does not purport to be a comprehensive checklist, it will help you think widely about what needs to be considered when you are asked to explain your business risks and opportunities to credit rating agencies and potential funders.

What are the CRAs looking for?

At the outset, even if just approaching a bank for a loan, look to see if the CRAs rate other companies similar to yours. If you subscribe to one or more ratings agency's services – Standard & Poor's, Moody's, Fitch Ratings – you will have access to reports on individual companies, describing any special factors. From this you can learn whether there are any special factors the analysts see as risks or as strengths. In turn, if there are important factors

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distinguishing your company from others in the industry, resolve to make them clear.

Also, as the CRAs' websites (see page 9 for links) show their rating methodologies – and often the ratios they regard as key performance indicators too – it is well worth looking at them.

Publicly available information

The easy part is the provision of relevant publicly available information and previous accounts for the company. But even this benefits from some thought being given to the exercise. For example, if particular accounting conventions affect the company's business, then it makes sense to provide covering explanations and, if need be, pro forma recalculations of the data.

Presentations to the analysts

You will also need to provide a lot of unpublished information about the business, strategies, plans and projections, governance and risk management. This can be handed over as part of a presentation to the analysts.

Any credit analysis will depend on the historic track record plus forecasts and projections. For those forecasts to have credibility the analysts will want to build up confidence in the senior management and its overall strategy. For that reason an assessment of management, partly gained from those presentations, is an important part of the process. The directors or managers involved should understand this and be suitably prepared.

That said, it may not always be possible to answer every question instantly in the presentation meeting and it is vital that the management team does not blow its chances at this stage. Giving wrong answers off the cuff can weaken an otherwise excellent impression. There is no shame in promising to get back to the analysts. Credit analysts inevitably look at the world through different eyes from businessmen and the topics on which they raise questions may not always be top of mind for company executives, even the finance director.

Start with 'macro' and 'meso' factors

In explaining your business, start with the big picture – the macro (whole economy) and meso (industry level) scenarios. The analysts will usually be experienced in reviewing the company's industry, but it is unwise to assume their knowledge is encyclopaedic, current, correctly selected or relevant to exactly what you do and where you do it.

They need a summary of how the company sees the risk factors affecting its industry, and how they will develop. Look at:

- capital intensiveness;
- maturity (technological and market);
- cyclicality;
- competition;
- barriers to entry;
- substitutes for the industry's products;
- demand factors;
- under/over capacity;
- growth/decline;
- what is happening to customers and among your wider stakeholders and the supply chain; and
- environmental impact and 'social responsibility' issues.

And finally, it may be necessary to deal with separate major product sectors.

A similar run-down on the environment in which the company operates is needed – geographical, social, regulatory and technical/technological.

'Micro' (company level) factors

With the wider picture established, start to deal with the company's particular situation within the three categories of 'strategic', 'financial' and 'operational' as follows.

‘Remember that credit analysts focus on how the potential downside risks are controlled and are less interested in outperformance on the upside’

Strategic

Cover the market position of key products, including the ability to differentiate the product and provide competitive advantages, with a review of specific product life-cycle positions and sales/distribution patterns in various geographies.

Discuss relative costs and how sourcing arrangements are advantaged/disadvantaged, the implications of single/multiple sourcing of key components/materials/skills, and the impact of the company’s relative size within its industry.

Explain the business’s access to, or ownership of, necessary intellectual property (‘know-how’ as well as protectable matter). Also point out where the company has any trademark/copyright or regulatory privileges (if it operates in a regulated business) or, in certain markets, whether it operates under price regulation or specific orders of restrictive practices courts or competition authorities.

The principal risks – and opportunities – arising from the story so far must be outlined and related to the industry risk profiles discussed previously. Don’t forget litigation risk. Is any significant process, product or service you use or provide, or any material customer, potentially going to be subject to changed or new regulation? Consider, too, risks from dependence on particular customers and suppliers or particular end users for intermediate products.

All of the above information leads naturally to strategy. Outline the company’s strategic processes, and current strategy and its approach to risk management/risk financing. An important aspect will be the company’s balance sheet and cashflow profile and how it is related to the risk financing task. Cover business continuity plans too.

Show how current strategy relates to past strategies – are strategies the chairman’s current whim (hopefully not), or deeply thought out, tested and measured against the real world and a range of future external developments?

Financial

Outline very briefly the management and legal structure of the group, major shareholders and other important stakeholders.

If they are not already clear, outline the main drivers of profitability, with particular emphasis on cashflow.

Provide copies of the company’s business plan. If there are identifiable risks or developments ahead, model their effects and how management will react to deal with these changes. If it is not self-evident, explain the link between the business plan and the strategy.

The business plan and cash flow should be ‘stress tested’ in a variety of scenarios to demonstrate compliance with loan covenants and other limiting factors. Remember that credit analysts focus on how the potential downside risks are controlled and are less interested in outperformance on the upside, which are more the domain of the equity analysts.

A commentary on any divergences between last year’s plan and the new one, and on actual variances, can stand you in good stead with the analyst. It can convey a powerful sense of management competence and continuity. A divergence against prior plans (or budgets) surfacing as a major discussion point at a credit/rating committee without the analyst having heard the company’s view of it can be damaging.

Cashflow is inevitably important. In presenting past and projected financials, ensure that cashflow is highlighted, together with the quantitative aspects of the major cashflow drivers previously identified. In any credit analysis cashflow ratios as well as conventional measures of gearing are crucial. Trends in the ratios will be important. The impact of financial transactions (share issuance, share buy-backs, etc) must be made clear, especially in projections. Equally, highlight and adjust out any flattery of operating cash flows by receipt of exceptional advanced payments or similar distorting items.

Discuss the balance sheet, explaining the overall approach, target duration of debt, as well as dividend policy/objectives. If ‘net debt’ has been affected by unusual items, make that clear. With the experience of the last few years, analysts will pay particular attention to the outlook for liquidity.

CRAs are more interested than ever in the location and form of cash and marketable securities holdings. Are any restricted in any way or for any purpose?

Consider contingent liabilities – those noted in the report and accounts and those not mentioned. Pension and medical benefits and environmental obligations can loom large here. And consider relationships with any ‘off balance sheet’ companies or special purpose vehicles. Highlight any ‘onerous’ contracts.

Set out the company’s ‘strategy for financial mobility’[1]:

How aggressive is gearing (however defined); how flexible are capital/major revenue project expenditures; how disposable/re-deployable are assets?

How strong are banking relationships; how fragile are roll-overs of drawn facilities?

What multi-year facilities are un-drawn – and what might make them unavailable for drawing?

How receptive might equity markets or bond markets be (given that in this context some corporate stress is assumed)?

Operational

The analyst’s evaluation of the management’s abilities and the suitability of the management structure are important to the eventual rating. Partly derived from the

'A rating attempts to be forward-looking, so it is important that the CRAs understand and respect the management's approach'

strategic expositions given, the evaluation will also look at the management's track-record: what does the record show? Set it out for them:

- Has the business been on an improving track or a muddled/declining one (operationally as well as strategically)?
- Has there been delivery of past strategic plans?
- How has the company performed against previous shorter-term plans?
- How has it coped with previous unexpected developments with significant impact for good or ill?

A rating attempts to be forward-looking, so it is impossible to overstress how important it is that the CRAs understand and respect the management's approach – and bank analysts will have the same interest.

The analysts will also be interested in the company's enterprise risk management and approach to risk generally.[2]

Managing the relationship

It may be useful to take the analyst to see convenient, important or 'example' company sites. Seeing the attention to hygiene in a food or electronics factory or the application of unique technologies or the differentiation in use of the company's products in the real world can give reassurance for which there is no substitute. But be aware that analysts' time is valuable and do not arrange visits just for the sake of it.

Your lender and CRA will usually review your company performance formally each year. This provides an opportunity for updating them and dealing with worries, and for them to meet and hear from top management again. In the meantime any published information should be provided as it is issued. Major announcements will often be about matters already flagged in strategic plans. Even in such cases, it is sensible to give the credit rating analysts a bit of notice and, if need be, access, so that, where possible, they can, after a rating committee meeting, quickly issue a firm 'no change' or a firm change, rather than putting the company on 'credit watch' (perhaps with negative-seeming implications). Your lender, on the other hand, will not be making any public reaction so pre-warning is not so critical but may be a courtesy to demonstrate that their relationship is valued.

Disclosing forecasts to lenders or CRAs is a sensitive commercial matter, so a formal confidentiality agreement is recommended even though each will assure you that they automatically owe a duty of confidentiality. Pre-advising them of a major announcement such as an acquisition or disposal could be disclosure of price sensitive information or inside information. For a listed company[3] there are strict rules covering this but disclosure prior to the market disclosure is allowed provided that 'any person receiving the information owes the issuer a duty of confidentiality, regardless of whether such duty is based on law, regulations, articles of association or contract'[4] and the guidance further gives the specific examples of permitting disclosure to the issuer's lenders and credit rating agencies.[5]

Conclusion

Presenting your company in the best light requires extensive preparation and an ongoing commitment to disclosure, but there are benefits. The grant of a loan or assignment of a rating will be the direct outcome. In addition the preparation process, the review of risks and scenarios will give you and your management the indirect benefit of understanding your own business that much better, and of course there is no harm in using feedback from the external analysts as a further source of insight for your company – they should have valuable experience of your industry after all.

CREDIT RATINGS AGENCIES

Standard and Poor's – www.standardandpoors.com
Moody's – www.moodys.com
Fitch Ratings – www.fitchratings.com

REFERENCES

1. G Donaldson, 'Strategy for financial mobility', Division of Research, Harvard Graduate School of Business Administration, 1969 (available in the *Harvard Business School Classics* series, ISBN: 9780875841274, 1986).
2. Eg 'Standard and Poor's to Apply Enterprise Risk Analysis to Corporate ratings', 7 May 2008, www.standardandpoors.com/prot/ratings/articles/en/us/?assetID=1245303548166
3. The Disclosure and Transparency Rules apply to companies with securities admitted to trading on 'regulated markets', which therefore does not include companies traded on AIM which is an exchange regulated market.
4. Financial Services Authority Disclosure and Transparency Rules DTR 2.5.1 http://fsahandbook.info/FSA/html/handbook/DTR/2/5
5. DTR 2.5.7

PERSONAL DEVELOPMENT

THE SECRETS OF SUCCESSFUL NEGOTIATING

Business negotiations require more skill than many realise. Below, based on his recent talk to the faculty's Women In Finance (WIF) networking group, **Clive Rich** sets out the secrets of negotiating with success, while **James Stokes** explains (in Box 1 below) how to get into the best 'state' for doing so.

In the wake of the global financial crisis it is more vital than ever to understand the deal-making process. Everybody needs to make deals in order to succeed. Yet negotiation skills are seldom taught or practised.

Technology has prompted the growing importance of deal-making skills for three reasons. First, it has made the world a much more interconnected place, and to reach this potentially much wider audience we all need deal-partners (a 'deal-partner' being anybody with whom you might align or do a deal, such as a supplier, manufacturer, distributor, advertising partner or funding body). Secondly, technology has enabled everyone to operate in everybody else's space, making deal-partners essential in order to compete effectively. Finally, to respond quickly to market opportunities before they disappear, we again need deal-partners to help us execute at pace.

So, how can we maximise the chances of closing deals in our favour, in this new 'deal economy'? The answer is to prioritise the acquisition and development of negotiation skills – not as a training exercise, but as an investment in a precious asset which will deliver a measurable return.

Smaller companies especially may lack the resources to outsource negotiations, meaning their funding, licensing, supplier and distribution deals are done by executives without the necessary negotiating skills. If such people learnt to negotiate smarter it could make all the difference.

Essentially there are three different angles to be managed for a successful negotiation – attitude, process and behaviour. Below are 10 tips which cover those three angles, and will help you negotiate more effectively and get more of what you want.

1. Have a winning attitude

Fear and anxiety can be the biggest barrier to success. If our pattern of thinking convinces us that negotiation is a confrontational process which we are more likely to lose than win, then this will influence our state of mind ('state') when we negotiate. Conversely the more positive our 'state', the more likely we are to succeed. (See Box 1, below, 'Get into a state: the right one'.)

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James Stokes is a personal and business coach and mentor.
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Box 1 GET INTO A STATE: THE RIGHT ONE

Why does your 'state' matter?

Throughout the day your 'state' changes, according to how you feel about yourself and the situation you are in. Some states are useful, while others limit our ability to act or respond effectively.

When negotiating, your state at the time affects how you feel about what you are asking for and what options you think are available. But also, like 'tells' in a poker game, your state will affect what others think about your requests, and your overall position in the negotiation. Hence you need to be in your best 'state'.

Factors that affect and alter our state

Our state is affected by what's going on around us, and our thoughts. In fact, it's less what happens to us and more how we think about those events that ultimately determines our state, and – potentially – the outcome in a given situation. For example two people could be on the same side in negotiation, one thinking theirs is a strong position and one thinking that it is weak. When challenged by the other side, the one in the 'strong' state will put up the more robust response. So what's really going on?

What we describe as our thoughts is a stream of 'pictures' and 'sounds' that lead to feelings of some kind. The pictures have qualities such as a movie or a still image, colour or black and white, life-size or larger. The 'sounds' are not actually sounds; we could be remembering something previously said. Our 'thoughts' truly are 'all in the mind'.

Golden rules for 'best state' negotiating

1. **Before** – get into a great state by running a mental 'movie' of all the times in your life that you have stood up for yourself and all the times you have succeeded in gaining respect. Put an appropriate soundtrack to this movie; I like to use some music from a film.
2. **During** – from time to time in the negotiation, take a moment to imagine stepping out of yourself. During that time notice what's going on in the room, watching the scene (yourself included) play out in front of you. Think about the path this group is taking, imagine where it will lead, then decide what needs to happen to keep it on track.
3. **Always** – have the intention of leaving the other party in a better state than you found them, even if you don't reach an agreement. How they feel about you and the deal-making process may be important in the future.

‘It’s perfectly possible to manage and influence our own state, and this is what we have to do first when we negotiate’

The good news is that our brain is not able to distinguish between states which are ‘real’ and those which we ‘choose’ to experience. Therefore it’s perfectly possible to manage and influence our own state, and this is what we have to do first when we negotiate.

2. Understand your own sources of bargaining power
To believe you can win, you first need to marshal your bargaining power. Think about who holds the ‘aces’ in the deals you are negotiating. Someone can have a higher market share than you but if you have the bargaining power in other categories then you can compensate for that. Untrained negotiators often obsess about the power and influence of the other side and forget about the aces of bargaining power that they have on their own. There are nine sources of bargaining power, including expertise, information, and access to influential networks (see Box 2, below, for all nine). These sources are rarely distributed nine-zero in favour of anybody, so you should not be daunted by the perceived power of the other side.

3. Know where you are in the negotiation process
Most negotiations follow a set pattern, with seven recognisable and distinct stages:
• preparation and planning;
• climate setting;
• exploring wants and needs on both sides;
• coinage;
• bidding;
• bargaining; and
• closing.

Box 2 SOURCES OF BARGAINING POWER AND BEHAVIOUR TYPES

THE NINE SOURCES OF BARGAINING POWER ‘ACES’

1. **Market power:** don’t assume this is a ‘clincher’: market power is often constrained by rules and regulations such as competition law. Smaller companies also find it easier to move more swiftly and can operate in a niche which trumps the larger market share (because the larger player can’t enter that niche effectively without doing a deal with a leading niche player).
2. **Expert power:** the ‘expertise’ or skill you or your negotiating team possess.
3. **Referral power:** being able to refer to someone else in a position of higher authority for instructions on a deal. This allows you to demand extra concessions by saying that the absent person insists on it.
4. **Power of numbers:** sheer number of people on each side of the negotiating table. If you feel you are outnumbered or outweighed in a negotiation, it’s best to adjourn and come back with more people (to match their team).
5. **Weight:** physical size can influence your power as a negotiator, but only if you use it effectively. It’s important to control your personal space and make sure your ‘voice and body’ are in alignment.
6. **Information power:** access to information not available to the other side (hence the expression ‘information is power’) eg knowing that you have a stronger ‘best alternative to a negotiated agreement’ (BATNA). If you are faced with someone using this against you, it may be good to take a break to review this information.
7. **Network power:** the ability to access your contacts to deliver value to the other side (eg by providing them with credibility or security).
8. **Regulatory power:** having the symbols of ‘law’ or ‘rules and regulations’ on your side.
9. **Authority power:** Being in a position of higher authority than the person you are negotiating with. If faced with someone in a more senior position a good tactic may be to use referral power.

THE 12 BEHAVIOUR TYPES

Pushing behaviour
Proposing with reasons.
Testing and probing.
Stating expectations.
Using incentives and pressures.

Pulling behaviour
Active listening.
Exploring views.
Focusing on common ground.
Disclosing.

Joining behaviour
Visualising a common goal.
Checking for consensus.

Parting behaviour
Recessing.
Adjourning.

'Make sure you choose the most appropriate behaviour for the person you are dealing with and for the stage of the negotiation you are at'

Knowing what stage you are at, and how to handle that stage, will automatically give you a big advantage.

4. Be prepared
It's often the early stages of a negotiation that get overlooked, because they require an investment of time. People these days are always in such a tearing hurry that time spent on preparation can seem like something of a nuisance. But as the old adage goes, 'fail to prepare and you prepare to fail'.

5. Set the 'climate' of a negotiation appropriately
It's important to consider how you can influence the climate of a negotiation. Where is the negotiation taking place? What is the lay-out of the room? How is the agenda formed? What is the make-up of each team? If these factors are resolved in your favour, it can boost your confidence, helping you to behave more assertively and bid with more authority.

A good climate-setting question is, 'Do we have everybody in the room in order to get a deal done?' If everybody responds positively to this question, it helps to bond the two sides and establish early on that you are on a journey together towards coming to an agreement. If you set off down the road without having confirmed this, you might find yourself in a position at the end of negotiations where you think a deal has been done, but actually the other party still needs to confirm the agreement with some higher authority.

They may then come back saying that a few things need to be changed. By that stage, though, you will have given away all of your concessions and have nothing further with which to negotiate.

6. Take time to understand the needs on both sides
Good negotiators know that you can't expect to engineer a positive outcome for both parties if this stage is skipped in the rush to get to the 'haggle'. 'Needs' are the underlying emotional requirements that each side has from the deal – not to be confused with organisational 'wants' such as 'price' or 'quantity'.

It is critical to understand these needs because they underpin the whole negotiation. Yet they are often unspoken and not easy to spot. Does the other side have a 'security' or 'reassurance' need? If so they will be focused on guarantees and risk control in the deal. Do they need to achieve something unique as a result of the deal? If so you need to focus on the innovative and original nature of what you are offering. Does your opponent have a 'belonging' need? If so, you must be sure to make them feel at home as part of your plans.

7. Work out what concessions you can make that are of low value to you but of high value to the other side
Otherwise known as 'coinage', this is a very valuable currency in any negotiation. Such concessions will help the other side to feel better about the deal and will enable you to get more of what you want in return.

8. Select the right behaviour for the right time
There are four different negotiating behaviour clusters: pushing, pulling, joining and parting.

A 'pusher' may use incentives and pressures to get what they want from a negotiation, whereas a 'puller' would focus more on common ground between the two parties and practise active listening. An example of 'joining' behaviour would be to try to get the other side to visualise how great it could be if you achieved a common goal (especially useful towards the end of a negotiation).

'Parting' behaviour is a good tactic to use if you are faced with someone who is being particularly aggressive or threatening. You could make it clear that you are not happy negotiating in this atmosphere and suggest you take a break and make a fresh start.

In all, there are 12 different negotiating behaviours within these four categories (again, see Box 2). So instead of sticking to one or two favourites, irrespective of whether they are working, make sure you choose the most appropriate behaviour for the person you are dealing with and for the stage of the negotiation you are at. For example, if you are dealing with someone whose chosen mode is to 'propose with reasons', there's no point relying on purely emotional arguments to dissuade them.

And remember that behaviour is not just about the words, but also how we say them (volume, pitch, rhythm) and what body language we show (posture, eye-contact, gestures). It is important that your non-verbal behaviour supports the message you are trying to put across.

9. Don't be afraid to bid first
It can be beneficial to go first when bidding as this sets out your own agenda and allows you to shape the negotiation the way you want. It's a common misconception that it's better to go second as it avoids giving away your position. In fact, if you don't set out what you want early in the bidding process you may not get a second chance.

10. Close as quickly as possible
If the parties can get through these early stages and bargain successfully they will arrive at the final stage of any negotiation, 'closure'. This moment can be extremely fluid. It must be captured immediately – before the other side changes its mind, is impacted by new economic factors… or finds another, better offer!

LAW

COMPANY LAW AND CORPORATE GOVERNA WHAT'S NEW AND WH

Despite a relatively quiet year for major company law developments, there may be changes on the horizon. **Kathryn Cearns** and **Isobel Hoyle** detail the developments that have occurred, some issues that have arisen, and what's in the pipeline (including some governance issues mainly affecting listed companies).

After the huge overhaul of company law by the Companies Act 2006, there have been relatively few major developments over the past year. There are, however, a number of areas being reviewed at present which may lead to changes in the future.

Preparation of accounts – true and fair view guidance
The Financial Reporting Council (FRC) has produced guidance[1] on the true and fair view requirement which applies to UK company accounts and confirms that the requirement for accounts to be true and fair remains fundamental under both UK Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) (see Section 393 of the 2006 Act). The guidance aims to help those involved in the preparation of company accounts, and in their audit, to apply the true and fair requirement in practice. The guidance notes the opinion received from Martin Moore QC in 2008, which confirmed that the 'fair presentation' standard under IFRS is equivalent to a true and fair view.

The guidance also provides that:

- material transactions must be accounted for in accordance with their substance, not just strictly in accordance with their legal form, to ensure the accounts give a true and fair view;
- if a company needs to depart from an accounting standard in order for the accounts to give a true and fair view, provided that the board has acted reasonably and a proper explanation of the departure and its effects is given, the Financial Reporting Review Panel (FRRP) would be reluctant to substitute its own judgement for that of the board; and

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- the FRC expects all those involved in the preparation of the accounts, those charged with governance and the auditors to stand back and ensure that the accounts, taken as a whole, do provide a true and fair view.

Accounting records – guidance for directors

The ICAEW has issued a new technical release 'Guidance for directors on accounting records under the Companies Act 2006 (01/11)'[2]. Companies have an obligation to keep adequate accounting records under section 386 of the 2006 Act and failure to do so is an offence. The new guidance gives practical advice on how these requirements can be met, including:

- accounting records should comprise an orderly, classified collection of information capable of timely retrieval, which contains details of the transactions, assets and liabilities of the company;
- directors can arrange the company's accounting records in whatever manner they think fit, provided that the information is adequate for future reference. Where records are kept in electronic form, they must be capable of being reproduced in hard copy; and
- the information kept in the accounting records should be such that would allow the directors to prepare a reasonably accurate statement of the company's financial position at any time.

Disclosure of subsidiaries in annual accounts/returns

Under section 409 of the 2006 Act, companies are required to include in their annual accounts details of all 'related undertakings', ie those of subsidiaries etc. Section 410 provides that directors can choose to include only details of those undertakings which, in their opinion, have principally affected the results. If they choose to do so, however, the company's annual return must include a list of all related undertakings (and the company's accounts should contain a statement to that effect).

In practice, although many companies have chosen to disclose only their principal undertakings in their annual accounts, some have failed to include the complete list of undertakings in their annual return. This has come to light because a charity has been exposing the fault and Companies House has been writing to the companies involved.

Companies House has not put out any guidance on how this issue should be subsequently redressed and the companies concerned have resolved the issue in different ways, including refiling amended accounts with the complete list of undertakings set out or refiling their annual return with the complete list attached.

Annual returns – amendments to contents requirements

Regulations have been made to amend the contents requirements of annual returns under the 2006 Act.[3] The changes came into force on 1 October 2011 and apply in relation to annual returns for the period ending on that date or a later one. The changes relate to the disclosure of shareholder details in the annual return and the requirements now depend on the type of company in question. (See Box 1 below for the details which companies need to disclose following these

Box 1 SHAREHOLDER DETAILS

TYPE OF COMPANY	DETAILS OF SHAREHOLDERS TO BE DISCLOSED
Companies whose shares are not traded on a 'relevant market'	Name of any person who was a shareholder at any point during the period covered by the return
Companies whose shares are traded on a 'relevant market' but which are not subject to the Financial Services Authority's (FSA's) 'Disclosure Rules and Transparency Rules Chapter 5' (DTR5) vote holder and issuer notification rules	Names and addresses of any person who held 5% or more of the issued share capital at any time during the period covered by the return
Companies subject to DTR5	No details need to be disclosed in annual return

'The changes introduced by the new code are generally ones of tone rather than substance, but there are a few new requirements for companies to get to grips with'

changes. In this context, 'relevant market' is defined in the regulations and includes AIM, OFEX as well as all regulated markets).

Narrative reporting

There are no new business review disclosure requirements this year, but the requirements in section 417 of the 2006 Act are still bedding down, despite the fact they have been in force for a number of years. Companies should look at how best practice is developing in terms of disclosure and structure. The Accounting Standards Board (ASB) has produced guidance to assist companies in complying with their narrative reporting obligations[4] and Deloitte[5] produces an annual survey, which considers narrative reporting included in annual reports and compliance with the requirements of the 2006 Act.

In November 2010, the FRRP announced its priorities for 2011/2012.[6] In relation to the business review, it noted the requirement for companies to include information on the company's employees, social and community issues and environmental matters. On the latter, the FRRP published a statement in relation to the accounts of Rio Tinto in March this year.[7]

In February this year, the FRRP also highlighted the need for companies to improve the description in their business review of the key risks and uncertainties facing their business.[8] The FRRP has identified the following industry sectors as those on which it will be concentrating its review activity in 2011/2012:

- commercial property;
- insurance;
- support services; and
- travel.

The UK Corporate Governance Code

The new UK Corporate Governance Code was published by the FRC in May 2010[9] and replaces the Combined Code. The changes introduced by the new code are generally ones of tone and emphasis rather than substance, but there are a few new requirements for companies to get to grips with, including those relating to re-election of directors, board diversity, board evaluation and risk management.

The new code operates on a 'comply or explain' basis and applies to financial years beginning on or after 29 June 2010. For ongoing requirements, compliance with the code should have started at the beginning of the financial year first starting after 29 June 2010. Companies with a 31 December year-end have been subject to the ongoing requirements of the code from 1 January 2011. In relation to reporting requirements, however, it is the annual report issued at the end of the first financial year starting on or after 29 June 2010 which is relevant. Accordingly companies with a 31 December year-end will not report on their compliance with the new code until the accounts for the year ending 31 December 2011.

Disclosures in relation to auditor independence

Under the code, companies are required to include in their annual report an explanation of how auditor independence is safeguarded when the auditor is providing non-audit services to the company. The FRC has revised its 'Guidance on Audit Committees' to include further details on what information should be covered in this statement.[10] The revised guidance took effect from 30 April 2011.

Significant shareholder information in annual reports

UK premium listed companies are required to include in their annual reports information in relation to notifications received from significant shareholders in compliance with DTR5. The FSA has amended the Listing Rules to clarify and expand the information to be included. With effect from 6 June 2011, listed companies need to include in their annual accounts:

- a statement showing the interests disclosed by investors under DTR5 as at the end of the financial year (ie the net position of those investors at that date); and
- details of all DTR5 notifications received between the end of the period under review and a date not more than one month before the date of the AGM notice (or if no such interests have been disclosed in that period, a statement to that effect).

Announcing and filing obligations for listed companies

Since 1 September 2010, listed companies have been required to use the National Storage Mechanism (NSM) website[11] for filing certain regulated information, including AGM and annual report documentation. The NSM replaces the Document Viewing Facility function previously operated by the FSA and filing information with the NSM will satisfy the obligations in the Listing Rules to send documents to the FSA.

Developments still in the pipeline

Corporate governance remains at the top of the agenda for the UK government and the EU following the economic crisis. There are a number of different ongoing consultations, including those given in Box 2 (opposite).

‘Corporate governance remains at the top of the agenda for the UK government and the EU following the economic crisis’

Box 2 DEVELOPMENTS IN THE PIPELINE

CONSULTATION	STATUS
The ‘Red Tape Challenge’: A Cabinet Office initiative on reducing red tape for business, this includes questions on regulations relating to report and accounts.	This initiative is not expected to be finalised until 2013, but the government is calling for responses. (See www.redtapechallenge.cabinetoffice.gov.uk/home/index/)
The Department for Business Innovation and Skills (BIS) call for evidence, ‘A long-term future for Corporate Britain’ (October 2010): This focused on the roles of, and relationships between, directors and company owners and the systems in which companies and shareholders interact. It is linked to the narrative reporting consultation (see below). See www.bis.gov.uk/policies/business-law/corporate-governance	A summary of responses was published by BIS in March 2011. A number of separate initiatives are expected to follow. To date a review of short-termism and corporate governance has been commissioned. The Kay Review will report back to the government in 2012 – see www.bis.gov.uk/policies/business-law/corporate-governance
The BIS consultation on the future of narrative reporting (August 2010): This consultation focused on the business review and directors’ remuneration report. For more details, see the corporate governance section of the BIS website: www.bis.gov.uk/policies/business-law/corporate-governance	A summary of responses was published by BIS in December 2010. The next stage in the consultation is expected to be published in the autumn.
FRC consultation ‘Effective Company Stewardship’ (January 2011): This consultation focused on the delivery of good financial reporting information, including the role of the audit committee and auditors. See http://frc.org.uk/about/effcompsteward.cfm	The consultation closed in March 2011. The FRC is expected to develop more specific proposals based on the responses received. The timing is as yet unclear.
EC Green Paper on corporate governance (April 2011): The green paper focused on topics relating to three broad areas: boards, shareholders and enforcement of corporate governance codes. The paper is at: http://ec.europa.eu/internal_market/consultations/2011/corporate-governance-framework_en.htm	The consultation closed on 22 July 2011. A feedback statement is expected in the autumn after which legislative steps may follow but the timing for any such steps is unclear.

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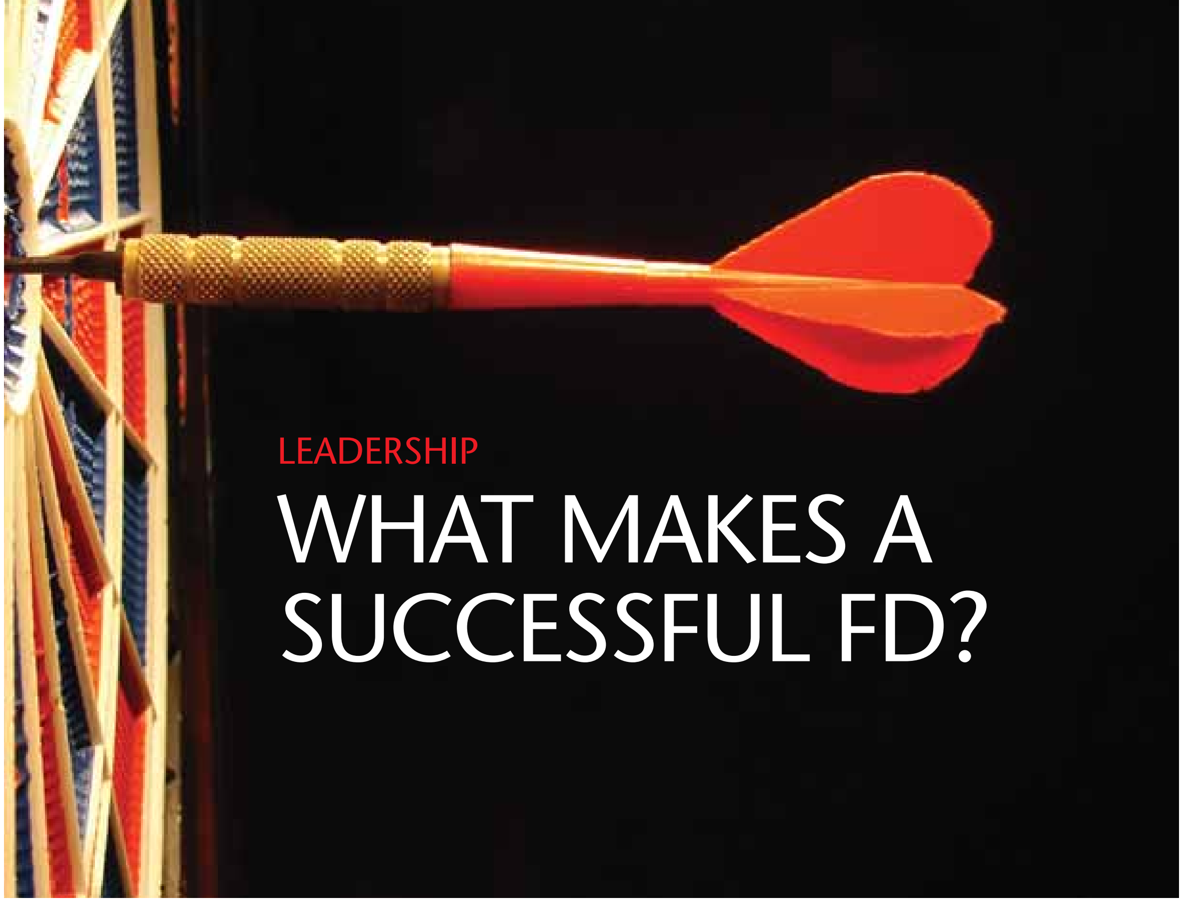

LEADERSHIP

WHAT MAKES A SUCCESSFUL FD?

Ever wondered what makes the difference between a so-so finance director and an outstanding one? **Scott Barnes** offers some useful clues, based on the views of leading board directors and the FD colleagues they have found inspiring.

Just how do you set out to become an outstanding finance director (FD)? One thing is certain – today's top FDs are much more rounded commercial business leaders than their counterparts of 10 or 20 years ago. They are forward-looking and are making tough, brave decisions.

Hence anyone aspiring to be an FD or wanting recognition as 'outstanding' in their current FD role should focus on their people and communication skills and gain broad commercial experience early on in their career. These are the clear attributes that lift an 'average' finance person into an outstanding FD.

Research conducted by the Directorbank Group in association with Grant Thornton canvassed nearly 350 board directors – chairmen, chief executives and executive directors – asking them to nominate outstanding FDs with whom they had worked and to identify the qualities that made them outstanding.

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Key attributes

Good communication and relationship skills came through time and again. FDs have to be approachable and trusted in their business so that managers share problems with them, rather than try to cover them up or work around the FD.

Matthew Streets, chief financial officer (CFO) at world-renowned architects Foster + Partners – and a nominated outstanding FD – emphasises this need for good communication skills. He makes the point: 'You are the expert in numbers but not everyone else is. I realised early on you don't only do numbers, sometimes you do pictures – graphs, pie charts or whatever – but not just numbers.'

Balancing act

The research included interviews with 25 of the nominated outstanding FDs themselves, looking at their career paths to the top and gaining their insights into the role.

These FDs recognised the balancing act they have to perform between forming a partnership with the chief executive officer (CEO) and supporting them, and at the same time being the one prepared to stand up and challenge that same CEO when required, often when no-one else will.

Even so, all of these outstanding FDs were clear that whatever their differences, the CEO and FD had to present a united front – both internally and to the outside world.

For a fast route to the top, FDs must gain commercial experience and understand where wealth is created in a business. This can be done by taking on divisional roles, working at headquarters, getting involved in mergers and acquisitions or an investor-facing role, working overseas, experiencing adverse conditions and getting close to the customer.

Although technical competence is generally viewed as essential, becoming too much of a technical expert can have a detrimental effect.

Box 1 KEY SKILLS OF AN OUTSTANDING FD

Are you an FD in waiting?

Develop these skills:

- excellent communication skills – with the board, across the business as a whole, with shareholders and with the outside world;
- wider people skills, particularly the ability to lead a high calibre team;
- commerciality and in-depth understanding of the business, its markets and customers;
- the ability to support and challenge the CEO; and
- an affinity with numbers and the ability to interpret them for others.

And what should you avoid?

Four out of five board directors had worked with an ineffective FD. They said the top signs of a poorly performing FD are:

- poor financial reports;
- loss of your team's confidence;
- lack of attention to detail;
- late reporting;
- poor forecasts; and
- lack of support from the chief executive.

For more on the signs of poor performance, see Figure 1, 'Poor FD – the warning signs', below.

Box 2 TOP TIPS FOR YOUR CV

Top tips

Learning from these role models, career tips to ensure a strong CV include:

- grasp opportunities – even if it means doing projects or roles that are not particularly appealing. This gets you noticed and ear-marked as someone with high potential;
- if you have started in the profession, move into industry as quickly as possible;
- deliberately look for ways to add value to your CV early on;
- build up a variety of experience in a number of roles, sectors and geographies; and
- push yourself out of your comfort zone, even into situations which may seem beyond your capability – often this will be the critical step that makes your career take off.

Barbara Richmond, group FD at Redrow and another 'outstanding' FD herself, believes that having curiosity and understanding the customer are critical: 'You have to have a curious mind – really wanting to understand what's behind the numbers. You have to make an effort to become commercial. The starting point is inside your business and generally people are very willing to help you. When you're sitting in a board meeting trying to make strategic decisions, you need to understand how the customer ticks.'

An ineffective FD

The directors sampled said that the most obvious signs of a poorly performing FD are inaccurate or incomplete reports or numbers not being produced on time. Often this is preceded by the finance team losing confidence in the FD or different patterns of behaviour which with hindsight should have given cause for concern.

The majority of the outstanding FDs were emphatic in their belief that the main thing which differentiates an ineffective FD from an effective one is their communication skills. Poor communication was consistently seen as the one thing which stops an average divisional FD or controller becoming a valuable member of the senior management team, worthy of the title finance director.

Career path

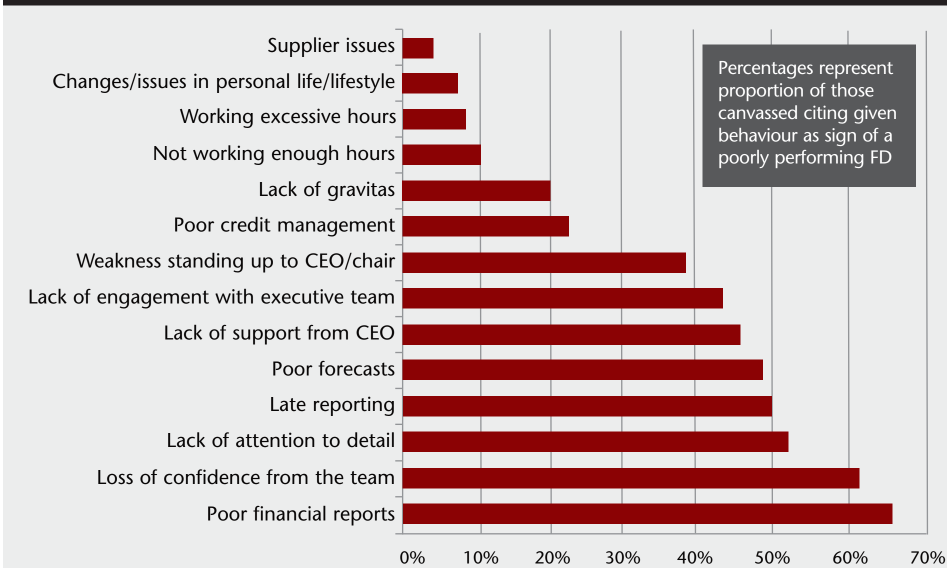
Many of the outstanding FDs were qualified accountants (though there were a few exceptions) and most started their careers in a professional firm. Some had added an MBA which was seen as giving a broader base of understanding than the essential but 'narrower' accountancy qualification.

Andrew Gossage, now chief operating officer of Ultimate Products, was very happy working in the profession when his favourite client offered him a job. He said: 'I had a choice – go for partner in say, five years or take a risk and leave. It proved to be a great opportunity. I was made FD and general manager of an organisation that employed 500 people at the age of 27.'

Many of the FDs talked about learning by watching those around them – spotting what impressive people were doing and adopting these behaviours. A number also talked about seeking out mentors and asking 'first class people' to tell them how they were doing.

The final piece of career advice comes from Richard Ashton, group FD, Home Retail Group Plc: 'You've got to stretch yourself as soon as you're getting to your comfort level. What you really need then is another challenge… and that's how you get big jobs at an early age.'

Figure 1 POOR FD – THE WARNING SIGNS



FACULTY ISSUES

MEET THE COMMITTEE

The committee of the Finance and Management Faculty exists to allow members to be democratically involved in the management and development of the faculty. It works with the faculty team – headed by Chris Jackson – in formulating strategy, setting the work programme, and reviewing the output of material for quality and relevance. Here we provide a three-page guide to each member of your committee.

Carolyn Bresh (Chairman)
Carolyn Bresh, the chairman of the faculty, is a partner/owner at Everymind, where she advises fast-growing companies of all sizes on improving their finance functions. Following five years with PricewaterhouseCoopers she has spent the last 17 years in FD or FC roles in companies ranging from the midsized plc (Blenheim) to the large (FTSE100 group Reuters). She has an MBA from the London Business School and is a qualified corporate treasurer. In her role as faculty chairman, she considers the faculty publications, events and thought leadership initiatives to be of a very high quality, and wants to make these better known to a wider population.

Tony Powell (Deputy chairman)
Tony Powell is a self-employed management consultant and trainer specialising in innovation, valuation and business planning and how they can be pulled together to help build sustainable business growth. He qualified in Leeds with Price Waterhouse, and spent five years there, followed by 21 with KPMG in Chicago, Holland, Paris and London. He represents the faculty on the Institute's Technical Strategy Board.

Dr Philip Smith (Council representative)
Philip Smith has held a range of senior roles driving shareholder value creation in privately and private equity owned SMEs, generally from a start position of financial distress and/or management disruption. He qualified in London with Fuller Jenks Beecroft, with post qualification experience in Australia with Coopers & Lybrand. An MBA from Manchester Business School, he recently completed an executive doctorate on management accounting at Cranfield, and now pursues a portfolio commercial/research career.

Paul Chan
Paul Chan trained with Ernst & Young's London tax practice. He held senior finance roles in a number of global groups including FD (Rail) at Lloyd's Register. He also led large scale transformation projects, including offshoring and system implementations, and has worked across Europe and West Africa.

Daniel Holden
Daniel Holden is head of finance at SecureTrading Ltd, the UK's leading independent payment service provider, where he is responsible for all commercial and financial aspects of the business. Having studied law at Durham University and qualified as a barrister, Holden went on to complete his ACA. Before joining SecureTrading, Holden worked at Deloitte, Capita plc, and a venture-capital backed e-learning provider. His work has included a number of accounting-related fraud cases and Holden has particular interest in forensic accounting, system analysis and fraud prevention.

New committee member GRAEME SCOTT

New committee member Graeme Scott, who qualified in 1995 with Robson Rhodes, is a big fan of the ACA qualification as a passport to 'interesting employment and opportunities'.

After first travelling and working in Asia and Australia, certain that his wanderlust was not over, Scott deliberately chose a 'fixed term' eight-month post in the UK as financial controller (FC) at the London Commodities Exchange (LCE). This was something of a baptism of fire as the (much smaller) LCE had announced its merger with the London International Financial Futures Exchange (LIFFE). Many at the LCE feared for their jobs. He learned about managing change – fast.

In 1997 he secured a job as compliance supervisor at the Hong Kong Futures Exchange. Back in the UK later that year he became a senior finance analyst with venture capital group 3i (a FTSE quoted company with £4bn in assets at that time) and helped co-ordinate their strategic planning process.

But by now Scott had recognised his preference for working for smaller companies, and the new millennium saw him join launching electronic interdealer broker BrokerTec Europe Ltd. Within a month of launch he was head of finance.

By autumn 2002, BrokerTec had been sold to ICAP plc for $240m, and Scott was persuaded to join global fixed income, derivatives and equities electronic trading platform Tradeweb. Here, over an eight-year period, his responsibilities included managing the transition to a new (SAP) accounting system, overseeing expansion into Asia, controlling financial management in Europe and Asia, expanding the London-based finance team more than fourfold, and presiding over eightfold international revenue growth. By 2009 he was interim group CFO.

Since last October Scott has been finance and operations director of FLEIL. Barclays Private Equity-backed, and using insurance capacity provided by Munich Re, it provides after-the-event litigation expense cover helping claimants to seek justice through the court system. Again, the schedule has been hectic, including moves to new reporting structures, IT infrastructure and offices.

All of the above roles have given Scott a keen appreciation of the many challenges faced by those working within the finance function, 'Over the past 15 years I have dealt with most of the issues that someone in the finance function today is likely to encounter. I hope that as a faculty committee member, I can make a valuable contribution in influencing the choice of written material and expertise it provides,' he concludes.

Members of the faculty staff and committee. Back row (l to r): Rick Payne, Chris Jackson, Jonathan Teller, Judith Shackleton, Graeme Scott, Tony Powell, Patricia Spreull, Emma Riddell, Philip Smith, Bob Scapens. Front row (l to r): Michaela Talbot, Rob Thompson, Paul Chan, Carolyn Bresh, Simon Jones, Helen C Stevens.

John Ferguson
John Ferguson's 37-year career has included almost three decades spent within the Shell group, working in a widely differing range of cultures from the Netherlands through Jamaica, Brunei, Syria, USA and Gabon, as well as the UK. Now retired from Shell, Ferguson acts as trustee and treasurer for two UK charities for disadvantaged groups in Palestine and Syria.

Helen Jesson
Helen Jesson, former chair of the Finance and Management Faculty, has held various senior roles in practice and industry. After training and working with KPMG for nine years in London and Melbourne, she has been based in various European locations with the Hilton Group, United Biscuits, the ESAB Group and Acergy. Having spent the past five years as CFO for the Pitney Bowes European and Asian operations, Jesson recently moved to the international pallet group Chep to head up finance for Europe, the Middle East and Africa.

Len Jones
Len Jones works as a main board director with Practical Car and Van Rental Ltd and its six associated companies. He holds a degree in accounting and financial administration (University College of North Wales, Bangor), and a diploma in personnel management (University of West England). He qualified with Deloitte Haskins and Sells, and moved on to work in a smaller accountancy practice and later commerce, as FD of a listed plc. He completed an MBA at Cranfield University and is currently studying for an MSc in charity accounting at Cass Business School.

Simon Jones
Simon Jones is head of investment review at BT plc. He graduated with a BA in biology and biochemistry from Keele University and then trained with BDO Binder Hamlyn. After a brief spell with Cornhill Insurance, he spent eight years with Securicor plc involved in internal audit and corporate finance, and then working as FD for a corporate venture in e-security. He joined the faculty committee because, after 15 years as a chartered accountant, he felt it was time to give something back.

Bob Scapens
Bob Scapens is emeritus professor at the Manchester Business School. He trained with a small firm in Liverpool, after which he moved to Manchester to join Whinney Murray (now part of Ernst & Young). In 1970 he joined the University of Manchester where he has remained since. He is also professor of management accounting at the University of Groningen in the Netherlands, and is currently a visiting professor at universities in Sweden, Finland and Italy.

Judith Shackleton
Judith Shackleton is the FD for TelecityGroup plc's UK and Ireland operations. Shackleton qualified with PricewaterhouseCoopers and after working in their training department moved into industry. Previous roles include work for ICAEW, group finance positions at De La Rue plc, group financial controller at Research Now plc and Camelot Group plc.

Patricia Spreull
After training and qualifying with PricewaterhouseCoopers, Patricia Spreull moved into industry, holding finance roles within major European companies culminating in 13 years at BASF providing business controlling services within a shared services environment. Her main interests are the management and development of people and their skills.

Helen C Stevens
Helen C Stevens has worked in diverse sectors, from engineering to the arts, has consulted to both FTSE100/ Fortune500 corporations, and enjoys investing in and mentoring innovative, high growth SMEs. She is a non-executive director (NED) and advisor to boards. Stevens qualified with PricewaterhouseCoopers and has an MBA from INSEAD. She currently co-chairs the Women in Finance (WIF) network and is keen to raise the profile of women in the profession.

Michaela Talbot
Michaela Talbot qualified with Shipleys. In 1994 she joined the £3.5bn turnover TUI (then Thomson Travel Group). She then joined Red Letter Days (providing gift experiences) where she gained invaluable turnaround experience. Talbot is now finance and operations director at the UK subsidiary of US private equity owned group Specialty Catalog Corp, direct marketer of women's wigs and hairpieces for both the fashion and needs-based markets.

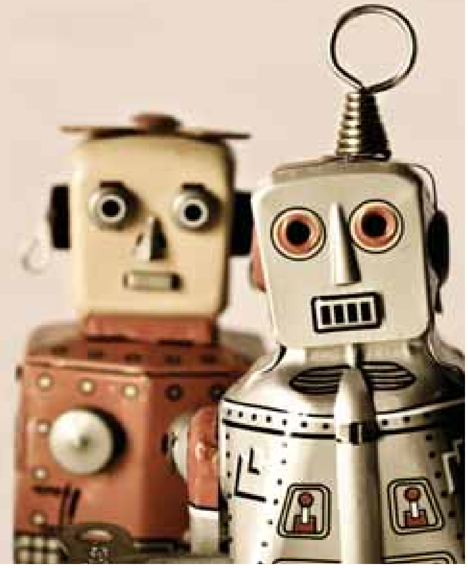
Jonathan Teller
Jonathan Teller is a self-employed consultant, having qualified with Levy Gee in 1978. He has been in practice for over 30 years and holds an MBA from Cass Business School. Previous roles include finance and IT partner at Levy Gee and national director in management information systems services at Numerica. He also serves on the committee of the ICAEW Information Technology Faculty. His areas of interest include computers and finance, performance management, the balanced scorecard, business intelligence tools and analytic applications.

Rob Thompson
Rob Thompson is an executive director at Royal Bank of Scotland in London. He began his accountancy training with Moores Rowland (later acquired by BDO Stoy Hayward) and qualified in 2000. After a brief spell with Warner Music, he started his banking career with Lehman Brothers before moving to ABN AMRO (now RBS) in 2003. He joined the committee because he believes that his experiences can help the faculty reach others in similar positions.

We are always looking for new committee members. To find out more about joining contact chris.jackson@icaew.com. The committee members, who are elected for three-year terms, meet quarterly, but carry out much additional work by email and phone. They come from a range of backgrounds and include financial directors and managers (of organisations ranging from public companies to owner-managed businesses), interim managers, management consultants and those in academia.

FINANCIAL MANAGEMENT

WHY NUMBERS ARE NO SUBSTITUTE FOR PEOPLE



John Timpson, chairman of the keys and cobbling service retailer Timpson, believes talking to people works better than relying on budgets and figures.

I have never found mathematics difficult. When it came to school exams I failed French, but achieved 100% in my Maths O Level. Perhaps that is why I refuse to be fooled by a flood of figures from our finance department. A long time ago I learnt that having a lot of numbers doesn't mean you are better informed, it just makes life more complicated.

I started work in 1960, the year we installed our first computer. I was brought up to believe that this new technology would tell us how to run the company. But this promise of a brilliant new business tool was based on the false belief that management is a science that can be controlled by cool calculation – my experience has consistently shown that management is an art that relies on flair and common sense.

In the early 1970s we set budget sales figures for every shop each week in the belief that once a target was established there was a good chance it would be achieved. Our finance director insisted that all the individual branch figures added up to his company budget. It was a tortuous process that took weeks of everyone's time, but the budget didn't do the trick. Sales never seemed to follow our forecast (our customers clearly didn't realise how much they were expected to spend!) I scrapped the budgetary process and for the last 20 years we have compared our performance with last year. It has saved a lot of bother.

Budgets dominate life at a lot of organisations, with each department putting in their bid, the annual budgetary round has become a power game for ambitious executives. It takes a lot of time and politics to put the annual budget to bed – but not at Timpson. We let the finance department produce the figures while everyone else gets on and runs the business.

John Timpson is chairman of his family company Timpson Ltd, based in Manchester. www.timpson.co.uk

Measuring success

Life at Timpson has little to do with budgets and we don't have KPIs. We have bought many loss-making businesses and discovered that each was monitoring minute detail from head office – Sketchley were keen on keeping a weekly count of the 'super crease' sales in shop, Max Spielmann monitored the sale of photo frames by price point, colour and size, and Mr Minit controlled costs so closely that they recorded every branch's expenditure on postage stamps. While the figure-obsessed management concentrated on the detail they failed to follow the big picture. Instead of being glued to their computers they should have visited shops to talk to the colleagues who talk to the customers.

Process-driven managers like to base their decisions on solid facts, playing safe with the second opinion of market research and industry statistics. But many times the reassurance of a consultants' report can provide a false sense of security. I recently visited an extremely quiet new supermarket, where sales were falling way below expectations. 'What went wrong?' I asked, 'Misread the socio-economic mix,' was the reply. We have a simpler way of forecasting the sales of potential new shops – we go and have a look. Both my son James, our CEO, and I visit every property before we sign a lease in the belief that an experienced eye is more reliable than computer analysis.

Health checks

We do, of course, get some figures, but the only report I always look at is the daily bank balance compared with the same day last year. It gives me a daily health check on the business. Other statistics that I find interesting are the daily report on recent openings (branches opened in the last three months), our total sales for each week and the monthly management accounts – although I seldom look beyond the front page summary.

The only time I ask for detail is when we are trying a new idea, like our current growth in portraits, the introduction of complicated car keys and our latest locksmith service. A flicker of success in a few shops can point to future growth throughout the company. Entrepreneurs are good at forecasting the future while accountants are best at pointing out problems from the past.

With just a few figures to look at it is easy to see how the company is doing and have plenty of time left to visit lots of our shops and discover what is really going on.

TECHNICAL UPDATES

FINANCIAL REPORTING

SIMPLER REPORTING FOR SMALLER BUSINESSES

Under EU law all companies are required to prepare financial statements. The only exception to this for SMEs is that EU law also permits Member States to relieve certain companies of the requirement to have their financial statements audited and to file simpler statements.

FRC/BIS consultation

The Department for Business, Innovation and Skills (BIS) and the Financial Reporting Council (FRC) have published a discussion paper which proposes simplifying reporting requirements for the smallest businesses. The paper, 'Simpler Reporting for the Smallest Businesses', sets out ideas on reducing the amount of reporting micro-entities would be required to undertake.

What is a micro-entity?

A micro-entity is defined by the Competitiveness Council in May 2011 as a company with:

- a turnover of less than €500,000 (£440,000);
- net assets of less than €250,000 (£220,000); and
- employing fewer than 10 people.

This covers approximately 60% of UK companies registered at Companies House and 3.5m unincorporated businesses. Overall, the proposals could benefit around 5m businesses and result in considerable cost savings in preparing accounts.

Summary of proposals

The discussion paper proposes easing corporate reporting procedures so that micro-companies are only required to prepare and file:

- a simplified trading statement (in place of the profit and loss account);
- a simplified statement of position – which would include details of shareholders' funds, fixed assets, cash, debtors, loans and short and long-term creditors; and
- a simplified annual return.

The discussion paper complements the Office of Tax Simplification's paper on options for simplifying taxation for the smallest businesses published in July 2011, by proposing aligning financial reporting and tax reporting so that micro-companies would only need to prepare one set of data to meet all reporting obligations. The paper also proposes developing an integrated software package to help small businesses prepare financial information.

Objective of the consultation

The paper is not intended as a statement of government policy. It has been developed to stimulate discussion and gather evidence before the government decides whether to take any further action.

Written responses to the proposals should be provided by 30 October 2011. For more information visit icaew.com/micros

MANAGING AND REPORTING RISK

The FRC has published two reports: 'Boards and Risk' reveals the discussions the FRC has held over the past six months with representatives from listed companies; 'Effective Company Stewardship: Next Steps' responds to over 100 submissions to its consultation published this January.

Following the consultation, the FRC will work with BIS to implement the government's proposals on narrative reporting due to be published in the autumn. It will also test whether there is sufficient support for developing narrative reporting standards. The FRC believes narrative reports should:

- focus primarily on strategic risks rather than those that arise naturally, without action by the company; and
- disclose the risks inherent in their business model and the strategy for implementing that business model, explaining how they will address them and any further obstacles that may arise due to changes in the business environment.

More detail is available at frc.org.uk

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

INVESTMENT ENTITIES

The IASB has published an exposure draft, ED/2011/4 *Investment Entities*. This defines investment entities as a separate type of entity, subject to six qualifying criteria being met. The investment would then be exempt from the requirements of IFRS 10 *Consolidated Financial Statements* and accounted for at fair value through profit or loss. The draft also includes disclosure requirements about the nature and type of these investments. Comments are due by 5 January 2012. See icaew.com/frf

FRF ROADSHOW

The Financial Reporting Faculty Roadshow – Hot Topics in Company Accounts – will be visiting 14 different locations around the UK in the next few months. Participants will benefit from practical help in complex areas of financial reporting as well as guidance on how to prepare for the groundbreaking changes that are mooted for the UK accounting regime. For full details of the roadshow, benefits of membership and for information on new UK and international financial reporting standards available to all, visit icaew.com/frf

ICAEW'S IFRS PACKAGES

Stay informed and apply IFRS with confidence. Receive the 'IFRS learning and assessment programme' or 'IFRS for SMEs learning and assessment programme', with full access to the Financial Reporting Faculty's specialist resources, at a discounted rate. Subscribe to these unique packages at icaew.com/ifrspackage

LATE SELF ASSESSMENT FINE NO LONGER WAIVED

The rule which reduced the tax return late filing penalty from £100 to nil provided that the individual had paid all their tax before 31 January has been abolished. If a taxpayer now misses the self assessment filing deadline, they will be immediately liable for a £100 late filing penalty.

The £100 penalty will therefore apply to:

- paper returns received on or after 1 November 2011; and
- online returns received on or after 1 February 2012.

Daily penalties of £10 per day will also take effect if the tax return is still outstanding three months after the filing date. So if your client files a paper return after 31 October 2011, they will be liable to a daily penalty on 1 February 2012, three months earlier than late online filers.

For further information see ion.icaew.com/TaxFaculty/22814

VAT: THE TRIBUNAL DECISION IN REED EMPLOYMENT

HMRC has issued Revenue & Customs Brief 32/11 to explain its policy following the First-Tier Tribunal (FTT) decision in the case of Reed Employment Limited TC01069.

The tribunal held that in providing temporary staff to its clients Reed was supplying introductory services rather than making supplies of staff. As such it was only liable to account for VAT on the commission and not on the overall amount paid by the client, which included the temps' wages and National Insurance (NI) contributions.

The view taken by HMRC is that Reed has no wider impact and the correct VAT treatment for employment bureaux remains as set out in VAT Information Sheet 03/09, namely that a bureau acting as an agent only has to account for VAT on its commission, whereas a bureau acting as a principal has to account for VAT on the full amount charged to clients, including the temp's wages and employer's NI contributions.

The brief can be found at www.hmrc.gov.uk/briefs/vat/brief3211.htm

GUIDANCE TO FURNISHED HOLIDAY LETTINGS RULES

HMRC has issued an advance version of a new Helpsheet (HS253) on furnished holiday lettings (FHL). From April 2011, loss relief may only be set against income from the same FHL business.

The availability and occupation tests that must be met if a letting is to qualify will change as follows:

1. currently the accommodation must be available for commercial letting as holiday accommodation to the public for at least 140 days during the tax year – for 2012/13 this will rise to 210 days; and
2. currently the accommodation must be commercially let as holiday accommodation for at least 70 days during the tax year – for 2012/13 this will rise to 105 days.

The accommodation must not be let for periods of longer term occupation for more than 155 days of the year.

For further details see www.ion.icaew.com/TaxFaculty/22823

DRAFT GUIDANCE ON 'DISGUISED REMUNERATION'

HMRC has published draft guidance on the disguised remuneration provisions included in the Finance Act 2011. It intends to add examples and clarifications and publish the final version as part of the Employment Income Manual in autumn 2011. See www.hmrc.gov.uk/budget-updates/march2011/disguised-remuneration.pdf

UPDATE

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

UK'S ONLINE FUTURE

The government has launched a consultation 'Digital by default proposals for government services'. It considers the next steps towards making HMRC's proposed Registration Wizard the digital-by-default channel to get set up for the main direct business taxes (corporation tax, income tax self assessment/Class 2 NICs, PAYE). The consultation runs until 31 October 2011. For further details see www.ion.icaew.com/TaxFaculty/22742

VAT REGISTRATION

A consultation on the next steps for moving VAT online has been launched. Most VAT registered businesses now have to submit their VAT returns online. From 1 April 2012, HMRC proposes to make it compulsory for VAT registered businesses with a turnover below £100,000 to file VAT returns online and to pay any VAT due electronically. For further details, see www.ion.icaew.com/TaxFaculty/22746

SUPPORTED CHILDCARE

HMRC has published new online guidance on employer-supported childcare schemes. Tax relief for employer-supported childcare is now restricted to the basic rate of income tax. Previously, qualifying employer-supported childcare was exempt from income tax and disregarded for NIC for the first £55 a week. This rule still applies for those already in an employer childcare scheme at 6 April 2011. For further details see www.ion.icaew.com/TaxFaculty/22741

EMPLOYMENT LAW

FSA ANNOUNCES CONSULTATION ON REMUNERATION CODE GUIDANCE

On 5 August 2011, the Financial Services Authority (FSA) announced a four-week consultation in respect of two proposed 'Dear CEO' letters, which set out further draft guidance to assist firms in complying with the revised FSA Remuneration Code.

The letters outline the FSA's expectations about how firms should be complying with the code, as well as its proposals as to how compliance will be monitored during the period up to the 2011/2012 annual remuneration review. The letters also include general guidance from the FSA on three key policy issues.

On the same day, the FSA also published in final form a template Remuneration Policy Statement (RPS) for firms in Tier 2, and one for firms in Tier 3 or 4. The RPS templates remain in substantially the same format as the consultation drafts.

However, one important change is that the FSA has confirmed the extension of the deadline for completion of the RPS from 1 September 2011 to the end of the year (subject to the requirement that the RPS must be completed no later than three months before the date on which bonus amounts are to be signed off). A template for RPS Tier 1 firms will be included as part of the consultation.

For more information see www.fsa.gov.uk

COLLECTIVE REDUNDANCY: PROTECTIVE AWARDS

Employees who bring a claim for failure to inform and consult on collective redundancies (eg, where there are no trade union or employee representatives) can only obtain a protective award in their own favour individually, and not in favour of other affected employees.

Collective redundancy law requires employers to inform and consult trade union or elected employee representatives. Those representatives can bring claims for a protective award for breach in respect of all the employees they represent. Individual affected employees can bring claims for failures concerning the election of employee representatives and any other failures where there are no representatives. In these circumstances, some tribunals have made protective awards in favour of all the affected employees, not just the individual claimant.

The Employment Appeal Tribunal (EAT) has now ruled that this is wrong in a case handled by Herbert Smith's employment team and advocacy unit. Only trade union and elected employee representatives can bring representative claims and win protective awards in favour of their constituency. Individual claimants can only seek awards in their own personal favour. By analogy, the same should apply to awards for failure to inform and consult under TUPE.

While this could lead to a multiplicity of claims, it does at least remove the option for individual claimants to raise the prospect of a representative award in order to negotiate a higher settlement. Employers should now have more certainty and confidence in handling and settling individual claims. *(Independent Insurance v Aspinall, EAT)*

NEW RESOURCES

- HMRC company car advisory fuel rates applicable from 1 September 2011. See www.hmrc.gov.uk/cars/advisory_fuel_current.htm
- Home Office guidance on filling in the CRB application form. See www.crb.homeoffice.gov.uk

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UNFAIR DISMISSAL

The EAT has confirmed that, in deciding whether it was fair to dismiss an employee for refusing to take a pay cut, the issue is whether it was reasonable for the employer to dismiss and not whether it was reasonable for the employee to accept the pay cut. The employer need not show that the survival of the business depends on the pay cut, but the 'equity' of dismissing (with its implied sense of fair dealing) must be considered. *(Garside v Booth, EAT)*

TUPE: TRANSFEREES AT RISK

The Supreme Court has referred to the European Court of Justice the issue of employees' rights following a TUPE transfer where their contracts provide for pay to be set by a collective agreement negotiated by the transferor and union. Transferees who have acquired staff with such contractual terms now face a period of uncertainty and, potentially, the prospect of having to abide by terms over which they have no control. *(Parkwood Leisure v Alemo-Herron, SC)*

THIRD PARTY HARASSMENT

An employer should take appropriate steps to deal with third party harassment, even where the express provisions in the Equality Act (requiring two prior occasions of third party harassment) do not apply. *(Sheffield City Council v Norouzi, EAT)*

MANAGEMENT EXTRA

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

STRATEGY

STRATEGY AND LEADERSHIP

How essential is a good leader to implementing strategy? **Morgen Witzel** uses historical examples and geographical contrast to examine the changing relationship between leadership and strategy.

'There go my people! I must go after them, so that I may find out where they want me to lead them.' These are the words of a Roman senator, hurrying out of a bathhouse and pulling on his toga after sighting a mob running in the streets. The story was a favourite among Roman writers, and indeed may well be an urban myth. But it illustrates a point all the same. We have plenty of people in our organisations who are titled as leaders: chairmen, chief executives, presidents, generals, party leaders, priests, vice-chancellors and so on. But who decides what direction those organisations will take? Who chooses the strategy?

Until recently, views on this subject were clear: choosing the strategic direction was the responsibility of the organisation's leader. Others might advise but only if those opinions were actively sought. History judged leaders by how well they 'took charge' by deciding what the strategy would be and then driving it through, by force if need be.

The illusion of control

Leaders who did so successfully were judged to be 'great men' and held up as models to be emulated. Just as army officers tried to emulate Frederick the Great and Napoleon, so business leaders tried to be like Henry Ford – or in later years, GEC's Arnold Weinstock.

This was not the only way of looking at leadership and strategy, of course. In *War and Peace*, Leo Tolstoy gives us a fascinating study in contrasts between Napoleon, the archetypal 'great man' who believed that he controlled everything, and his Russian opponent Field-Marshal Kutuzov, who knew that there were limits to the control he could exert over his army. Tolstoy portrays Kutuzov as listening to his army, waiting until the army knew it was ready to act, and only then giving the orders which sent it forward to defeat the French and push them out of Russia.

The business equivalent of Kutuzov was Alfred P Sloan, the president of General Motors who oversaw the company's rise to be the number one car maker in the world. Sloan believed in consultative leadership, and seldom made a decision about strategy until he had heard the views of his senior staff. He actively sought debate about strategic options.

One story illustrates Sloan's approach. At a board meeting, noting that there had been no prior discussion of a particular point on the agenda, he looked around at his fellow directors and said, 'I take it that we are all in agreement on this issue?' The directors replied yes. 'Then, gentlemen', said Sloan, 'I suggest we set this matter aside until the next meeting, and in the interim we all try to think of some reasons to disagree. That way we will be sure that we have considered the matter properly.'

Leadership as a 'social process'

Today, theorists on leadership have largely rejected the 'great man' (or 'great woman') approach. Typical is the work of Richard Bolden and his colleagues at the Centre for Leadership Studies, who see leadership as being a process of interaction between the leader and the rest of the organisation. Good leaders, they say, listen to their peers and subordinates and respond according to what they hear. A series of feedback loops means that leaders are constantly adjusting their stance depending on the needs of the organisation. According to the 'great man' theory, leadership was something that was done to people: orders were given and people were expected to obey. In their book *Exploring Leadership*, Bolden and his colleagues argue that leadership is something that is done with people, with their active cooperation and consent. They refer to leadership as a 'social process'.

Other recent work talks about the concept of 'distributed leadership', meaning that instead of one leader, organisations will have many leaders, not all of them necessarily identifiable as such. This phenomenon, it is argued, can be seen in the natural world too. Take the example of a flock of geese flying in a V. The 'leader' is the goose at the point of the V, leading the way. However, the leader is not always the same goose. While in flight, the original leader will often drop back and give way to another goose who takes over the lead; this bird will in turn give way to another and so on. All the birds clearly share the same information about the flock's destination and course. So which is the leader?

Distributed leadership is practised in business too. Perhaps the extreme example is Semco, the Brazilian light engineering company. In his book *Maverick*, managing director and owner Ricardo Semler described how over a period of several years he devolved responsibility for the running of the company to his managers and employees. Everyone in the firm became in effect self-managing. Rather than Semler himself laying out a strategic plan and assigning targets to people, he sat down with his staff and discussed where they wanted the firm to go. From this, he created a 'broad brush' outline of what needed to be done to reach the agreed goals. Within this very loose framework, people decided their own targets and goals, and even their own hours of work. Semler concluded that by the time the process was done, his own position a managing director was effectively redundant.

The strategic leader

So what is the role of the leader in strategy? Is it to create the strategy and then make certain that other people carry

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'It is increasingly common for companies to set up strategy groups, often with representation from low down the hierarchy, who meet and consider strategy'

it out? Or, like Ricardo Semler, is it to help other people make the strategy?

In part, it depends on where in the world you are. In Chinese companies, including those based in South East Asia, the answer is still very much the former. Workers expect their leaders to make strategy; it is what they are there for. Workers themselves do not feel that they should be responsible for strategic decisions. If one were to enter a Chinese workplace and ask workers what they thought the company's strategy should be, the result would likely be confusion, even alarm. Why does the boss need to ask us? people would say. Doesn't he have all the answers? And if he does not, does this mean we are in trouble?

On the face of it, Chinese leaders are still very much in the command and control mode of strategy making and execution. But that superficial view is rather too simple. We know that Chinese leaders spend much of their time before making a decision gauging the mood of the company and the workers. They know the truth of the old adage, 'never give an order unless you are certain it will be obeyed'. Like Field Marshal Kutuzov, they work out where the organisation wants to go, and then lead it there.

This process is much more overt in India. Ratan Tata, leader of India's largest business group the Tata Group, says that even though he is responsible for creating the overall strategic vision, the process of creating that vision is a collaborative one, undertaken with the heads of the various companies within the group. What is more, once the strategic vision is in place, Tata does not give orders to his managing directors. Instead, he discusses the future with them and they come to a mutually agreed course of action, a process he refers to as 'cajoling'. His predecessor, JRD Tata, used much the same methods. He once remarked that although he was always prepared to back his own judgement, he would never take a decision if he felt that his senior staff disagreed with it.

In the West we are slowly moving towards this model. It is increasingly common for companies to set up strategy groups, often with representation from fairly low down the hierarchy, who meet and consider what the strategy should be. Sometimes the chairman and managing director are not even part of this group. They will provide inputs if asked, but they are not involved in the decision-making process.

Preliminary responsibilities

What then do these leaders do? In the new emerging model of leadership and strategy, the leader has two primary responsibilities. The first is to make sure that there is a strategy; the second is to ensure that it is executed.

The first is relatively simple. It is of course important that there is a strategy, that the organisation has a clear view of where it wants to go and how it is going to get there rather than just drifting along waiting for thing to happen. The leader can act as a catalyst, rather as Alfred Sloan did at GM; he or she can get people thinking about strategy, doing research, considering the options, turning over ideas and asking themselves questions about where they want the organisation to go. The leader can also help guide people towards a consensus view. This can be much more effective than the old-fashioned way whereby the leader dictated the plan and ordered others to carry it out. Everything we know about motivation in the workplace suggests that people are much more likely to put their shoulders to the wheel if they feel that they have helped to create it.

The second issue is of course much more difficult. It is one thing to sit down and decide on a strategy, quite another to make it work. The leader's contribution should be to keep people focused on the goal, prevent them from getting distracted or downhearted when difficulties arise, and make sure that everyone is clear about what part they have to play. This is the reason why so many leaders spend so much of their time travelling around the organisation. They are constantly on the move, talking to people, gauging their mood, reminding them of the common vision, helping them sort out difficulties that have arisen. These leaders don't give orders: they 'cajole' and persuade, encourage and inspire others to do their best. In many cases people will already know what they have to do; but sometimes they need reminding as to why it is important.

Every strategy needs a leader. Leaders make sure that the strategy is designed in a thoughtful way, and then make sure that it is carried through. They don't have to be flag-waving heroes; indeed, it is often better if they are not. Today's leader is not so much the person who does things as the person who helps others to do things well.

FURTHER READING

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“WHEN YOU GET BIGGER, YOU GROW OUT OF THINGS.
LIKE SYSTEMS. AND TROUSERS.”
I’m the FD of a services company with 40 employees and I know how vital it is to have the business running like clockwork. It’s easy, provided you have the right business management systems.
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