ICAEW FINANCE & MANAGEMENT FACULTY

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FINANCE & MANAGEMENT

“NEARLY EVERY COMPANY I KNOW IS SPENDING MORE TIME ON MEASURING PERFORMANCE” PAGE 27

Something unpredictable?

The finance world of 2014...as seen in 1999

Think differently
Life as an FD in a creative industry

Change the structure
The route to a restructured business is not without difficulty

Mixing it up
How to recruit the right blend of people to your team

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All lending is subject to a satisfactory credit assessment. Lloyds Bank plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Telephone: 020 7626 1500. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Licensed under the Consumer Credit Act 1974 under licence number 0004685. We subscribe to the lending code; copies of the Code can be obtained from www.lendingstandardsboard.org.uk There is always a possibility that interest rates may go down leaving a fixed rate loan at a higher level compared to a variable rate loan. However, if interest rates rise, a fixed rate loan will remain at the same rate.

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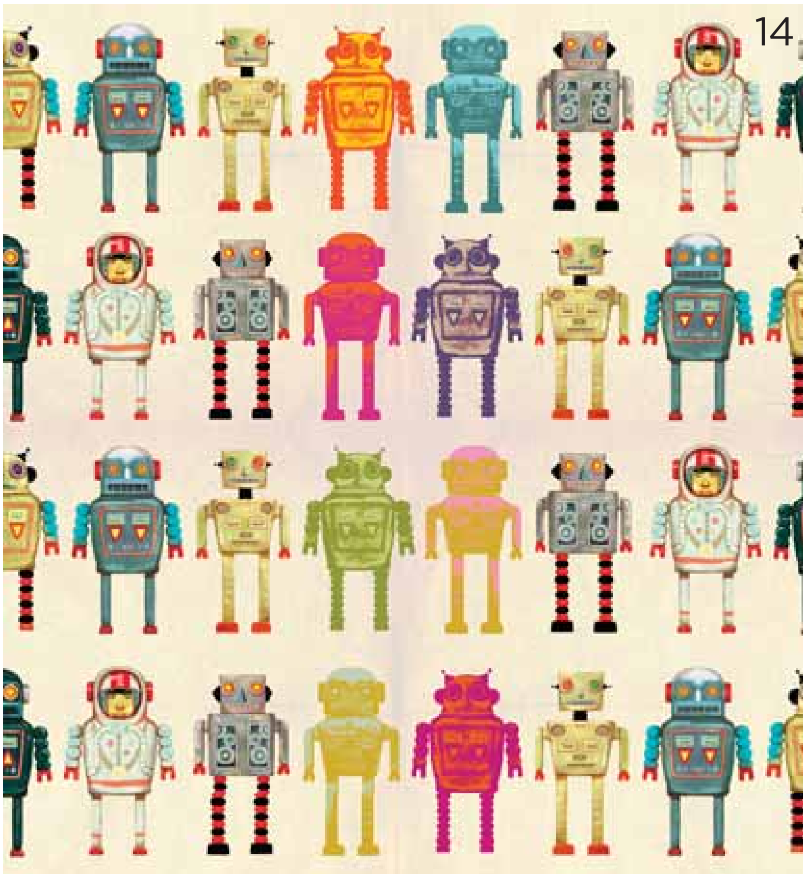

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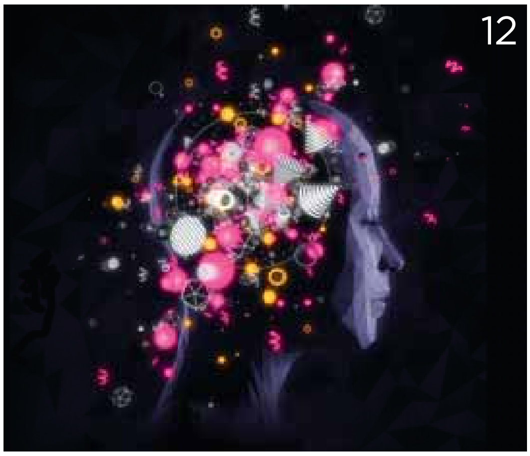

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"Rewarding people for hitting specific measurement targets changes the whole nature of your system"

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Mike Bourne is professor of Business Performance at Cranfield School of Management

COVER: DAN MURRELL

Time for change

FINANCE & MANAGEMENT FACULTY

Happy New Year to you all! The new year is a good time to adopt resolutions to change aspects of our lives we (or those we live with!) feel need to be addressed.

The first recorded making of resolutions for the new year occurred some 4,000 years ago; the Babylonians would renew their ruler's mandate and make promises to clear their debts once a year. An annual mandate for Parliament sounds like a good idea, but the promise to clear debts within 12 months is a tougher prospect when the average personal debt in the UK is £54k (including mortgage debt) and average UK income is £26k.

It was Julius Caesar, in 46BC, who deemed 1 January to be the start of the year; prior to that, the Babylonians held it on the first full moon after the vernal equinox, so before the start of the UK's fiscal year on 6th April. The date used, however, is less important than the principle of moving out of one's comfort zone for a while and trying something different or challenging.

The University of Scranton conducted research in 2012 on New Year resolutions, the results of which are not too disappointing. Roughly half of the sample usually adopted an annual resolution. Some 46% of those people were still pursuing their goal six months later, even though only 8% of the whole group deemed themselves to have been successful in achieving their aim. The most popular theme was self-improvement, followed by weight loss and debt repayment, so the Babylonian idea still continues to some extent.

The Finance & Management Faculty has adopted a resolution for 2014 to provide more for our members and is rolling out free monthly webinars from February. We have also made evening events free to members. We are forming a user panel to obtain feedback on our publications so that we can ensure that we focus on the style of article that you prefer; the topics will be determined by you according to the results of the annual survey, the results of which are summarised on page 11. Please contact robert.russell@icaew.com if you are interested in joining the user panel or have any comments or suggestions.

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Annual membership of the Finance & Management Faculty costs from £90 a year. For more information and to join see icaew.com/fmjoin

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Events are listed within this publication; details can be found at tinyurl.com/fmfaculty or contact the events line on +44 (0)1908 248 159.

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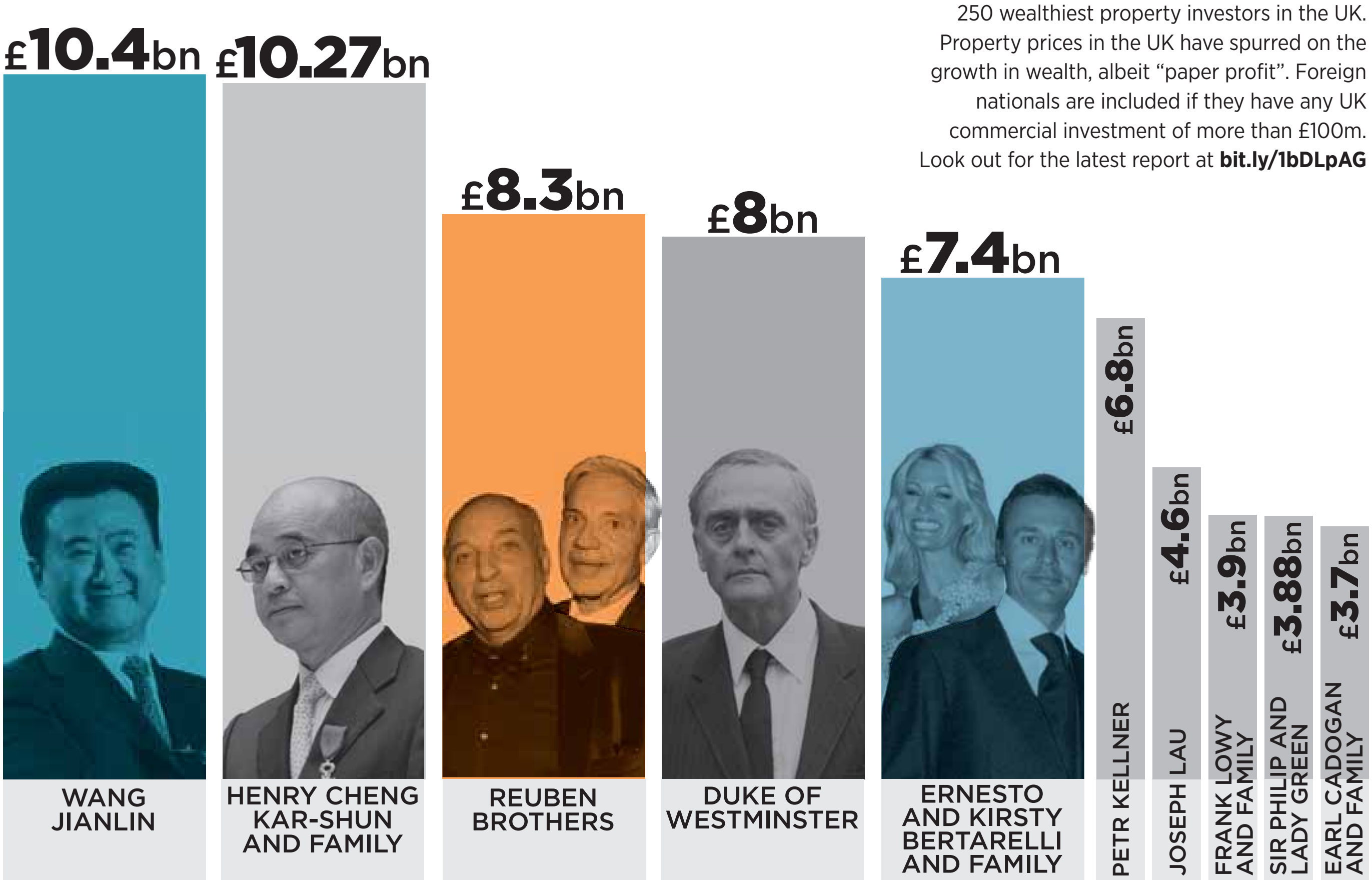
News

POWER HOUSES

Estates Gazette has published its rich list of the 250 wealthiest property investors in the UK. Property prices in the UK have spurred on the growth in wealth, albeit "paper profit". Foreign nationals are included if they have any UK commercial investment of more than £100m. Look out for the latest report at **bit.ly/1bDLpAG**



SCIENTISTS SHOW THEIR METAL

Michigan Technological University's Joshua Pearce and his team have created a low-cost 3D metal printer. Commercial metal printers are already available for a hefty $500,000, but the MTU one could retail for less than £3,000, although the printer does require fire protection and safety equipment owing to the production process.

Some futurologists are predicting the use of these printers along the lines of science fiction replicators, although production of this type of sophisticated kit is some way off.

TAILORED TIP-OFFS FROM UKTI

UK Trade & Investment is offering a free service providing information on relevant business opportunities overseas, which means you receive alerts only on high quality leads within your sector. They state: "Registering with UKTI will take up just five minutes of your time – and not a penny of your budget. Once you've registered, you can simply watch your inbox." Register at **ukti.gov.uk**

STUDENT LOAN LIABILITIES

While the UK government has announced it will lift the ceiling on students applying for loans to cover the costs of university tuition fees, the sentiment appears to be changing towards student debt. The US National Financial Education Council's research showed 59% of Americans think lending money to "financially-illiterate" students is unethical.

The UK finished twentieth in the OECD financial competence scores (highlighted in November's magazine), three places above the US.

THE UK: A GOOD PLACE TO DO BUSINESS

Accounting firm UHY Hacker Young has rated the range of countries based on their export growth, labour costs and tax systems. The UK did well across all measures, but especially because HMRC has double taxation treaties with 126 countries in place. See further details at **bit.ly/1e5sO47**

Ranking	Country	Score
1	Germany	6.4
2	Slovakia	6.3
3	UK/NZ/Holland	6.0
6	Denmark	5.4
7	France	5.3
15	Australia	4.7
25	USA/Italy	3.7

GETTY IMAGES, REX FEATURES

Events

VISIONS OF THE FUTURE – GLOBAL ECONOMIC TRENDS FOR 2040

Tuesday 28 January
18:00 – 20:00
Free for faculty members

Tracey Keys, director, at Strategy Dynamics Global SA, and ICAEW's own Nigel Hastilow provide their forecasts of global economic trends we might be seeing over the next thirty years. With global population growth exceeding wealth creation, the standard deviation of average wealth is increasing exponentially. Tracey will consider how finance and commerce may look rather radically different by 2040. Nigel will present a humorous take on the serious issues surrounding the increasing demands and needs of an ageing population in a world of limited resources.

To book your place, visit **icaew.com/fmfjanevent**

WOMEN IN FINANCE NETWORK: SELLING NUMBERS TO THE FINANCIALLY ILLITERATE

Wednesday 5 March
18:00 – 20:00
Free for faculty members

Almost everyone in finance will have found their presentation of numbers met with blank stares at some time or other. Even the CEO and members of the senior management team can have difficulty getting their heads around the numbers. Adam Wilkinson ACA has assisted hundreds of non-finance executives to understand financial data and company financial statements through the use of colour; he'll share some of his secrets with you at this interactive event.

To book, visit **icaew.com/wifmarevent**

COMPANY PERFORMANCE AND TURNAROUND

Wednesday 19 March
18:00 – 20:00
Free for faculty members

Richard Close, CEO of Briggs Equipment and specialist in business transformation, will take us through the steps to achieve company turnaround. Richard has 25 years' experience of driving significant improvements in business performance through a combination of strategic initiatives, operational focus and inspirational people engagement. A proven business leader, he understands all aspects of people leadership. In this presentation, he will cover how to motivate and retain employees through innovative tried and tested techniques, and explain how empowering staff leads to a more engaged workforce, aiding growth. These practical tips provide an invaluable guide to company progression through effective leadership skills.

To book, visit **icaew.com/fmfmarevent**

MASTERCLASSES IN KPIS AND ROLLING FORECASTS

Tuesday 8 April (Manchester); Thursday 10th April (London)
Cost from £425+VAT
Save the date!

David Parmenter, author of *Key Performance Indicators* and *Winning CFOs* and international presenter is in the UK in April to deliver this masterclass. David will cover how to ascertain your organisation's critical success factors and their related KPIs and how they should be reported. The course will explain the foundation stones of rolling forecasts and the better practices you need to adopt to save months from the annual planning process, including cases studies on planning tool implementation and the transition to a rolling planning process.

WEBINAR: SME TAX UPDATE AND PLANNING

Wednesday 19 February
10:00 – 11:00
Free for faculty members

Anita Monteith and Sue Moore, technical managers at ICAEW, consider how some of the proposed tax changes in this year's Autumn Statement will affect SMEs. They will include how the proposed tax changes will affect you, your business and your employees and consider where taxes have provided opportunities for planning.

To book a place visit **icaew.com/fmffebwebinar**

WEBINAR: TEN TIPS TO CONTAIN THE RISK AND COST OF LEGAL PITFALLS IN EMPLOYMENT

Tuesday 11 March
10:00 – 11:00
Free for faculty members

Clare Murray of CM Murray Solicitors runs through her top 10 tips to reduce the risk of falling foul of employment law and will provide a general update. This session will be geared to FDs, CFOs and those operating their own businesses and will be of use to anyone dealing with employees or with responsibility for HR.

This webinar will cover:

- restructuring rules;
- tribunal rule changes; and
- HR policies.

To book a place visit **icaew.com/fmfmarwebinar**

All webinars are free for F&M members and charged from £25 plus VAT for non-members.

All events are free for F&M members and charged from £46 plus VAT for non-members.

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

WE'VE LISTENED TO YOU!
All faculty evening events will be **free** for members in 2014

Creativity in finance: the ultimate oxymoron?

All too often accountants are thought of as left-brain thinkers, unable to harness their creative side. But as **Carol McLachlan** explains, this kind of thinking is good for finance

ALAMY

For those of us who have been in the profession for more than a decade or so and spent our formative years in the old century, putting creative and accounting in the same sentence instantly propels us back to the years of Enron, WorldCom and the twilight reign of the Big 6 (doesn't that sound weird?).

But you don't have to be a baby boomer to wince at the term; thanks to 21st-century players Starbucks, Amazon and the like, creative accounting continues to surface as the scurrilous scoundrel alongside its insalubrious bedfellows, Messrs Tax Avoidance and Evasion.

CREATIVE ACCOUNTING: THE EUPHEMISM

'Accountants are so boring that they even made creative accounting illegal'. It's an old joke, and quite absurd, of course. For creative accounting, read misrepresentation, deviation, loopholes, exploitation, defalcation, complicity. In other words… fraudulent accounting. In fact, creativity in finance is a 21st-century competence, as relevant in finance as it is in marketing or R&D. Check out the job description for finance business partner roles and you will as likely find innovation and entrepreneurship as essentials alongside technical specialism.

FINDING SOLUTIONS TO THE UNSOLVABLE

To be creative is not just about painting a poignant landscape, crafting a nail-biting dramatic piece or transforming a derelict shack into a bijou residence. Creativity means finding new ways of doing old things, smarter, faster, more effectively and with fewer resources. It is solving problems in inventive and inspired ways. It is lateral thinking, reframing and embracing a range of perspectives. It requires insight, flexible thinking, improvisation and innovation. In other words, it is a competency we use each and every day; in finance it's the FD's vision for business partnering, a smart solution to the management accounting deadlock or a new way of harnessing the team's strengths.

CULTIVATING CREATIVITY

Use the following pointers to foster your own creativity and that of your team:

1. **Confidence**, or a lack of it, can be a major block. Banish the notion that creativity is the domain of the artist. The left-brained accountant stereotype is a simplistic take on neuroscience. The brain's innate plasticity means whole brain thinking is available to us all.
2. **Contemplation** promotes creativity, in line with the adage 'we can't solve problems by using the same kind of thinking we used when we created them'. Move beyond surface thinking and the obvious presentation towards lateral thinking to discover different angles and develop new perceptions.
3. **Capacity** – allowing time and space to think, protects against two common hazards in fast-paced, pressurised environments:
   - seizing on the first solution; and conversely
   - rejecting ideas wholesale, without full consideration of all possibilities.
4. **Conscious** problem-solving is a mental process that involves formulating, analysing and evaluating. But don't overlook the contribution of the unconscious; insight, intuition and instinct can dawn at any time. Capture light bulb moments when they strike.
5. **Collaboration:** while the classic pose of the solitary figure, complete with wet flannel and dark room might be the archetype of creativity, rich stimulus is created by teamwork and group thinking, sparking real synergy.

'IMAGINATION IS MORE IMPORTANT THAN KNOWLEDGE' – ALBERT EINSTEIN

And so, as the technological revolution makes way for the knowledge revolution and the traditional white collar workers are reduced to operational roles, behold the gold collar positions that emerge. This new brood – highly skilled technically, and bred to operate in a world of complexity, fast-paced change and ambiguity – face the challenge of leveraging their full complement of whole brain thinking.

Don't be left behind – it's time to reclaim creativity.

Carol McLachlan FCA is a chartered accountant who had a 20-year Big Four career before becoming a professional coach, mentor and trainer, as well as a postgraduate CPD specialist.

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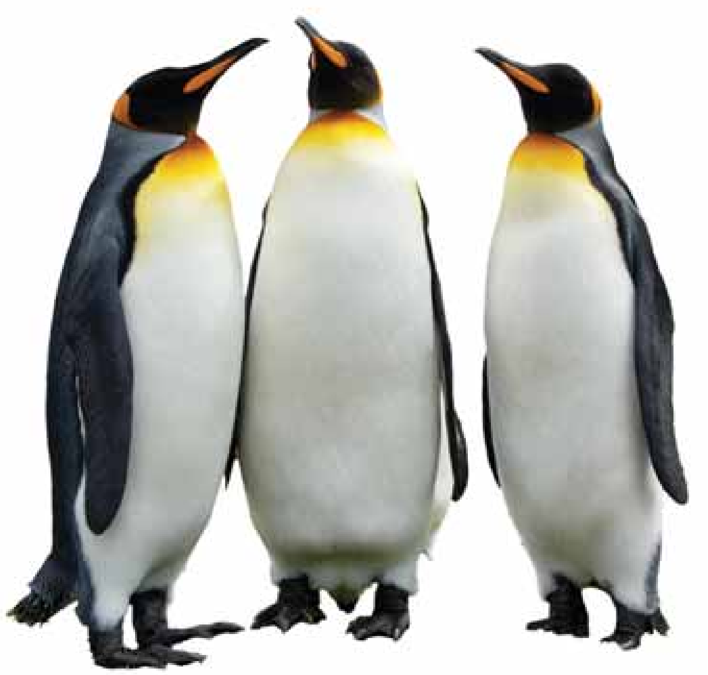
Removing defined benefit pension risks from corporate sponsors



We'd be delighted if you could join us at our interactive roundtable at the ICAEW on 12 December to discuss how insuring pension scheme liabilities works, the cost and other implications for your consideration as Finance Director.

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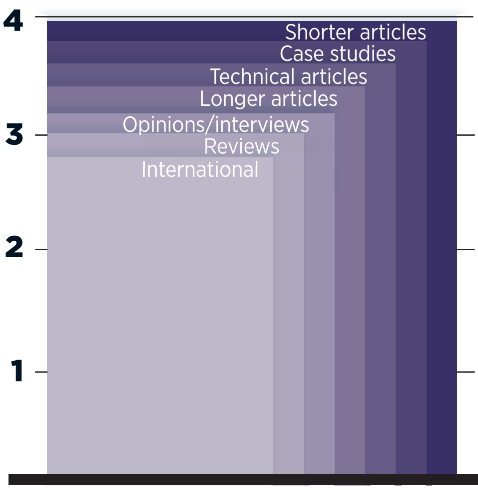
Annual Survey 2013

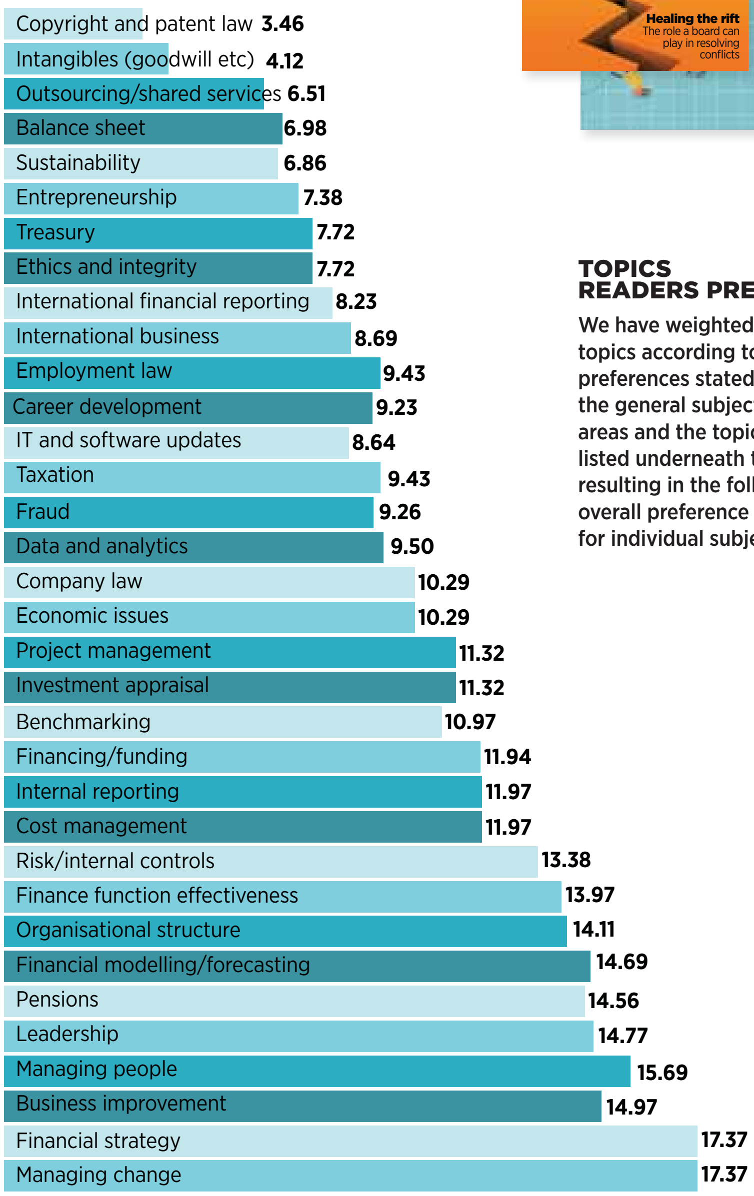
Thanks to all who completed the annual Finance & Management Faculty survey (and also to those who thought of doing so!) We streamlined the 2013 survey to ensure that it was quicker and easier to complete. We had responses from 434 members, a 57% increase on the 2013 submissions.

Please contact Robert.Russell@icaew.com if you have any questions or would like to be emailed the full survey results.

TYPES OF ARTICLE YOU LIKE

The average scores for types of articles (with 0 as the lowest score and 5 as the highest score) are:



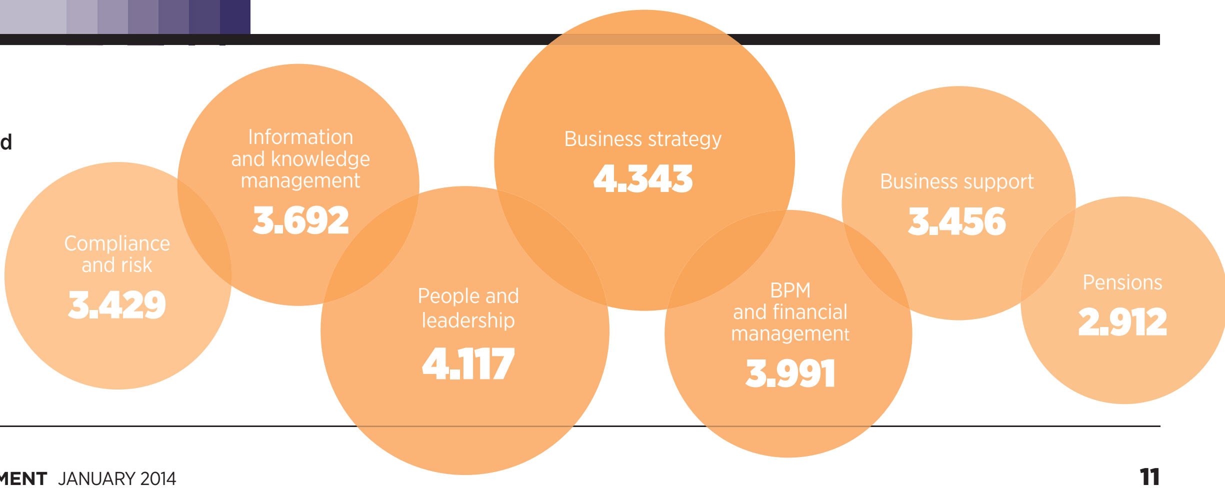


TOPICS READERS PREFER

We have weighted the topics according to preferences stated for the general subject areas and the topics listed underneath them, resulting in the following overall preference scores for individual subjects.

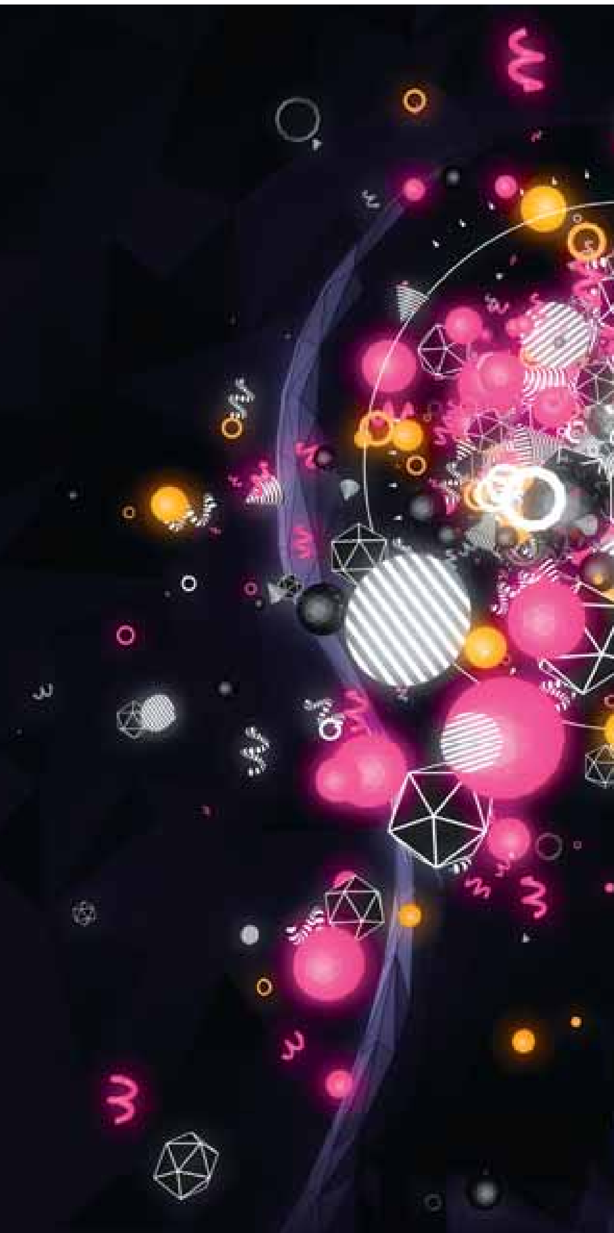
SUBJECTS YOU ENJOY

The average weighted scores for general subjects (with 0 as the lowest score and 5 as the highest score) were as follows:



FDs in creative industries

Christian Doherty talks to two FDs about the unique challenges posed by holding such a position at a company within a creative industry



MAGGIE FROST
CFO AT VCCP

Chartered Accountant Maggie Frost has been group chief financial officer at ad agency VCCP since 2005 and looks after the finances of all companies under the VCCP umbrella

I've worked in this industry a long time so I know there are ways to work with people, and I would say one set of skills that's really important for a finance person in this sort of world is the ability to judge what is a good cost or a bad cost, and to estimate the return on the investment of that cost. If someone spends money on entertaining a client, I ask them, "Do you need to spend that much?" And then they might say, "Well, there's this big opportunity..."

So you have to get to know the people you're working with to judge whether what they're doing is going to deliver value. You also have to bear in mind that in this industry you don't have any machines, or anything in the way of tangible assets – the people are my assets so it's up to me to get to know them, and all their strengths and weaknesses.

I find it useful to try to get people in the business to understand a P&L as they then understand the issues you are facing and are able to help you more. I have done sessions designed to talk people through the P&L and other financial issues. I tend to try to do it on a one-to-one basis.

One of the big challenges for a business like us is payment terms, because clients are increasingly pushing for softer credit terms. Our employees are paid at the end of the month, so if we have a fee that's paid in 90 days, and we have to pay our people in 30 days, that's a big cashflow challenge. We've noticed that lots of plcs are pushing out their payment terms to as much as 90 days, which is a concern for the economy as ultimately small companies cannot sustain and grow with payment terms of this length.

> It's up to me to get to know the senior people because they're my assets

Another thing I need to deal with as FD is the issue of how we're paid for work. On the whole we're paid on an hourly rate basis, but there's always a big gap because in many cases we're providing a lot more value to our clients than is reflected in those hourly rates. So although we may use a traditional methodology for charging, often it doesn't really reflect the value we create for our clients. That's a big challenge for the industry at the moment – what is the value of that IP we create for our clients? We're not a law firm or an accounting firm – we're an advertising agency and can transform clients' businesses. It can be game changing.

People do enjoy coming into finance and finding out about the levers in the business. That's part of the battle as well, convincing people we're there to help and support. My ethos is that we are there to help people do their jobs properly. If someone needs something today that's going to make something else better, then we have to do it,

So that's my ethic of client service: it comes from us to them,

SAUL GRAVY/IKON

LUCY GREGGAINS
CFO AT UNRULY

Lucy Greggains FCA is chief financial officer at Unruly, a viral video marketing company, having previously worked at BSkyB, Emap plc and the Shine Group

"There are a lot of providers of finance out there who are wary of our type of business – a cloud-based technology company: where are the assets? Given that, it's really refreshing to find funding providers who actually wanted to understand what our business model is. They're few and far between at the moment, and it's something I do talk to the bigger banks about, if I'm ever asked, because I think if they could create teams of people who really understand these business models [asset light and dependant on IP], it would be really helpful.

But of course, it's a two-way process – you do need to understand banks have got their own processes and controls, and you can't resist them too much. Instead, you have to try to find pragmatic solutions, and hope they want to find pragmatic solutions too.

Looking for banks with specialists in your sector will immediately speed up the conversation; if you are an IP- or a people asset-rich company, your balance sheet won't reflect these assets, and this is likely to be concerning to a potential lender when they are considering what security you can offer. Anticipate that security will be a main area of focus for a lender. Consider bringing in relevant business heads (eg, CTOs or creatives) to add colour to your explanation of the business model.

I think a lot of smaller, high-growth companies still like to operate in a very lean way. Generally, I think, entrepreneur-led companies want to be lean and agile.

Given that, there's a real opportunity for me, as FD of a creative business, to try to find creative ways to do my job, in terms of process and control. I have to find

> Thinking beyond boundaries allows a lot of creativity, not just for operations people but for finance too

different ways of doing it which fit the company. I enjoy trying to find solutions to things that are difficult, and you get a lot of opportunity to do that in a company like this. Our industry is growing, so there are lots of opportunities in different markets.

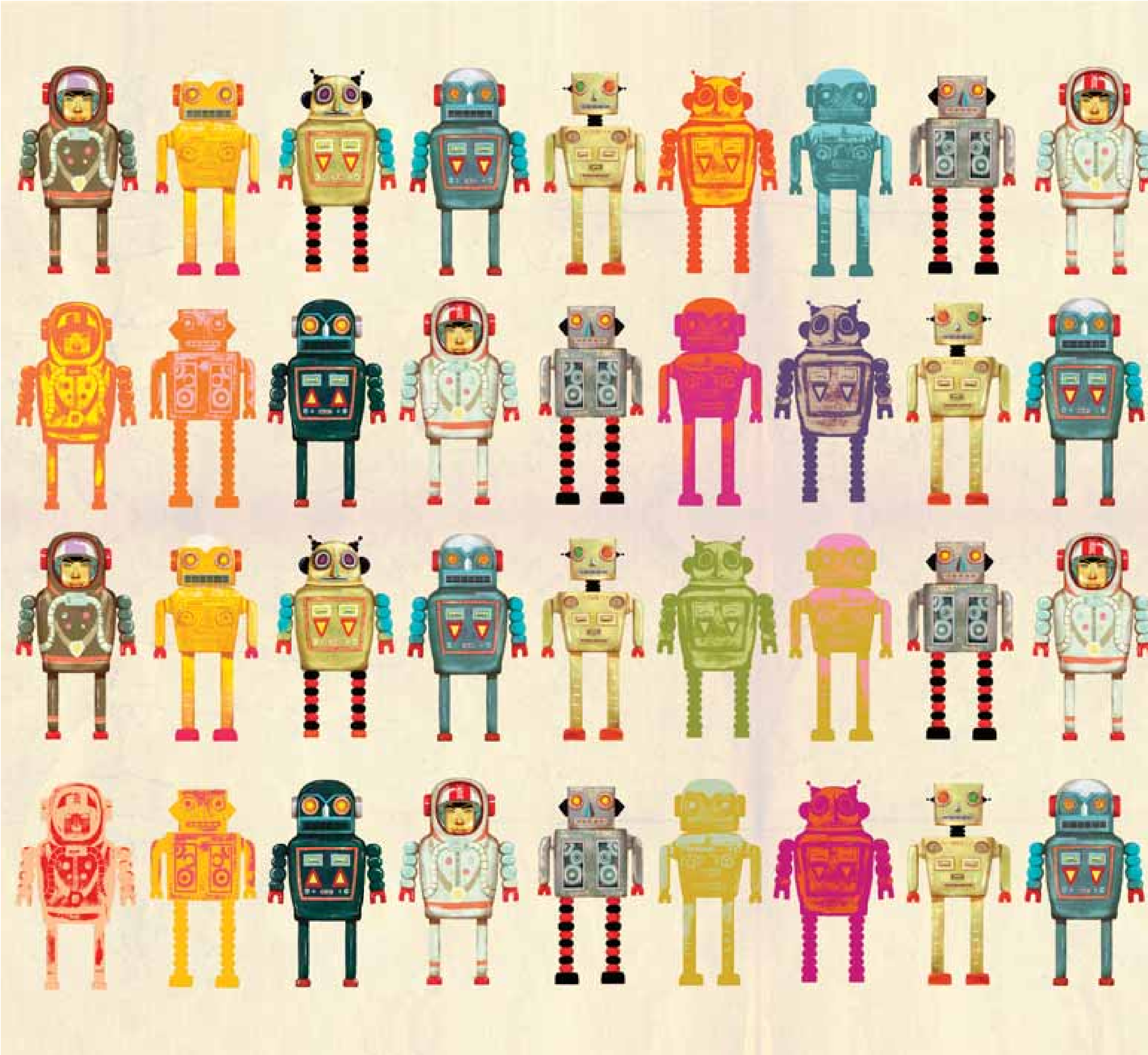
We're very fast moving – when I think back to my listed company days, it's a real contrast, because we're not totally driven by needing to increase the dividend by 5% every year. That allows you to work without boundaries.

Actually one of the aspects of working for a creative company is this concept of thinking beyond boundaries. Instead of thinking "we can't do that because...", we ask "why don't we do it?"

That's really fantastic, and it allows a lot of creativity, not just for the operations people, but for finance too. And then I have the opportunity to try to see if I can frame those solutions in a way that will work for us in the business.

Team players

Getting the right mix of people in your team can be a near-impossible task. Christian Doherty considers whose job it is to recruit the right mix, and talks to former Avon HR director **Anne Gill** about which tools she used to recruit the perfect team



As any football manager will agree, getting the right blend is critical in successfully structuring a team. A team solely comprised of individualists will soon run into trouble, while one based on constant consultation and without necessary leadership is unlikely to deliver timely and insightful decision-making. Given that the best staff will expect to be deployed in ways that nurture and develop their talent, ensuring teams are staffed with the right balance of skills is one of the more esoteric but critical parts of the CFO's job.

No matter how close the relationship between the functions is, identifying and nurturing talent is not something that the CFO can outsource entirely to HR. Indeed, to do that leaves the CFO in a weak position if skills gaps emerge.

But are senior finance executives putting talent management and team building high enough on their agenda? A recent EY survey suggested there is further to go.

Among the survey respondents, 82% agreed CFOs have a duty to mentor and coach potential replacements within their company. "It's a core function of the CFO role to make sure that you have capability in the organisation, and that you get involved in that at all levels," said Helen Kilpatrick, director-general of financial and commercial at the UK Home Office. "You need to make sure you have that pipeline of talent over the long term." Indeed, boards and investors now expect senior members of the management team to take responsibility for succession planning in their own department. But given the amount of time the CFO at mid-market level and above will be expected to spend on investor relations, technology, strategy and operational matters, it's a wonder they would find the time to spot the next generation of finance talent.

For finance directors and their HR counterparts then, the selection of recruits and their deployment in the right teams has become both more subtle and scientific in recent years. That is in large part through the emergence of team-building models. Anne Gill, until recently HR executive director of home shopping cosmetics company Avon UK, used Belbin, a standard tool used to categorise staff into particular boxes, such as 'the implementer', 'the co-ordinator', 'the team worker' and so on (see box overleaf).

"In my experience Belbin really helped us to develop a balance of complementary skills in a team, as well as assisting team members in understanding their role in the team," says Gill. "For some, the categorisation developed by going through the Belbin exercise helped them to focus on both adding to their strengths and working on their weaknesses."

APPLYING A MODEL

Pioneered by British management theorist Meredith Belbin in the 1960s and 1970s, the tool's success has spurred other providers to develop programmes and tools to help businesses identify the gaps that exist in their workforce and how best they can be plugged. But Belbin himself is clear there is no such thing as the 'ideal' team – simply teams that are more or less suited to a specific task – it's a horses for courses approach. The model can be applied to most teams, and Gill says that at Avon it was mainly used for junior teams being formed and for creating project teams for a specific purpose.

So how does it work in practice? "We used Belbin when putting together a company-wide project team in the UK, the remit of which was to enhance the Avon 'representative experience'. It was an efficient way of quickly identifying the skills we had among the project team and where we had gaps. Using this

THE NINE ROLES ACCORDING TO BELBIN

1 Plant: creative, imaginative, and free-thinking, the plant generates ideas and solves difficult problems, but ignores incidentals, and is too preoccupied to communicate effectively.

2 Resource Investigator: outgoing, enthusiastic and communicative, they explore opportunities and develop contacts. This type is over-optimistic though, and may lose interest after initial enthusiasm.

3 The Co-ordinator: mature, confident and identifies talent, as well as clarifies goals and delegates effectively. They can be seen as manipulative. Offloads own share of the work.

4 The Shaper: challenging, dynamic, and thrives on pressure. They can overcome obstacles, but are prone to provocation, and can offend people's feelings.

5 Monitor Evaluators: sober, strategic and discerning. They are open-minded and judge accurately, but lack drive and ability to inspire others, and can be overly critical.

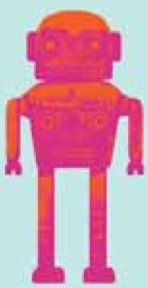
6 The Teamworker: co-operative, perceptive and diplomatic. They listen and stall friction. However, they are indecisive in crunch situations.

7 The Implementer: practical, reliable, efficient, turns ideas into actions and organises work, but can be inflexible and slow to respond to new possibilities.

8 The Completer Finisher: painstaking, conscientious and anxious, but polishes and perfects. They are inclined to worry unduly and reluctant to delegate.

9 Specialist: single-minded self-starters who are dedicated and provide rare knowledge and skills. They contribute only on a narrow front and tend to dwell on technicalities.

SOURCE: BELBIN.COM



information, we were able to supplement the missing skills, which, it turned out, were mainly 'plant' and 'implementer', to ensure the team had access to the full range of skills. As a result, the team was able to produce tangible service enhancements to the representative experience, including changes to the delivery box, making it easier to open for the Avon rep."

In Gill's experience, Belbin has the added benefit of being easy to use. "Team members only need to spend 15 minutes on the questionnaire where they complete the self-assessment module, which works well. Questions are non-threatening and in my experience the common language enables a good team discussion."

Using Belbin – and indeed other models that aim to categorise skill sets (Myers Briggs was also a popular tool at Avon) – helps teams to acknowledge and recognise each team member's contribution, something that can often get forgotten about or taken for granted in the day-to-day business of getting the job done.

"We also found that going through the Belbin process increases self-awareness of team members," says Gill. "They gain a better understanding of how they are viewed by fellow team members, which in turn can drive better performance either through mentoring or training."

More broadly, when adopted by the business as a whole, the Belbin team profile can be really useful in generating discussion on team strengths/weaknesses, which in turn can lead to the creation of an action plan to address roles that are under-represented. It can also be used in recruitment, especially if team assessment and benchmarking has identified some specific gaps. Avon did not generally use this as a recruitment tool – if used in recruitment, the individual report would be used as a basis for further exploration and validation at interview.

> "Team members gain a better understanding of how they are viewed by fellow team members"

LIMITATIONS

Clearly, Belbin has a lot to offer from a performance management perspective. However, the fact that it is geared towards achieving a balance of roles within a team has limitations. For instance, for the finance director looking to staff a specific project or workstream, Belbin may not deliver the required insight.

These types of projects may only need a selection of roles depending on the task. For instance where the FD is working on developing finance systems, he may, through consultation with colleagues in HR, decide that the project only needs a certain type – 'the resource investigator' and 'monitor evaluator', for instance.

So, for all its strengths, like all models, Belbin – in Gill's view – has its flaws. "For a start, unless used properly, it can 'pigeonhole' people and limit them to just a few specific roles. By doing so, you may find you are limiting potential development. This pigeon-holing extends to stifling staff from stretching themselves – if someone finds they are the 'completer finisher' in a group, it can be an excuse for managers to let them always perform this role."

It needs to be remembered individuals rarely fit neatly into the categories – team members need to adapt their behaviour to fit different roles; and of course, the converse is also true: individuals may fall into more than one category.

Of course, central to the effective selection and management of teams is the interface between the CFO and HR. In this instance, it's worth asking what HR brings to the table.

ANDY WARD/IKON

"In the first instance, they should partner with the CFO to improve the efficiency and effectiveness of the finance team," explains Gill. "It is HR's role to understand the business drivers as well as the external factors and challenges facing the finance team: the sluggish economy, the need to cut costs and respond to new regulatory and tax pressures."

HR can also play an invaluable supporting role by developing its work on organisation design, where HR professionals can determine the most appropriate model to deliver on organisation strategy. For instance, does the business require a shared service centre for transactional processes or specialisms? At Avon, Gill helped create an EMEA shared service centre as part of a cost efficiency exercise.

The second major area of importance for HR is in talent management: that is, to define capability requirements (skills, behaviours, experience) needed to deliver on the business strategy as well as ensuring the right mix in the teams.

"HR must also support the FD in developing a competency framework to specify functional, technical, team behaviours and competencies," Gill says. "HR has the ability to assess talent against required competencies, to identify gaps and develop a talent plan to assess team behaviours.

"Lastly, HR must take the lead on performance management. That means not only assessing team performance against team goals, but also aligning individual objectives to the team and business goals. These performance assessments also include team and individual behaviours across the business."

These models are not going to deliver all the answers, but the good ones that are cleverly used can help CFOs and HR directors ask the right questions to improve performance.

THE COMPETING MODELS

Anne Gill outlines the various recruitment models available to businesses

MYERS BRIGGS

This model asks individuals to complete an online questionnaire, following which a team profile is created. Once that is completed, a facilitated discussion takes place on how the team profile supports the team's goals, and tries to help understand how individuals operate in a team.

Myers Briggs is based on the idea of equipping managers with the ability to understand team dynamics, and in so doing improve individual self-awareness, and appreciate how each team member works, with the ultimate aim of improving team relationships. This model is only used for individual and team development, not selection, but Myers Briggs was the most commonly used model at Avon, and for good reason – it was effective.

FUNDAMENTAL INTERPERSONAL RELATIONS ORIENTATION (FIRO-B)

This looks at how personalities can influence team effectiveness, and as such principally focuses on 'interpersonal need'. Firo-B is based on the theory that people play roles in teams depending on their own interpersonal needs in relation to the needs of others.

Managers using Firo-B look at the need for inclusion, control and affection (openness), and through careful use, the model can help predict the role a team member will play. It holds that if individual needs are met, then the team member is far more likely to engage, contribute, collaborate and generally be more productive.

Firo-B improves self awareness and team compatibility, and it can be used in selection only as part of other selection tools, as well as to support further exploratory interviews at the selection stage. It is quick and easy to apply and not too expensive.

INSIGHTS DISCOVERY MODEL

This is based on colour insights (Insights Discovery Model) and is a fun way to discover personality type through identification with four colours: Cool Blue (cautious, precise), Fiery Red (competitive, determined), Earth Green (encouraging, patient) and Sunshine Yellow (dynamic, persuasive). It's a clever, shorthand and is an easy way to describe personality types.

GRPI – GOALS, ROLES, PROCESSES, INTERPERSONAL RELATIONSHIPS

Crucially, in common with the most successful models, GRPI facilitates a good team discussion on self awareness and how to understand behaviours of other team members. These models are not going to deliver all the answers, but the good ones (cleverly used) can help CFOs and HR directors ask the right questions to improve performance. Crucially, in common with the most successful models, GRPI facilitates a good team discussion on self-awareness and how to understand behaviours of other team members.

THOMAS-KILMAN CONFLICT MODE INSTRUMENT (TKI)

This conflict mode instrument tool is designed to help teams better understand the nature of conflict/tension and how to approach and manage team dynamics and conflict. It facilitates learning to use five practical, situation-specific styles for dealing with conflict effectively (competing, collaborating, compromising, avoiding, accommodating). In doing so, the TKI model claims to "help trainers, managers and other professionals open productive one-on-one and group discussions around conflict". One of TKI's main selling points is the speed and ease of use – the exercise only focuses on 30 items, and takes just 15 minutes. It is easy to understand, and requires no special training or certification to administer.

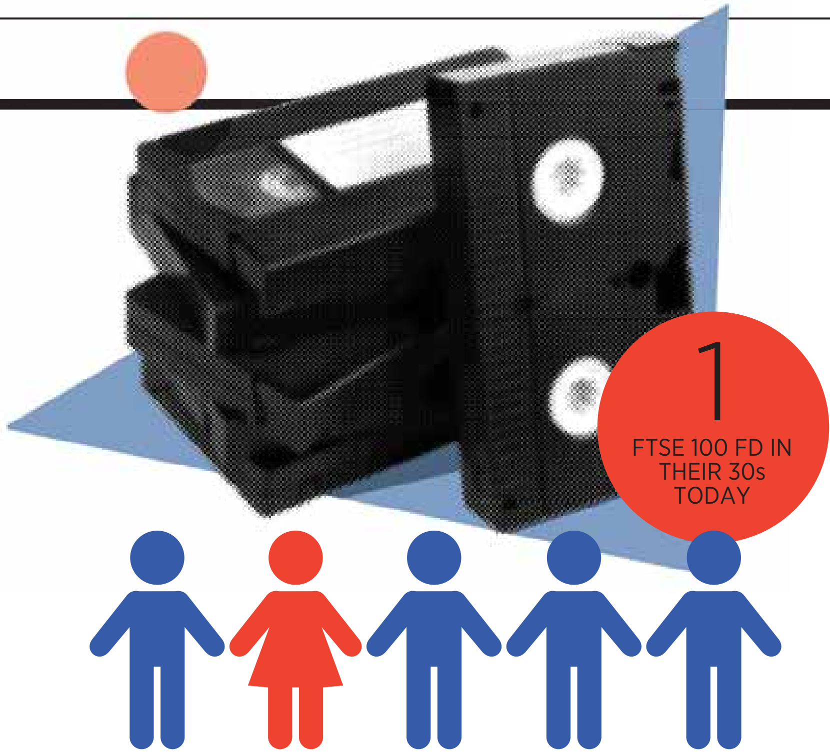
Anne Gill now runs her own HR consultancy, Kinisi Ltd, which provides HR solutions to businesses.

PROPHETS OF BOOM?

In 1999, Financial Director magazine marked its 15th anniversary with a series of predictions that looked ahead another 15 years. In the first of two articles, Andrew Sawers revisits the predictions and sees how they turned out

As one year draws to a close and another dawns, it can be tempting to look backwards, examining all that has happened in the past 12 months. In the finance world however, it's the looking ahead that can prove altogether more alluring. Armed with a bank of statistics, insight regarding trends and knowledge of emerging regulations, FDs are in a unique position to make informed guesses about what the fiscal future may hold. It was in the spirit of this notion that *Financial Director* editor Andrew Sawers marked his magazine's 15th anniversary in 1999. Andrew and his team dared to publish their thoughts on what the business world might look like in 2014. And now, here we are. So, how much did the financial journalists get right? How much did they get wrong? And would you have predicted any differently?

DAN MURRELL



WHO IS THE FD?

- One FD in five will be female, up from just over one in 20 in 1999.
- The average age of a FTSE 100 FD will be 43, compared with 50 in 1998.
- A masters degree in psychology will be more valuable than most MBA qualifications.

With just eight women holding FD roles in FTSE 100 companies, the glass ceiling seems barely to have cracked since 1999. In the FTSE 250, only seven of the 186 FDs are women.

FTSE 100 FDs got steadily younger, averaging 47 in 2002, 2003 and 2004, but thereafter they started to age until returning to an average of 50 by 2008, where the average still stands. As of the last *Financial Director* survey there was only one FTSE 100 FD in their 30s.

The relative lack of women represented in the FD post seems a missed opportunity; the preference for older, wiser, more experienced heads perhaps has more justification. While the perceived relative energy and enthusiasm of youth has much to commend it, the responsibilities placed on a FTSE 100 FD are such that only the most experienced are in with a chance of securing such a role.

Certainly the evidence doesn't suggest that a psychology degree is more valued than an MBA - around 10 FTSE 100 FDs had an MBA or other masters degree at the last count - but the importance of investor and stakeholder communications, alongside the recent raised profile of behavioural economics thanks to the likes of Nobel laureate Daniel Kahneman, suggests that there is much to be gained from a solid understanding of how people behave in a business or financial environment.

FTSE 100 FDs had an average age of 50 by 2008. At the last survey there was only one in their 30s

QUALIFICATIONS AND CAREERS

- One of the five UK accountancy institutes will disappear. ICAS and CIMA will remain independent.
- ICAEW will be the second-largest institute represented by FTSE 100 FDs. They will be overtaken by the Association of Corporate Treasurers.
- One finance executive in 15 will be an interim manager.

Nearly. The proposed 2005 super merger between the ICAEW, CIMA and CIPFA saw the management accountants prefer to wait for a two-stage merger, while only 29% of ICAEW members voted, the proposal failed by just 1% of the required 66.7% majority required to succeed. CIPFA wholeheartedly embraced the merger with 87% voting in favour of it.

ICAEW has the largest representation in the FTSE 100, with some 47 FTSE 100 FDs at the last count. The treasury association's switch from allowing membership through past experience to being a purely exam-based qualification has impacted its representation among FTSE 100 FDs.

Interestingly, we completely underestimated the rise of (a) foreign accountancy qualifications (particularly American and South African) and (b) FDs with no professional accountancy qualifications at all. Some 32 FTSE 100 FDs do not have a UK accountancy qualification.

Interim management has almost doubled as an industry over the past seven years and is now worth about £1.5bn a year. There are some 15,000 interim managers in the UK, according to the trade body IMA. Almost 60% of assignments are in financial services or local government, however, and only about one-in-five interim assignments are finance jobs, so it's not a pervasive financial workforce yet.

THE FINANCE FUNCTION

- There will be several times as many types of information for which finance will be responsible as businesses look for new measurements that bring them competitive advantage.
- Outsourcing and shared service centres will become increasingly common.
- The finance department will almost cease to exist as a physical entity. Financial executives and managers will be dispersed throughout the organisation to work alongside their other frontline colleagues in sales, marketing, manufacturing or distribution.
- Information provision will be real-time. Budgets – as conventionally understood – will be as passé as flares.
- Businesses will be paying very much more attention to the costs of their finance function, largely because of the growing availability of data for departmental benchmarking. Average finance function costs will shrink from 1.4% of turnover (1998) to half that figure. Leading edge businesses will shrink their costs from sub -1% to well below 0.5%.

Our thinking in 1999 was that finance would move increasingly towards a kind of Formula 1 racing car telemetry in which a growing number of financial and non-financial KPIs would be tracked almost in real time. That is probably not too far from the truth but the consequence of the torrent of data is the phenomenon with the clunky name 'big data'. It's clear that businesses have vastly more information than they know what to do with - whether it's data about customers' purchases or email traffic between company dealers and counterparties - and that they are trying to make sense of it all, finding profit opportunities and undiscovered pockets of risk. While much of the responsibility may lie with chief information officers, FDs are never far away from these data-mining efforts.

The other phenomenon that has taken over is data about data - metadata - manifesting itself as XML (extensible mark-up language) and its business reporting cousin, XBRL, now used in regulatory and tax filings.

Outsourcing has expanded to encompass almost all operations that are regarded as non-core - payables, HR processes, procurement, even some basic budget processes. The outsourcing option hasn't always been an unqualified success, however, and some organisations have brought outsourced processes back in-house. Many others have seen the benefit to create their own shared service centres as 'centres of excellence' so as to retain the flexibility they believe they need.

Finance functions may not be as dispersed as we had anticipated, but there is no doubt that the function is very much closer to the business than it was in 1999. Budgeting processes are still often mired in 'gaming' the system to create targets that are achievable and which therefore trigger managers' bonus payments. But there is much more effort going into rolling forecasts, with business managers increasingly being responsible for the accuracy of their forecasts.

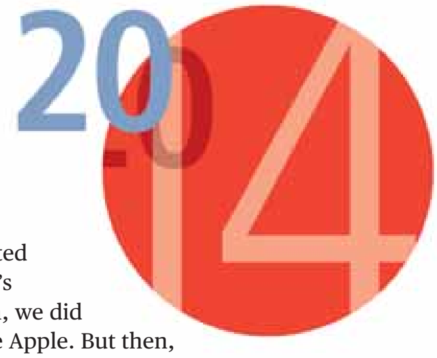
Finance directors keep an even closer eye on their own function costs and increasingly look to technology solutions, process change and outsourcing to ensure that they remain competitive. Hackett Group, the source of our data in 1999, no longer publishes benchmark finance function costs but from the trend data that they do now make available, we estimate that finance function costs have fallen by nearly 40% over the last 15 years. If that doesn't quite match the 50%-plus fall in department running costs that we had expected, blame the costs associated with improving financial controls in the wake of the Enron scandal and the Sarbanes-Oxley legislation. The finance function costs associated with the financial crisis - especially in financial services - haven't helped either.

TECHNOLOGY

- Many transactions between businesses – even between businesses and consumers – will not only be automated, but automatic. The implications for management of the macro-economy are legion.
- All computers will be voice-activated, capable of handling reasonably sophisticated database interrogation queries such as, "What is the shareholder value-added on our X-1 product in Germany?" FDs will spend a lot of time asking such questions.
- The hand-held computer device will not only become commonplace, it will replace the laptop. All your personal computing needs will fit into a device the size of a wristwatch.
- Microsoft will not be the largest company in the world. It won't even be the largest information technology company.
- A Liechtenstein bank that operates mostly in London will collapse as a result of catastrophic computer failure, creating a new supervision crisis for UK financial regulators.
- The paperless office will remain a promise for the future.

Human intervention is still very much part of the world of commerce in terms of initiating transactions, but there is no doubting that technology is taking us down the route where computers generate alerts that stock levels need to be replenished, for example, while taking care of all the subsequent logistics automatically. And with the internet, businesses can generate revenue without anyone having to even be aware that sales are taking place.

Our projection about hand-held computers replacing laptops was on course for being the best prediction we made 15 years ago – then we went and slightly spoiled it by saying the devices would be the size of a wristwatch. Voice-activation is still a *2001: A Space Odyssey dream*, but touchscreens have certainly revolutionised the way people interact with computers.



While back in 1999 we expected to see a challenger to Microsoft's seemingly unassailable position, we did not expect that challenger to be Apple. But then, that was before the iPod, iPad and iPhone. Today, Apple's market capitalisation is $470bn, which somewhat dwarfs Microsoft's $312bn.

There's been no Liechtenstein bank collapse, fortunately, though computer failure did bring the payments system at RBS (including NatWest and Ulster Bank) to a halt for several days in 2012, causing untold mayhem. That was not an issue for regulators as such, though they are dealing with the ramifications of bank collapse following the inappropriate use of disastrous computer models that failed to factor in the possibility that everything might go down in value at once.

All business workflow processes are much more technology-based than in 1999. It's a rare office indeed, though, that can claim to be paperless.

FINANCIAL REPORTING

- **Stock exchange authorities will require companies to report quarterly, but best practice will call for key headline data at least eight times a year. The best companies will report monthly, within hours of period-end.**

- **Listed, globally-focused UK companies will abandon UK accounting standards in favour of international accounting standards or US GAAP to increase their investor base and to facilitate bond issues.**

- **Most quoted companies will continue to print a limited number of 'full version' annual reports but summary financial statements will be abandoned in favour of web publishing.**

- **Traditional accounts will formally be the main statements presented by companies. But investor demand will ensure that value reporting, EVA-style, will be the prime metrics for performance measurement. Information of the balanced scorecard type will be demanded and provided. Businesses will largely abandon attempts to hide behind 'commercial confidentiality' with regard to most detailed historic data.**

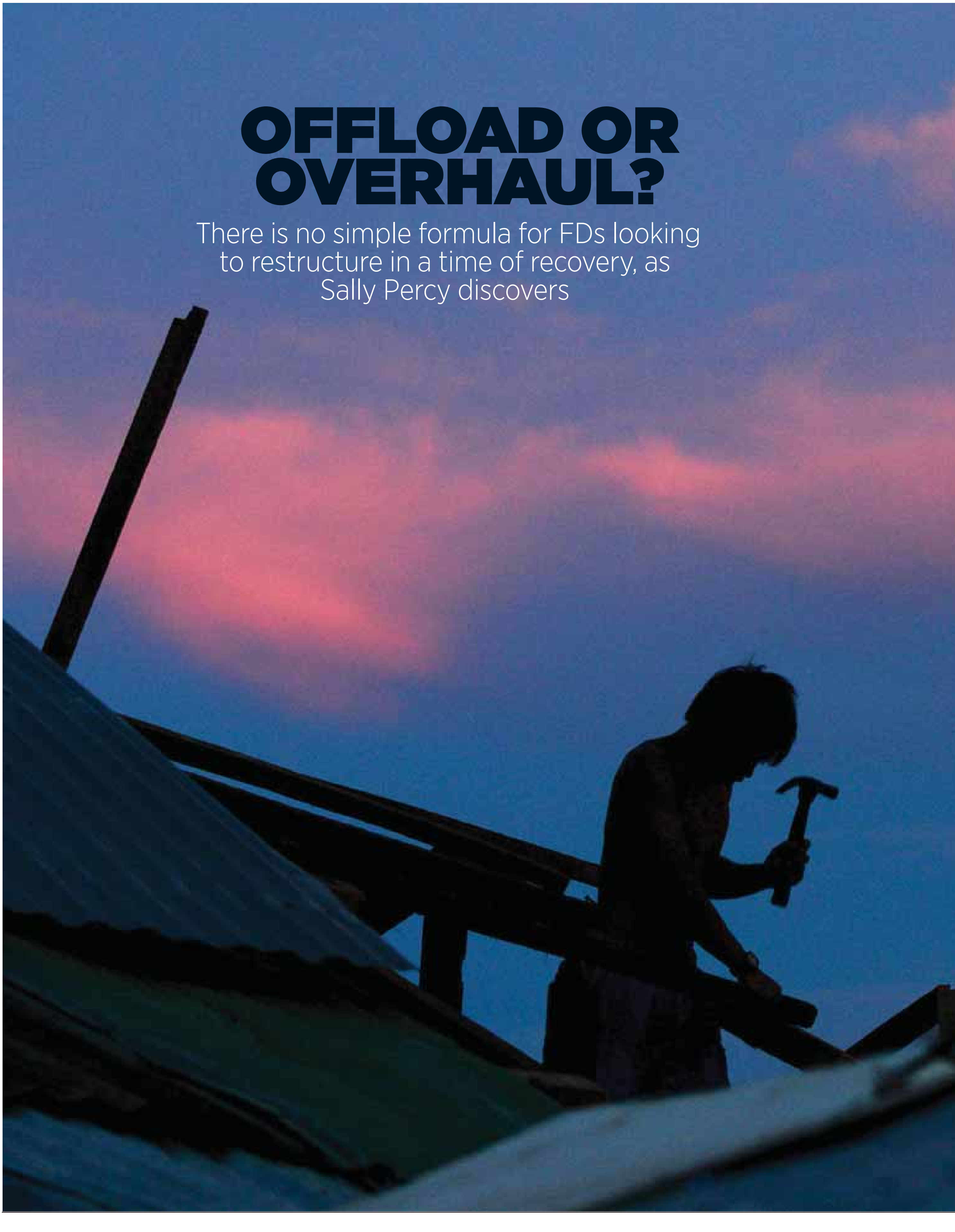
The promise of immediate financial information hasn't quite materialised as we'd anticipated, though it is certainly true that companies can close their books more quickly than they could 15 years ago. It's also possible for FDs to get key data almost in real time, often on their BlackBerry or iPhone, so the production of management information is, typically, a much more automated task than it used to be. The US Sarbanes-Oxley legislation, initiated in the wake of the 2001 Enron collapse, has done much to improve internal controls and reporting systems.

External reporting in the UK and the rest of Europe is still only required half-yearly, but some businesses do produce quarterly trading statements or updates after critical periods such as Christmas/New Year sales.

We foresaw large, global UK companies choosing to move to IFRS. In fact, the European Commission mandated such a move in 2002, with a deadline of 2005. The standards have been almost entirely overhauled since our prediction 15 years ago.

The web has helped kill off many companies' summary financial statements, but there is much more information available now, such as sustainability reports, presentations to investors, transcripts of City conference calls, share price tools and of course remuneration reports that can be almost indecipherable.

EVA-style reporting has not taken off, but every company now knows what its cost of capital is and there is vastly more disclosure of performance against a wide range of financial and non-financial key performance indicators.



OFFLOAD OR OVERHAUL?

There is no simple formula for FDs looking to restructure in a time of recovery, as Sally Percy discovers

GETTY

As the economic indicators continue to point towards a sustained recovery, organisations are turning their attention towards parts of their businesses that they may not need to keep during growth. Underperforming units and subsidiaries that may have been patched up and dragged through the recession may now begin to look increasingly superfluous. Restructuring or disposal may be the solution, but both come with cost - and risk - attached.

So how can management accurately assess whether a restructuring is necessary or if the business can continue unchanged? And how can they identify those areas ripe for attention? “A restructuring will either be caused by a necessity, in which case you have no choice, or it will be caused by recognition that a business can make better cash returns and better profits through a restructuring,” says Simon Poulton, a former group finance director of ARC International who is now an interim CFO. “If the economics of restructuring are positive, there is little justification for not doing it.”

Meanwhile, BDO advisory partner Matthew Tait argues that now is actually an ideal time to restructure since interest rates are low yet economic indicators are increasingly positive. “Mending your roof when the sun is shining is more sensible than mending it when it’s raining,” he says.

When burdened with an unprofitable division or subsidiary, an organisation usually has three options: restructure it, sell it or close it. Assuming that it wants to avoid the last option on the basis that it won’t generate future value for the business (although it might be the most sensible solution in certain circumstances), it then needs to assess the pros and cons of both restructuring and disposal in terms of cost, investment of management time and the best outcome for the business in the long term.

The conundrum of whether it is cost-effective to sell or restructure an underperforming division or subsidiary is never straightforward, since it will usually depend on circumstances and company strategy. As Tait puts it: “It’s defining what the core of your business is and what benefit the subsidiary is bringing to the long-term future. For example, will selling it enable your business to concentrate on its core products and create opportunities for it to purchase other businesses?”

MAKING THE DECISION

When deciding whether to restructure or sell, Poulton recommends making good use of forecasting. A forecast can be used to predict the costs and revenues that will be incurred with both scenarios and how these will impact on profitability. But he also points out: “It’s always easier to sell a good business than it is to sell a bad business.” As a result, even if your end goal is to offload a division in the medium term, it will probably be worth investing in restructuring in the short term to make that business attractive to a wide range of potential purchasers.

“If you can’t engender an auction for a disposal, you can end up on the back foot when you’re trying to sell the business because buyers will take advantage of the fact that nobody else wants it,” says Poulton. “The best situation is to have fixed the business to

“If the economics of restructuring are positive, there is little justification for not doing it”

MAKING REDUNDANCIES

Businesses must abide by employment legislation when reducing headcount

- Employers must use a fair way of selecting employees for redundancy, ie, level of experience or capability to do the job. Employees cannot be selected for redundancy on the grounds of age, gender, pregnancy or disability.
- Fair ways of selecting employees for redundancy include ‘last in, first out’, asking for volunteers, and using disciplinary records and appraisals.
- An employer can make an employee redundant without following a selection process if the job no longer exists.
- Employees are normally entitled to statutory redundancy pay if they have been working for their current employer for two years or more. They get half a week’s pay for each full year they were under 22; one week’s pay for each full year they were 22 or older, but under 41; and one and a half week’s pay for each full year they were 41 or older.
- Redundancy pay (including severance pay) under £30,000 is not taxable.
- An employee is not entitled to redundancy pay if they refuse suitable alternative work without good reason.
- Employees being made redundant must be given a notice period. The statutory redundancy notice periods are: at least one week’s notice if an employee has been employed between one month and two years; or one week’s notice for each year if an employee has been employed between two and 12 years; or 12 weeks’ notice if an employee has been employed for 12 years or more.
- Besides statutory redundancy pay, employers should either pay their employees through their notice period or pay them in lieu of notice.
- Employees are entitled to a consultation with their employer if they are being made redundant. The employer should explain the reasons for redundancy and outline any alternatives.
- Employees who have been continuously employed for two years by the date their notice period ends are allowed reasonable time off to look for another job or to arrange training to help them find a job.

James Bracewell’s restructuring turned a **£400,000** loss into a **£1.4m** profit over a **12** month period

get the premium on disposal.” And if your company does have a business to sell, now is a good time to do it since the flood of cheap money in the market means that both private equity houses and trade buyers are hungry for mergers and acquisitions.

Mark Dewar, senior managing director at FTI Consulting, identifies four areas that are typically targeted in a restructuring programme: headcount, process improvement, property costs, and supply chain and procurement. Reducing headcount is expensive, he says, due to outlay on payments. And where groups operate across different jurisdictions, they must comply with local labour laws that may be onerous.

In addition, where an organisation has to pay out significant sums in redundancy payments and related costs, it may not realise the benefits immediately, or to any fixed timescale. Dewar also warns that a common mistake is to make a large proportion of the workforce redundant and then hire them back as temps and contractors. Process improvement, such as reorganising a factory floor, can bring cost benefits but these are not usually large or immediate. The real cost savings, says Dewar, can be made in property, where expensive leases can be exited or renegotiated, and in negotiating preferential payment terms with suppliers. However, the difficulty with these latter two approaches is that an organisation normally has to be large to be able to exert sufficient leverage to get results.

James Bracewell, finance director with premium pet food manufacturer MPM Products, was involved in a restructuring project with a previous employer, which resulted in the business turning a £400,000 loss into a £1.4m profit over a 12-month period. “The challenge is having the information to hand to make decisions,” he says. “You need to have the information around what is working and what isn’t. Once you have that, the decisions are pretty obvious.” He advises acting quickly and decisively. “Don’t take half-measures and don’t compromise. You almost have to go further than you think you need to.”

Regardless of whether an organisation decides to restructure a loss-making division or dispose of it, there will likely be significant costs involved. These include the fees of lawyers, accountants, restructuring consultants and other professional advisers. In the case of an operational restructuring of a division, budgets will need to be adjusted to cover redundancies, relocating people, and opening and closing warehouses and offices. A restructuring project can also act as a drain on senior resources with the result being that the management team takes its eyes off the day-to-day running of the business and neglects relationships with customers and suppliers.

Nevertheless, despite the fact that some stakeholders may baulk (shareholders keen on immediate returns, for instance), the expense of a restructuring or disposal should not be an excuse for putting it off. “The cost that doesn’t sit on the P&L is the opportunity cost of not doing something,” says Bracewell. “If you don’t do it now, you are going to have to do it in six, 12 or 18 months’ time. If there’s something fundamentally unstable around your business, you’ve got to fix it.”

HAVING A PLAN

Owners of privately-managed companies tend to take a long-term approach towards solving problems in a business because of their personal commitment. Where external investors and stakeholders are involved, there can be more pressure for a

HIRING PROFESSIONAL ADVISERS

If your business is planning to work with professional advisers on a restructuring project, it makes sense to engage them at the outset. Then they can help the management team to scope out the work that needs to be done, use analytics and benchmarking techniques to challenge management proposals, and come up with a detailed implementation plan that outlines the savings that need to be achieved.

The cost of using a consultancy will vary according to the size of the organisation being restructured, the scale and complexity of the work, and how much day-to-day involvement the management team has in the project. A medium-to-large corporate undertaking a restructuring programme of between three and six months could spend £200,000 to £500,000 on consultancy fees, for example, while a global group might invest millions. An experienced chief restructuring officer operating at board level will cost in the region of £50,000 per month, with some costing more.

'quick fix', however. Poulton says that having a good three- or five-year business plan is key here. If shareholders and other stakeholders such as banks can see what the business plan is set to deliver over the coming years in terms of generating cash and improving profitability, and they are comfortable with it, then they should support it, he says.

Dewar maintains that FDs have an important role to play in a restructuring process. "The FD is a good central control function to make sure that costs come out," he says. He adds that when an external consultancy is brought in, it will be most effective if it can work alongside the management team - "not only in the identification of opportunities, but also in the delivery of them. So they are seen to be owning them and implementing them".

> "If a business has fallen on hard times, the incumbent management often feels awkward about it... But a good team will grasp the nettle"

If a management team has built up a business from scratch, it can sometimes struggle to make the difficult decisions that are needed. "If a business has fallen on hard times, the incumbent management is often feeling awkward and difficult about it because it's not what it wanted," says Poulton. "A process of denial sometimes sets in. But a good management team will grasp the nettle and get on with it."

Bracewell believes that focusing on the figures and strategy helps FDs to distance themselves from the emotional aspects of restructuring. "The challenge comes for the MD, the sales director and the operations director, who are more involved in the day-to-day elements," he says. That's why he believes it helps to get professional support from a corporate restructuring or accountancy firm. "They have the ability to disconnect the emotions from the reality," he says. "And you need to take advice to give you the confidence that you're doing it properly." Depending on the complexities involved, the timescales of a turnaround project can vary greatly. Some companies are continuously restructuring themselves, for example. But Poulton puts a "sensible restructure with refinancing" at six months, while he says disposals typically last for between three and six months.

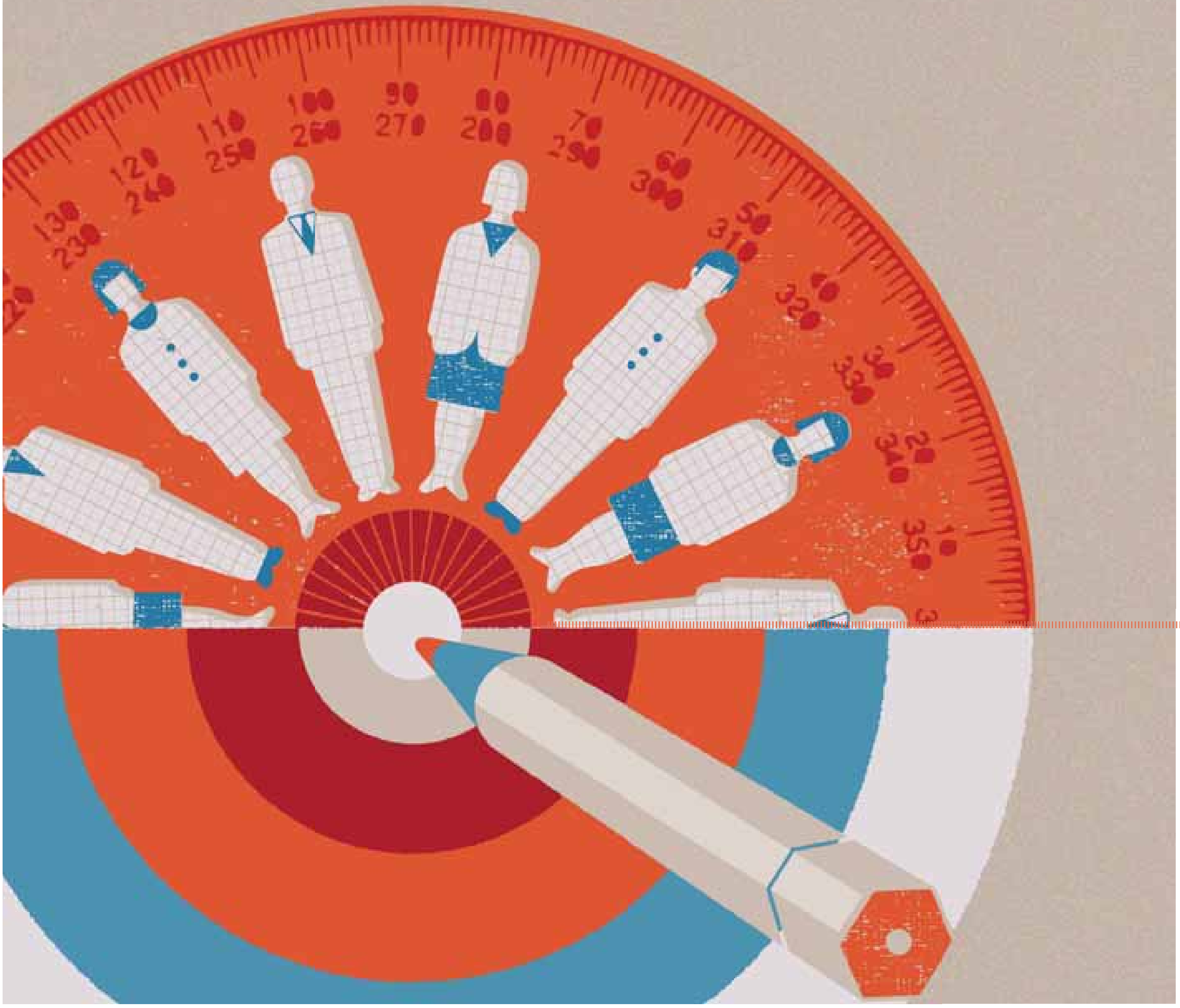
Ultimately, the success of a restructuring project will vary according to what the management team set out to achieve in the first place. In many cases, the survival of a business and the return to profitability will be considered success enough. Management teams will also monitor return on investment (ROI), to see how much they need to spend to take cost out and what the payback will be. In a disposal scenario, net present value and ROI matter as both the seller and the purchaser will want to evaluate what an entity is worth. Banks, meanwhile, will measure success by a business being able to repay its debt and meet its covenants. In Bracewell's case, his business measured success by the return on capital employed as well as profitability and staying inside banking covenants.

A well-executed restructuring programme can make a dramatic difference to a company. "Restructuring is almost seen as a dirty word," says Bracewell. "But even in a strongly-performing business, you have to constantly look at restructuring to make sure it's performing as well as it could do.

"The way to grow and respond to the competition is to be innovative across the board. Part of that is how you structure yourself."

Performance measurement is an ongoing struggle for many organisations. But how can it be improved? **Mike Bourne** maps out the journey and assesses the obstacles

MEASURE BY MEASURE



GILLIAN BLEASE

Nearly every company and organisation I know is spending more time and effort on measuring and managing performance. It is also consistently among the issues top of mind for finance directors, but when I ask management teams "why do you measure performance?" there is usually a deafening silence. Organisations are all trying to improve their performance but performance doesn't improve simply by measuring it. However, performance can be improved if you measure it for the right reasons and use performance measurement judiciously to manage your organisation.

You will also need to create the right organisational climate for measurement to really succeed - that way everyone can contribute to the success of the organisation. And there are plenty of ways to get things off to a good start (see right).

> You will need to create the right organisational climate for measurement to really succeed – that way everyone can contribute to the success of the organisation

THERE ARE FIVE REASONS FOR MEASURING PERFORMANCE

1 ESTABLISHING POSITION

At the most basic level, performance measurement is about knowing where you are. Are you solvent? Are you profitable? Establishing position is the baseline from which everything is built. Before you can compare performance between this year and last, between different departments within a company or as a basis for benchmarking, you will need to measure accurately and consistently. It is the stake in the ground that allows you to take your performance measurement journey forward.

2 COMMUNICATING DIRECTION

Having established where you are, you will need to communicate where you want to go. People usually think that this is in the strategic plan and it often is, but performance measurement is a much more effective way to communicate direction. By setting objectives you will start to articulate what you are trying to achieve; by making these objectives measureable you will give clear direction, and by establishing targets you will communicate what is to be achieved by when. This measurement is very powerful.

3 INFLUENCING BEHAVIOUR

As soon as you measure something, people take notice of what you are doing. This influences their behaviour. You may wish to motivate people to achieve the goals you have set and to encourage them through recognition and reward schemes. These may or may not help you in improving the performance of the organisation, but what you will definitely get is influenced behaviour. People will quickly respond and adjust to what is being measured, reported and talked about.

4 STIMULATING ACTION

The difference between the goal set and where you are will tell you whether you are delivering or not. At a simple level, this feedback should stimulate appropriate action. The difference between planned and actual isn't always a trigger for action, because normal variation in data between one period and the next will create noise. However, when the planned and actual consistently diverge, this should be the stimulus to act. Remember performance measurement is an expensive process. If you don't act on signals, you will reap no reward for all that measurement expense and activity.

5 FACILITATING LEARNING

Measuring your performance is an opportunity to learn. Questions to ask include, are you missing your targets because you haven't implemented what you planned to do, or because the environment has changed? If you have implemented plans, and targets are still not being reached, is this because you don't fully understand how your business works? Are your plans and targets still appropriate? Reflecting on what your system is telling you should enable you to adapt as things change.

This article is from the Finance and Management Faculty's Business Performance Community. Access to this specialist resource is free for all faculty members.
Visit icaew.com/bpm

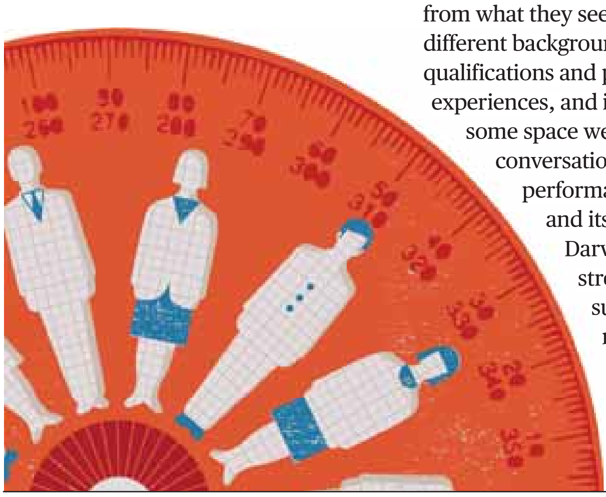
DESIGNING YOUR MEASUREMENT SYSTEM

So what does this mean for the design of your performance measurement systems and what does it mean for how you use measures to manage business?

1 You need a set of robust measures you can rely on. When you review performance you want to have confidence in the information and not spend your time arguing about the accuracy of the measurement. Make this first step an essential building block.

2 You need to carefully choose what you measure. These will rapidly become the *de facto* strategic direction for the organisation. They are visible and discussed long after the strategic plan has been filed away. Measures have to accurately reflect your strategy, and if it changes you should change your measure to communicate the new direction to the whole of the organisation.

3 Think very carefully about how you influence behaviour. Focusing people's attention on what really matters to the organisation is critical for success, but rewarding people for hitting specific measurement targets changes the whole nature of your measurement system. Goals and targets then become a matter for negotiation, as the organisation wants them to be stretching while the employee wants to make sure he or she meets the target and gets their reward. Getting this wrong can mean you have staff highly motivated to hitting a target number by any means, while you lose your ability to discuss what the target should be because this is subject to negotiation.



4 You will need to create appropriate review mechanisms to manage performance and to take corrective action. Ideally this should be done in a team setting where performance is visible, those knowledgeable about the operation are present and someone has the authority to act. This environment should enable discussion to create understanding about what is happening before interventions are made. Making decisions in a group setting also enables wider communication of what is to be done and why.

> Creating the right environment for your performance system is more about the softer side of managing business

5 You will need to create the space for people to reflect and learn. This means not rushing to make a judgement, asking questions and testing your colleagues' assumptions about how they read the data and what they are concluding from what they see. We all have different backgrounds, professional qualifications and personal experiences, and if we can create some space we can have a better conversation about performance, the business and its future. To quote Darwin, "it is not the strongest species that survives, nor the most intelligent that survives. It is the one most adaptable to change."

SEEING A SOFTER SIDE

What does good and bad practice look like? Good practice is when everyone knows what the key measures are and how current performance stacks up against them. People know what they are trying to achieve and how their efforts contribute. There is a culture of mutual support and openness, so problems can be identified early and action quickly taken. There is a pride in the organisation and a culture where people strive to do their best. This is a questioning and challenging culture where no stone goes unturned to get at the real reason things happen as they do. This is a place where you want to work; it is challenging and rewarding.

An organisation with bad practice is a different world. People work in the dark, unclear about their targets. There are regular arguments over the measures and what has been agreed. Staff work in their silos and do their best to look good even if this is detrimental to the wider organisation. The reward system favours 'yes men' and instructions are dispatched from senior management without any real discussion or understanding. People are rewarded for fire fighting rather than planning to do things better. The culture is dominated by big egos and those not at the top are either keeping their heads down or looking for another job. This is a place where people come just to pay the bills.

Creating the right environment for your performance measurement system to flourish is as more about the softer side of managing your business than it is about the hard systems and measures. It is not so much about the information you have available, but about how it is used to make decisions.

Creating an open performance culture is easier to describe than do. It needs trust and can only be be built over time. But the results are worth it.

Mike Bourne is professor of Business Performance at Cranfield School of Management

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The figures provided are as a result of official manufacturer's tests in accordance with EU legislation. A vehicle's actual fuel consumption may differ from that achieved in such tests and these figures are for comparative purposes only.
*On the road price is the manufacturer's Recommended Retail Price, plus First Registration Fee and Delivery Pack. £33,995 refers to XF 2.2 163PS R-Sport saloon. All details are correct at time of publication and are subject to change without notice. **Based on an XF 2.2 163PS R-Sport with no options for a 40% tax payer. Vehicle shown fitted with 18" dealer fit accessory wheels.

From the faculties

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

TAXline

IS YOUR CLIENT A TAX FRAUDSTER?

HMRC's definition of the new deliberate inaccuracies penalty serves as a warning for tax accountants as to whether they accept a penalty on behalf of their client.

The new regime penalises over-declarations as well as under-declarations - though volunteering to pay too much tax is not classed as fraud. But, as Robert Maas points out in his article, it is not possible to accidentally deliberately do something.

As a case in point, Maas cites the example of Mr Chan, who deliberately overstated his tax liability because he was afraid he'd made a miscalculation. HMRC did not appreciate Mr Chan's generosity, and refused to refund the excess. Mr Chan's accountant adjusted future VAT returns accordingly to reverse the overpayment - HMRC did not like this either. They argued that overpaying isn't an error, but is in fact deliberate, thus Mr Chan should have written to them in the first instance.

Accepting a deliberate inaccuracy may label a client as a "serious defaulter", gaining them a place on HMRC's Managing Serious Defaulters programme if tax lost exceeds £5,000. For two to five years, the client will be subject to closer scrutiny. It seems the deliberate inaccuracy penalty's reach extends far beyond the penalty payment itself.

For more from the Tax Faculty, visit icaew.com/taxfac

FS FOCUS

CRIMINAL BEHAVIOUR

Proposals put forward as part of the Financial Services (Banking Reform) Bill could see directors prosecuted under a new criminal offence - reckless mismanagement of a financial institution. This would be the first time legislation has focused on a particular industry, targeting those working at the top.

The Bill proposes that three main criteria must be satisfied for there to be an offence: first, it would have to be established the individual took a decision, agreed to the taking of a decision or failed to take steps to prevent a decision being taken which led to the failure. Second, they would have to have been aware of a risk that the implementation of the decision may cause the failure. Finally, it would have to be shown that his or her conduct fell "far below what could reasonably be expected" of a person in their position.

There are concerns over how the new legislation will stand up, but serious misconduct can be dealt with using existing laws and regulatory sanctions, for example the Fraud Act 2006 or the Financial Conduct Authority's "senior persons" regime.

Whatever the outcome, the stakes will be high: the proposed legislation carries a maximum penalty of up to seven years' imprisonment.

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

CHARTECH

DEALING WITH DISASTER

As the January tax deadline looms, the last thing any accountancy firm or business needs is an IT system failure. But does your company have a disaster recovery plan in place to deal with virus infection, server malfunction or even flooding and fire?

Having a plan can mean the difference between business success and failure, but a survey of IT managers by *Computing* found that 10% of respondents' businesses remain unprepared.

A number of respondents admitted they were still reliant on tape back-ups, rather than automated off-site systems. While the majority had a plan in place, some 53% reviewed it annually or less frequently.

In addition, 29% of the *Computing* survey respondents said they would not consider cloud-based back-up due to security fears.

The cost of back-up and disaster recovery can be high, but of the surveyed businesses 26% had already had to implement their disaster recovery plan.

For any firm considering upping their protection, external experts can prove a useful touchstone. They may be able to advise your firm or company on how to turn a disaster recovery plan into an asset. Offering this protection can lead to improved client retention, and even increased fee income.

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

Technical updates

Our regular round-up of legal and regulatory change

TAX

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

EMPLOYER PAYMENT SUMMARIES – TIMING OF SUBMISSION IS CRUCIAL

Did you know that there are three different types of employer payment summaries (EPS):

- financial;
- no payment and nil activity; and
- end of year/final?

The month's payments that HMRC sets the EPS against, and when the business tax dashboard (BTD) (alias liabilities and payments viewer (LPV) - visible to employers only) is updated, depends on both the type of EPS and when in the tax month they are submitted.

A financial EPS (for statutory payments, CIS and NIC holiday) should be submitted any time from the 20th of the month to which it relates to the 19th of the following month to have an impact on the particular tax month (although at the beginning of the tax year the window is slightly longer).

A no payment EPS should be submitted from 6th to 19th of the tax month following that to which it relates to affect a particular tax month, and nil activity EPS should be submitted in advance of the month to which it relates. The end of year / final EPS should be submitted by 19 April after the year end.

BTD/LPV are updated on specific dates in the month depending on the date that HMRC receives the EPS.

AUTUMN STATEMENT – TAX FACULTY SUMMARY

The Chancellor delivered his Autumn Statement on 5 December 2013.

The Tax Faculty has published a detailed summary of the announcements on tax and related topics we hope members will find useful. See **bit.ly/1bLR7jW**

RTI FOR EXISTING MICRO EMPLOYERS

'On or before' relaxation is extended until April 2016 as part of a package of help for small employers. HMRC has announced that existing employers with nine or fewer employees (micro employers) who need more time to adapt the way they operate their businesses to work with the RTI requirements, will be able to report PAYE information on or before the last payday in the tax month until April 2016. See **bit.ly/1bqZME2**

ICAEW Tax Faculty has published its fifth RTI helpsheet: *RTI Questions & Answers - Employer Payment Summaries* to explain how the timing of submitting the EPS affects the tax month to which it is allocated and when the BTD/LPV is updated. Find it at **bit.ly/18qcZSU**

SAVE THE DATE – CHANCELLOR NAMES THE DAY FOR HIS 2014 BUDGET

The chancellor George Osborne has confirmed that the next Budget date will be Wednesday 19 March 2014.

EMPLOYMENT LAW

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

CHECKS ON ILLEGAL WORKERS

Employers will find that the onus is often on them when it comes to ensuring that all migrant workers who apply for employment with them actually have the right to work in the UK. Recently the Home Office published an updated version of its *Full guide for employers on preventing illegal working in the UK*, aimed at employers and staff involved in recruitment and employment.

It includes information on:

- a three-step process that should form part of an employer's recruitment and employment practices, regarding document checks and the frequency of document checks required;
- the consequences employers face if they do not carry out the Home Office's required document checks or if they employ an illegal worker;
- lists of the documents that you can ask a prospective employee to provide to confirm immigration status;
- guidance on the new restrictions on Croatian nationals that came into force on 1 July 2013, requiring Croatian nationals who are subject to the worker authorisation requirement to obtain an accession worker authorisation document before starting any employment;
- updated information regarding the restrictions on Bulgarian and Romanian nationals, which end on 31 December 2013; and
- guidance on employing asylum seekers, refugees, those granted Humanitarian Protection, students and members of the Armed Forces.

If an employer is found to be employing illegal workers, the Home Office may be able to serve an employer with a civil penalty of up to £10,000 for each illegal worker. If the employer has multiple premises, there may be an increased penalty if illegal workers are detected at different sites.

Employers can establish a statutory defence against having to pay a penalty if found to be employing an illegal worker, provided the correct checks have been followed. It is possible to appeal against a civil penalty within 28 days of the date of the notice.

Visit **bit.ly/18GKT0G**

AN AGEING WORKING POPULATION

The latest reports from the Office for National Statistics (ONS), found that there are 324,000 workers over the age of 70 and 32,000 workers over the age of 80. The numbers show a trend of people staying in employment beyond retirement age, with these numbers looking to increase in the future; the number of people aged between 50 and 64 in employment has shot up by close to two million in the past 15 years.

The government estimates national income could be increased by 1% for every extra year everyone works, and this increase in older workers is key to keeping the UK's pension system in check.

FAITH OR WORK

A recent appeal case of a Christian care worker who claimed she was forced to leave her job after refusing to work Sundays because of her faith, found against the claimant.

Celestina Mba, 58, from south London, told Merton Council she was unable to work Sundays before accepting a job in a children's home. She claims she was later told she had to work full weekend shifts and resigned in 2010, claiming this represented constructive dismissal. After a tribunal ruled against her, she took the case to the Court of Appeal.

The claimant, a Baptist Christian, had argued she should be free to obey the Fourth Commandment in the *Bible* - to rest and pray on the Sabbath.

The appeal judges ruled the tribunal had to some extent erred in law but said this did not mean the appeal should be allowed. The Court of Appeal refused Mrs Mba's appeal, finding that while the requirement to work on Sundays put some Christians at a disadvantage it was a proportionate means of achieving a legitimate aim (running a children's home).

However, the Court of Appeal did find that the Employment Tribunal and Employment Appeal Tribunal had been wrong in finding Mrs Mba's belief that Sunday should be a day of rest is not a core component of the Christian faith.

CHANGES TO EMPLOYMENT LAW

The proposal to abolish the service provision change limb of TUPE has been abandoned due to concern that it would create too much uncertainty. There are other changes to TUPE in 2014, including:

- Activities carried on after the service provision change must be "fundamentally or essentially the same" as those carried on before if TUPE is to apply.
- Employee liability information must be provided by the transfer or employer to the transferee employer at least 28 days before the transfer rather than the current 14 days.
- There will be subtle changes to give flexibility to employers to vary terms and conditions after a TUPE transfer.
- An ETO reason will be amended to include a change in the location of the workforce. This is intended to remove the anomaly whereby a redundancy can be fair if there is a change to the location of the workforce, but dismissal under TUPE for this reason is unfair.
- Consultation by the transferee pre-transfer is to count towards the statutory redundancy consultation period for redundancies post-transfer.

Other key changes for next year include:

- The abolition of discrimination questionnaires.
- "Mandatory conciliation" through Acas. Claimants will have to submit details of their dispute to Acas before issuing an employment tribunal claim. This gives an opportunity to resolve the dispute through conciliation before going to a tribunal.
- The right to request flexible working will be extended to all staff with 26 weeks' service, rather than just parents or carers. The government has also decided to keep the restriction that means that employees can make only one flexible working request in any 12-month period.

FINANCIAL REPORTING

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

FRSSE

As noted in the December Financial Reporting Update, The Small Companies (Micro-Entities' Accounts) Regulations 2013 were laid before parliament and these have now been approved. The UK's Financial Reporting Committee (FRC) has published FRED 52 *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities* to allow micro-entities taking advantage of the new legal provisions to continue to apply the accounting principles of the FRSSE.

Comments are due by 14 February 2014. More information is available at **icaew.com/micros**

FRS 102 CLARIFICATION STATEMENTS

As the transition date of FRS 102 *The Financial Reporting Standard application in the UK and Republic of Ireland* approaches, the FRC is beginning to consider queries arising from its implementation. The FRC intends to include such matters in one compendium for ease of reference which will be maintained on the new UK GAAP page on the FRC website.

The FRC has so far issued three clarifications relating to the early application of FRS 102 by entities within the scope of a SORP, net investment hedges of foreign operations that are branches and deferred tax arising on a business combination. For more information visit **frc.org.uk**

The Financial Reporting Faculty has a series of factsheets to help its members with the transition to the new regime, and will be hosting regular webinars throughout 2014 on the new UK GAAP. More information is available at **icaew.com/newukgaap**

FINANCIAL INSTRUMENTS

The IASB has announced the completion of an important package of amendments to IFRS 9 *Financial Instruments*.

Hedge accounting

The amendments introduce a new model that will enable entities to better reflect their risk management activities in their financial statements. They also introduce new disclosures about risk management activities for those applying hedge accounting. As a result, users of the financial statements will be provided with better information about risk management and about the effect of hedge accounting on the financial statements.

Own credit

The amendments also introduce a change that enables entities that have elected to measure financial liabilities at fair value to apply the relevant section of IFRS 9 before applying any of the standard's other requirements.

This change will mean that gains caused by the worsening of an entity's own credit risk on such liabilities will no longer be recognised in profit or loss, thus facilitating the earlier application of what is a long-awaited improvement to financial reporting.

Effective date

As the impairment phase of the IFRS 9 project has yet to be completed, the IASB has decided to abandon the standard's previous mandatory date of 1 January 2015. A new effective date will be decided upon when the entire financial instruments project is closer to completion.

PENSION CONTRIBUTIONS

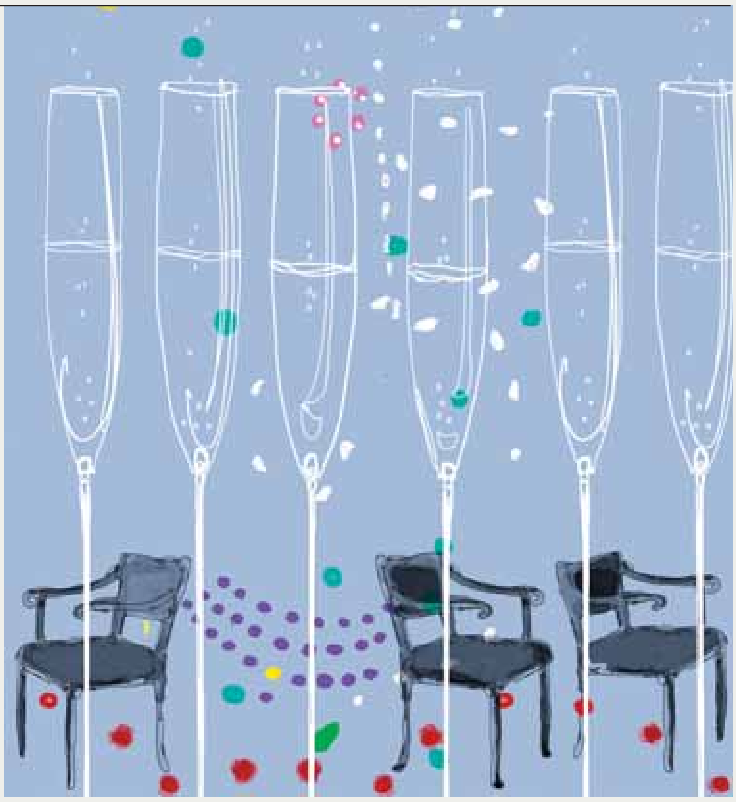
The IASB has published narrow scope amendments to IAS 19 *Employee Benefits*.

The objective of the amendments – which apply to contributions from employees or third parties to defined benefit plans – is to simplify accounting for contributions independent of the number of years of employee service eg, employee contributions that are calculated according to a fixed percentage of salary.

Amendments are effective from 1 July 2014 with earlier application permitted.

New Year quiz 2014

Did you pay attention to last year's news in Finance & Management?



We're keen to hear from faculty members and are offering a prize of £100 in John Lewis vouchers to the winner of this year's quiz. All Finance & Management members are eligible to enter and the prize will be chosen at random from the entries with the highest scores. All the answers to the quiz questions can be found be found in last year's *Finance & Management* magazines.

Please email **robert.russell@icaew.com** with the responses by Monday 27 January 2014. The editor's decision is final.

1. How much does BDO estimate the total cost of global fraud to be?
- a. £1.5bn
- b. £2.9bn
- c. £3.8bn

2. The top 10% of UK taxpayers contribute what percentage of the UK total income tax?
- a. 37.3%
- b. 45.6%
- c. 58.9%

3. What percentage of savers in the UK are saving enough for a comfortable retirement, according to HSBC?
- a. 20%
- b. 33%
- c. 50%

4. Which of the following is not in the top five export destinations for the UK?
- a. China
- b. Netherlands
- c. USA

5. What is the average UK salary for finance managers and directors in 2012/13, according to the ONS (to the nearest thousand pounds)?
- a. £65,000
- b. £75,000
- c. £85,000

6. Which of the following G7 countries has the highest level of government debt as a percentage of its GDP?
- a. USA
- b. Germany
- c. UK

7. Which of the following is not one of the three measures of GDP under the United Nations System of National Accounts 1993 (SNA93)?
- a. GDP(D)
- b. GDP(I)
- c. GDP(E)

8. Which of the following countries has the highest wealth per capita according to Credit Suisse research?
- a. Australia
- b. Switzerland
- c. USA

9. What percentage of people have admitted to paying bribes in the UK according to Transparency International?
- a. 3%
- b. 5%
- c. 8%

10. Over the last 30 years, how much have standards of living risen by?
- a. 50%
- b. 100%
- c. 150%

Terms and Conditions: 1 Entry to the competition is free. 2 The competition is run by the Institute of Chartered Accountants in England and Wales (ICAEW), Chartered Accountants' Hall, Moorgate Place, London, EC2R 6EA, UK. Entry to the competition is subject to these rules. 3 The competition is only open to residents in the UK and over 18 years of age at the time of entry. 4 To enter the Christmas Quiz, for a chance to win the prize on offer, all entries must include a valid email address. Entry is limited to one entry per person. 5 All entries to the competition must be received by 27 January 2014. 6 PRIZE, £100 in John Lewis vouchers. 7 ICAEW reserves the right to substitute a prize of comparable value in the event of prize unavailability. Prize is as stated and non-transferable, non-exchangeable and not returnable. Winners must provide a valid UK mailing address. Failing to do so will result in forfeiture of the prize. 8 All personal data provided when you enter this competition will be used only as instructed by you through the ICAEW preference centre (members only). 9 All personal data you provide when you enter this competition will only be used by ICAEW for marketing purposes and will not be sold or transferred to any third party (non members). 10 Winners will be announced in the February issue of F&M magazine. All decisions concerning the winning entries and these rules are final, and no correspondence will be entered into.