Financial Management

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CIMA
Chartered Institute of Management Accountants

Knight watchman

Sir Alec Reed CBE FCMA on 50 years at the cutting edge of business and charity

China's partners: the new trade axis

Green IT: how to slash server power

Gillian Tett: why 'silo busting' is vital

A word from the president

'Cost leadership is needed to cut government debt'

A representative from the World Bank recently described the mismanagement of public sector spending in one developing country as a "form of corruption on a grand scale". Emotive words, but they are a timely reminder of the global need for prudence and accountability when it comes to public sector spending.

Few countries have avoided the shockwaves of the economic downturn and it is essential that governments ensure that the social impact is kept to a minimum. I had absorbing discussions about cost leadership with CIMA members in government positions in both Canberra and Wellington on my recent trip to Australia and New Zealand.

It was interesting to compare their views with the findings of a report published by CIMA last summer, which argued that a lack of strategic leadership and poor performance management practices had contributed to the current spending crisis in the UK. The report outlined how cost leadership and better management information could contribute to more informed decision-making and help to reduce government debt.

Some savings can be made by improving the efficiency of the finance function in government departments. But the bigger prize – billions rather than millions – is to ensure that ministers have accurate information (financial and non-financial) on which to base policy, make decisions and run public services effectively.

A high-quality performance management structure, supported by effective management accounting, is crucial for the effective measurement of outputs and outcomes, and to reduce the costs of delivery.

At present, the decision-making process is imprecise. Correct management information would aid the development of evidence-based policies. It would also complement the work of economists in framing objectives and forecasting the expected results, as well as making the machine of central government "smarter".

In this respect, the UK is by no means unique. Governments around the world are grappling with similar problems. Whatever country you look at, the public sector is a uniquely challenging arena because of the complexity of its delivery systems and the difficulty in managing how information flows up and down these channels.

Chartered management accountants are ideally positioned to tackle the key issues of value for money and accountability. In particular, our members' training in performance management can improve accountability by building in target incentives for civil servants. These should be focused on specific outcomes, personal responsibility and ownership.

If economies are to become sustainable, governments must focus on this issue and tap into the value that management accounting can bring. Empowered CIMA members are in an ideal position to foster a culture of cost consciousness throughout public organisations. But they must be brought in at the beginning of the decision-making process.

Furthermore, it's not enough for finance professionals to produce good quality information; they must also use their insights to improve performance. We know that when finance functions demonstrate their value they become trusted and more influential.

I have met many CIMA members working at senior levels in various government administrations around the world and I'm constantly impressed by their passion, vision and enthusiasm for developing their respective country's economic and social potential.

There are many challenges ahead, but with such energetic role models leading the way, I am confident that we can develop public sector strategies that will be leaner and better value for money.

George Glass
CIMA president

George McT Glass

Illustration: Masao Yamazaki/Dutch Uncle

At a glance

Chartered Institute of Management Accountants

CIMA is the Chartered Institute of Management Accountants
26 Chapter Street, London SW1P 4NP
020 7663 5441
www.cimaglobal.com

President
George Glass FCMA
Deputy president
Harold Baird FCMA
Vice president
Gulzari Babber FCMA
Chief executive
Charles Tilley FCA

Financial Management
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3-7 Herbal Hill,
London EC1R 5EJ.
Tel: 020 7775 7775.
editor@fm-magazine.com

Editorial director
Peter Dean
Editor
Scott Payton
Deputy editor
Dawn Cowie
Chief sub editor
Steve McCubbin

Senior sub editor
Graeme Allen
Creative director
Michael Booth
Group art director
Simon Campbell
Head of pictures
Martha Gittens

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Editor's note

How can developed markets hope to remain competitive in the face of rising competition from the new economic powerhouses of Asia, Latin America and beyond? By focusing doggedly on innovation and ideas, says Sir Alec Reed, the subject of our cover story this month.

Incentivising employees to create and share ideas is a key part of this process, Sir Alec adds. And he practises what he preaches. The young graduate who came up with Reed Recruitment's highly successful web strategy back in the mid-nineties was rewarded with £100,000. The Reed staffer who comes up with the best idea of 2011 will receive £50,000.

Google, famously, has a different approach: urging its developers to spend 20 per cent of their working lives on personal projects of their own choosing. The result has been a torrent of innovations, from the stunning Google Earth to Google Goggles – the new smartphone app that allows users to search the web with photographs instead of key words.

"A new idea can be a rocket that destroys the competition," says Sir Alec. It's certainly an adage that has served him well over the past half century.

Scott Payton

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Picture editor
Nicola Duffy
Picture researcher
Alex Kelly
Production manager
Peta Hatton
Account director
Jake Cassels

Business development director
Tina Hanks
Advertising manager
Matthew Blore
Email: Matthew.Blore@seven.co.uk
Tel: 020 7775 5717

Chief executive
Sean King
Chairman
Tim Trotter
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Cover photography
Mark Read

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www.cimaglobal.com

I work at ... Innocent

Start date 2006

I joined Innocent, the natural food and drinks company, in the summer of 2006 following a year at Procter & Gamble. I came to Innocent to embark on a career in finance: the company offered me the chance to study for my CIMA qualification within a high growth and vibrant organisation, which I jumped at.

I started on Innocent's purchase ledger team – which was only three strong just over four and a half years ago. It's a much bigger operation today with a finance team of 30. After about a year, I became an assistant marketing accountant, doing basic management accounts and dealing with any project work. I then became a commercial finance analyst, helping the commercial finance managers with our pricing, promotions and analysis of customer profitability. Next, I was promoted to the position of "out of home" finance manager. This entails working closely with the team's commercial controller and 15 non-grocery account managers. My role involves reviewing proposals, defining and tightening processes, helping with strategic decisions, planning, budgeting and maximising our growth opportunities.

For me, CIMA is the qualification I've always wanted to do. Its focus on commercial strategy and strategic thinking gives you an overview of how business works. I know it's a cliché, but what I really love about Innocent is the amazing people who work here. Everyone is enthusiastic, works their socks off and genuinely believes in the brand.

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Name: Julia Nunn ACMA

Company: Innocent

Location: London

Market share: 77.5% (2010)

Employees: 250

Smoothies sold every week: 2 million

Photograph supplied by Innocent

Update

EU proposes common corporate tax base

The European Commission has proposed the creation of a common system for calculating the tax base of businesses operating in the EU. This would allow companies to file their tax returns using a one stop shop and make it possible to consolidate all profits and losses across the 27 member states.

The Commission estimates that the common consolidated corporate tax base (CCCTB) could save EU businesses €700m in reduced compliance costs and €1.3bn through consolidation. In addition, it estimates that businesses looking to expand across borders could benefit by savings of up to €1bn in savings. The Commission argues that CCCTB will also make the EU more attractive for foreign investors.

Cross-border companies currently have to deal with up to 27 different tax administrations when calculating their tax base. The system for determining how intra-group transactions are taxed, known as transfer pricing, is also highly complex.

Once a company has filed a single tax return under the proposed system, its tax base would be shared between the countries in which it is active, according to a specific formula. This would take into account assets, labour and sales.

After the tax base has been apportioned, member states would be allowed to tax their share of it at their own corporate tax rate.

Photography: Getty Images

Indian accountants urged to globalise

The rise of foreign direct investment into India and the rapid international expansion of the country's companies requires Indian accountancy practices to go global, according to the president of the Indian Chartered Accountants of India (ICAI).

The ICAI recently signed a Memorandum of Understanding with the Canadian Institute for Chartered Accountants, and is also working with the New Zealand Institute of Chartered Accountants.

Indian accountants are in demand because of the adoption of International Financial Reporting Standards (IFRS), said ICAI president G Ramaswamy. Domestic companies have a growing need for accountancy services to help with the transition to IFRS and the outsourcing of accounting work from overseas to India is also rising. The ICAI said it has signed an agreement with the IFRS Council of Japan for the outsourcing of accounting work.

Update

UK companies lack proper insurance

UK companies are exposing themselves to significant risks because of the flaws in their corporate insurance policies, according to a commercial risk study by research specialist Mactavish and advisory firm PricewaterhouseCoopers.

The report reveals serious deficiencies in how corporate insurance is arranged and the role of boards in governing those arrangements. This is leaving firms vulnerable in the event of a large loss and subsequent dispute with their insurer.

The current system has "prioritised low transaction costs above reliable insurance policies", according to Bruce Hepburn, CEO of Mactavish. UK firms, especially medium-sized companies, "are putting themselves unnecessarily at risk and in today's economy are more exposed if a major insurance policy fails to pay out," he said.

"The lack of quality and in-depth information around risk exposure provided by companies to their insurers is currently inadequate and has left many businesses with unreliable and inappropriate cover," added Richard Sykes, governance, risk and compliance leader at PwC.

CFOs face transfer-pricing risks

Governments around the world are increasing their scrutiny of transfer pricing as increasing cross-border trade highlights the need for standardisation, according to a global survey by KPMG.

Transfer pricing refers to the charges between parties for goods, services or the use of intellectual property, but the tax treatment of the transactions varies significantly between different countries. Areas of particular interest to governments include the attribution of losses, business restructuring, intellectual property migration and inter-company financing transactions, according to KPMG's "Global Transfer Pricing Review".

The full report can be downloaded free of charge at www.snipurl.com/27pakr

App of the month

Our guide to the best online tools

Scanner Pro

Turn your iPhone into a multi-function portable scanner. This simple, highly popular app allows you to scan multiple documents, email them or upload them onto a server. The software has built-in edge detection, as well as allowing users to crop manually. It's also possible to password-protect the pdf files of the scans you create.

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Cost: £1.19 (iTunes UK Store)
Category: business
Updated: 6 March 2011
Current version: 3.1
Size: 13.1 Mb
Languages: English, French, German, Italian, Japanese, Spanish, Turkish
Developer: Readdle
Compatible devices: iPhone, iPod touch, iPad
System requirements: iOS 3.0 or later

CIMA report stresses the value of social networks

Informal social networks are the key to successful collaboration, according to recent research by CIMA, while formal controls can impede good working relationships and stifle creativity.

The report, titled "Collaboration and Control: Managing Tensions in Competitive Inter-Organisational Relationships", studied five UK independent publishing houses that collaborate on a range of activities, such as printing and warehousing, despite being competitors.

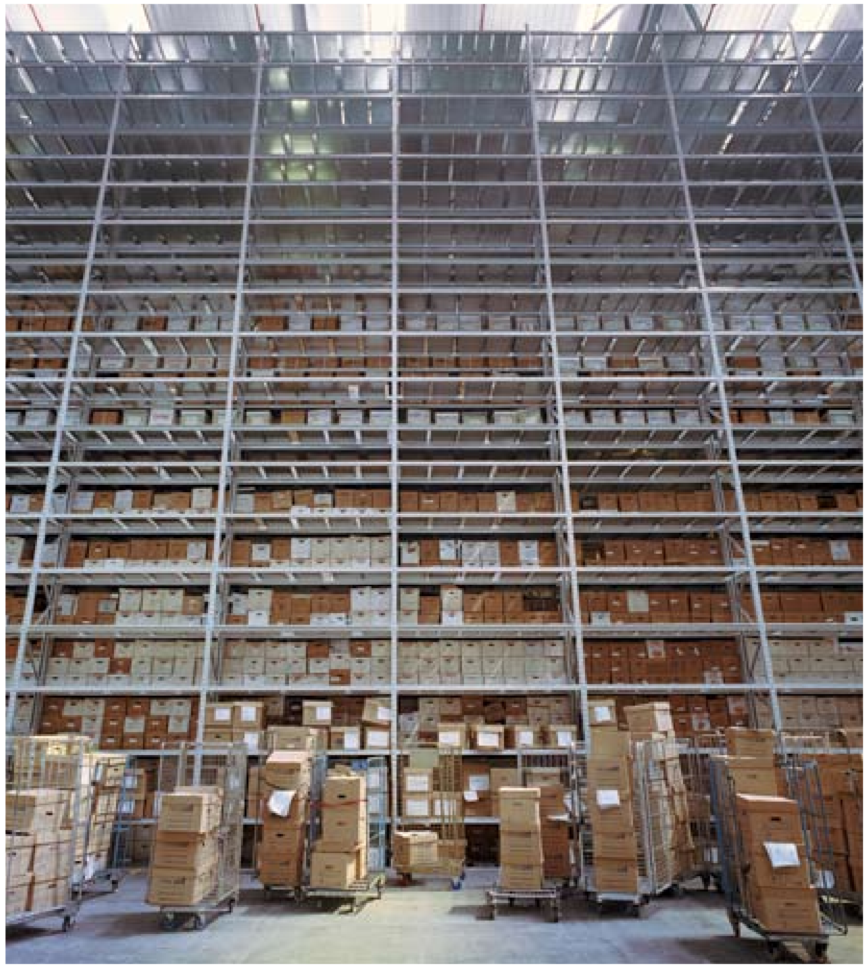
The report warns management accountants not to make too much use of formal controls, such as contracts, when working with industry rivals. Instead, they should use social networks to foster a sense of camaraderie in competitor alliances.

The full report can be found at www.cimaglobal.com/competitivetensions

Photography: Gallery Stock, Getty Images

Update

Deloitte warns of refinancing bubble



Competition for capital is set to intensify because more than $11.5trn of debt requires refinancing in the next five years, according to analysis by Deloitte. Rising government borrowing could increase competition for capital and result in volatility in capital markets.

The report, titled "A Tale of Two Capital Markets", is based on debt analysis in more than 9,000 large companies in the G20. Although there is $9trn in cash reserves across these companies, about 78 per cent of them are held by financial services firms. There will be a shortage of debt to refinance companies unless some of this cash is redirected to other sectors.

In the Americas, there is $5.7trn of debt maturing in the next five years, about half the global total. Asia has the lowest level of debt, but also has the highest proportion of outstanding debt maturing, with 69 per cent set to mature in the next five years.

Recent global CFO surveys by Deloitte reveal that 62 per cent of CFOs plan to maintain or increase their debt level over the next three years, while 50 per cent plan to use their existing cash reserves to pay down debt.

Hot potato
This month's dilemma:

I am head of finance at a company that is part of a US group. I need to make a quarterly Sarbanes-Oxley statement and am under pressure to sign off on the fact that there are no loss-making contracts, though in reality there are. My CEO, following discussions with non-financial colleagues, feels sign-off is justified because there is a road map being developed showing how these loss-making contracts will become profit-making. I feel that I would need to report to the parent company to pursue this matter further, which may constitute whistle-blowing, and believe that there will then be a risk to my relationship with the CEO and other colleagues.

Our response:
If at the time of reporting there are loss-making contracts, the requirements of the return would need to show this to ensure that "financial statements describe clearly the true nature of business transactions, assets, or liabilities" (Section 320 of CIMA's Code of Ethics). In order to comply with Sarbanes-Oxley requirements you should fully advise your management team of the requirements and your obligations. First, you should revisit the issue with the CEO, documenting your concerns and suggesting the best way forward. Should the CEO still resist, you may have to consider escalating the issue as part of your obligation to act with professional competence and due care and your responsibility to the wider group (Section 130 and 330).

For more information, visit www.cimaglobal.com/ethics
Tanya Barman, head of ethics, CIMA

Disclaimer

Fall in UK business failures continues

The number of UK business failures this year is expected to be 6.3 per cent lower than last year, despite the tough economic climate, according to a report by accountancy firm BDO. The study estimates that 20,900 UK firms will fail this year, down from a record high of 26,200 in 2009, suggesting that businesses are becoming increasingly robust.

The manufacturing industry outperformed other sectors in 2010 and continues to be buoyant. Insolvencies in the sector are expected to fall below pre-recession levels by the end of 2011. However, overall insolvencies across all sectors are expected to remain above pre-crisis levels until at least 2015.

Accounting bodies launch offsetting debate

The US and international accounting standards boards plan to hold several public round table meetings in May to generate discussion about financial asset and financial liability offsetting.

The aim is to address differences between International Financial Reporting Standards and US accounting standards in relation to the offsetting of derivative contracts and other financial instruments. This can result in material differences in financial reporting by financial institutions. The purpose of the meetings is to engage with the users, preparers and auditors of financial statements and other interested parties to ensure the standards-setters receive a broad range of feedback.

The meetings will take place on 3 May in London, 6 May in Singapore and 9 May in Norwalk, California. An audio recording of each meeting will be posted on the IASB and FASB websites. Live webcasts of the Norwalk and London events will also be available.

US examines Chinese reverse mergers

The Public Company Accounting Oversight Board (PCAOB) has raised concerns about the auditing of Chinese companies accessing the US market through reverse merger transactions. The body highlighted cases where US accounting firms had not followed guidelines on the audit of financial statements of issuers with operations outside the US.

The investigation follows an influx of Chinese companies to the US markets via reverse mergers, where a private company joins the public market by buying a listed company, rather than going through the heavily regulated process of an initial public offering.

The PCAOB research revealed that 159 companies from China had accessed US capital markets through a reverse merger between January 2007 and March 2010, representing 26 per cent of all deals of this kind. The companies had combined market capitalisation of $12.8bn at the end of March 2010.

Book in brief

Civilization: The West and the Rest
by Niall Ferguson
Simon & Schuster, £20

Looking at the world in 1411, you would have been hard pressed to predict that the West would come to dominate global political and economic life for 600 years. Historian Niall Ferguson explains this phenomenon and asks if this era is at an end. Here is a brief synopsis:

1. The West's success was built on six differentiators: competition, science, democracy, medicine, consumerism and the work ethic.

2. Political fragmentation between and within European states drove competition and spurred people to pursue overseas opportunities.

3. A free press and immigration led to Enlightenment ideas and scientific innovation in the West.

4. Confucianism stood in the way of the right legal and institutional development.

5. The scramble to colonise Africa – exploiting its people and land – was also a race for medical progress to cure tropical diseases.

6. The planner cannot meet the desires of millions of consumers.

7. Protestantism made the West not only work, but save and read.

8. Emerging economies have learned selectively from Western practices. The US and Europe need to rediscover the principles behind their past success.

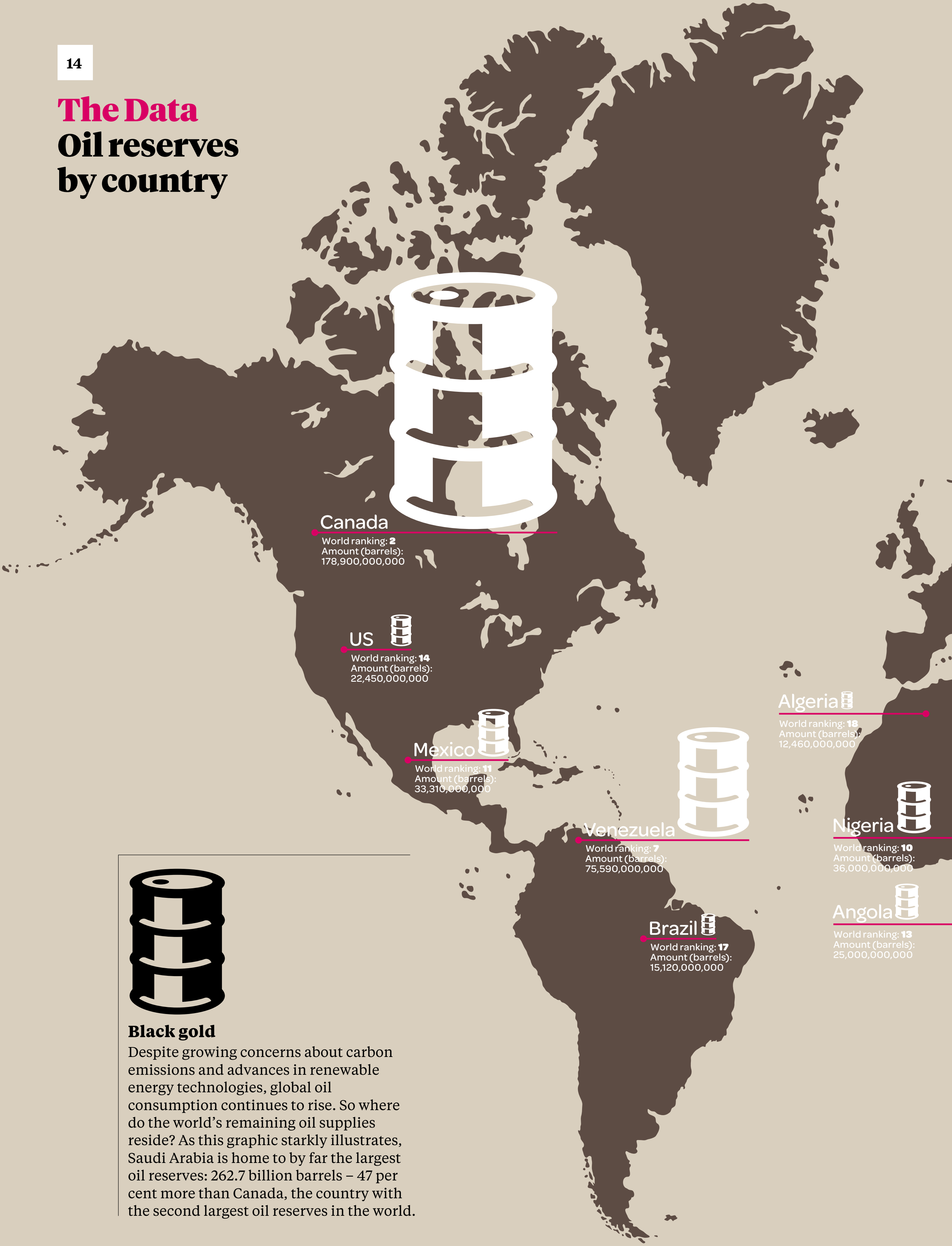
CIMA's 2010 Annual Review and Financial Statements are now available online. www.cimaglobal.com/annualreview

Learn from... PepsiCo's carbon footprint analysis

When drinks maker PepsiCo first analysed the carbon lifecycle of its orange juice brand Tropicana, it was surprised to learn that nitrogen fertiliser used to grow citrus trees accounted for 35 per cent of the total. Now the company is working with agriculture firms to develop green fertiliser that could cut Tropicana's total footprint by 20 per cent.

Illustration: Denis Carrier/Dutch Uncle, Lucas Varela/Dutch Uncle. Photography: Gallery Stock, Getty Images

The Data
Oil reserves by country



Black gold

Despite growing concerns about carbon emissions and advances in renewable energy technologies, global oil consumption continues to rise. So where do the world's remaining oil supplies reside? As this graphic starkly illustrates, Saudi Arabia is home to by far the largest oil reserves: 262.7 billion barrels – 47 per cent more than Canada, the country with the second largest oil reserves in the world.

World map: iStockphoto

Source: Nationmaster.com

Forum

From the blogs

TV boosts entrepreneurship

Is watching *The Apprentice* a guilty pleasure? How about *Dragons' Den* or *The Secret Millionaire*? You need feel no more guilt as these shows are educational, apparently.

Research published this week by the UK Department of Business, Innovation & Skills (BIS) reveals that these shows not only encourage viewers to become their own boss, but 40 per cent of the survey respondents said the programmes had shown them practical steps to start their own businesses.

BIS is not relying on the BBC or Channel 4 to provide business advice to SMEs in the UK, but it does envisage SMEs being mentored by more experienced business owners. You can read about this in the BIS paper, "Bigger, Better Business: helping small firms start, grow and prosper", which also notes that the Business Link advisory service will soon be available purely online.

I'd like to think successful business owners would be generous with their time and experience. But if *The Apprentice* teaches us anything, it is that (even on camera), people can be greedy and self-interested. Even the most altruistic business person's responsibilities are (in no particular order) to their business, investors, family, employees and community, rather than helping another business make money.

Louise Ross is a technical specialist at CIMA

What is long term?

As part of our preparation for the CIMA World Conference in Cape Town in October, we are working on a new report with the working title, "Building World-Class Businesses for the Long Term".

This raises the question: what does "long term" mean? What should a business's long-term horizon be – and is that long enough, given the looming challenge of environmental sustainability? It is also worth remembering that if you aren't getting the cash in today, you won't have a long term to worry about.

However, a company can also be too short term due to the way it organises its profit centres and performance management targets.

This issue is explored in a CIMA research paper, "Using management accounting to lengthen the time frame of managers". It includes a case study of how Dutch car dealership Van den Udenhout shifted its focus from profit centres and transactions to profitability throughout the customer lifecycle.

This involved revised information requirements, new key performance indicators and different attitudes and behaviour by sales staff and managers. It's well worth a read and could make you reassess whether your KPIs and targets are helping to drive profitability.

Gillian Lees is a technical specialist at CIMA

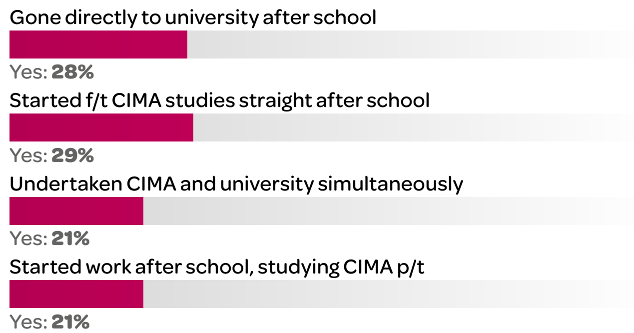
(*FM* reserves the right to edit letters and blogs for length and clarity.)

Write to: Financial Management, Seven, 3-7 Herbal Hill, London EC1R 5EJ. Email: letters@fm-magazine.com

Poll of the month

We asked...

With the benefit of hindsight, would you have...



Source: *Survey on CIMAsphere, 2011*

You asked...

What are the two methods for dealing with foreign currency balance sheets and how do I distinguish between them?

The key to translating the accounts of a foreign subsidiary for consolidation is to identify its functional currency – that of its primary operating environment.

Look out for the currency that mainly influences selling prices and costs, and the country whose competitive forces and regulations are most relevant. The subsidiary is effectively an extension of the parent's activities where they share the same functional currency. Changes in exchange rates will have an immediate item-by-item effect on cash flows, not just on net investment.

Companies tend to present financial statements in their functional currency, so no translation is necessary and the consolidation is normal. Otherwise, use the temporal method of translation – in other words, treat the transactions as if they had been entered into by the parent company.

If the subsidiary uses a different functional currency from its parent, it should be treated as a separate company or net investment. Assets and liabilities are translated at closing rates, and amounts in the income statement are translated at actual transaction rates (an average is usually used).

The second situation is far more likely to come up. If a subsidiary's accounts are in a different currency, then assume (in the absence of further information) that this is its functional currency and follow the second scenario.

Send in your own queries to questions@fm-magazine.com

Opinion

Gillian Tett

US managing editor of the *Financial Times*

Preventing a repeat of the financial crisis isn't about more business ethics, argues Gillian Tett; it's about fewer silos

Do bankers – or other business leaders – need to be "moral"? Are they required to be "responsible"? Those questions have hung heavily over the financial markets in the past few years. After all, the recent financial crisis inflicted an unprecedented scale of damage on the global economy and financial system – not to mention the savings and livelihoods of many ordinary people.

Moreover, it happened for no other reason than bankers deliberately developing products and financial strategies. As revelations about this risky behaviour have tumbled out it has, unsurprisingly, left many politicians and voters calling for a change in corporate culture; instead of simply chasing profit at all cost to maximise shareholder value (and banker pay) it is argued that they should pursue a more moral and responsible type of finance. What is needed, it is said, is more "ethics".

I have some sympathy with this viewpoint. After all, if you look at the scale of financial damage created by the crisis, it is clear that something needs to change in the culture of business. And the incentive systems adopted by the banks in recent decades certainly encouraged a short-term, risk-taking culture.

However, I also have a few qualms about simply demanding that bankers become more "ethical". After all, the term tends to be so value-laden – and relativist – that it is dangerously hard to define. What one set of players might view as ethical (say, giving money to a charity or making loans to small businesses) another group might consider to be less moral (the charity might be suspect, or those small businesses a bad credit risk.) And society already has laws and regulations that are supposed to define what is permitted, or not.

So, for my money, a better way to frame the debate is not to call for business leaders to be ethical, but to launch a fight against tunnel vision; call it, if you like, a focus on silo busting, both in terms of how companies organise themselves and how business people think.

'Wherever problems have emerged in business, they have developed not simply because employees were behaving "unethically" – but also because there was a plethora of silos'

After all, if you look back it is clear that it was tunnel vision as much as greed that lay at the heart of so many of the disasters. One reason why senior bankers could not see the scale of risky activity that their employees were engaging in before 2007, for example, was that the internal structures of banks were so fragmented.

Similarly, regulators tended to operate in such a fragmented manner that it was hard for them to track what was happening in the market as a whole. And bankers who were developing risky products tended to live within such tight little silos that they themselves found it hard to understand the consequences of what they were doing.

In hindsight – and with the benefit of looking across the financial system as a whole – it is clear that it was madness for bankers, say, to repackage risky housing loans. But, at the time, the strategy almost seemed to make sense since nobody was able to "join up the dots", both in terms of how finance fitted into the rest of the economy and within companies themselves.

Moreover, it is not just finance that has suffered. In the world of medicine, tunnel vision is often quite literally deadly. Indeed, time and again, wherever problems have emerged in business, they have developed not simply because employees were behaving "unethically" – but also because there was a plethora of silos.

So silo busting is not just a luxury, it is an essential concept that needs to be taught to employee and corporate leaders. It does not preclude calling on company leaders to behave responsibly too; on the contrary, silo busting is often the first step. But in a world where the concept of ethics can divide, silo busting might be an easier rallying cry. Particularly since almost everybody usually suffers when tunnel vision takes hold.

Coming soon: Adam Roberts, South Asia bureau chief for *The Economist*, on the opportunities India's infrastructure boom presents.

Photography: Getty Images

Sir Alec Reed CBE FCMA

The recruitment business he founded turns over more than £750m a year. One of his many charities has raised over £20m in the past four years alone. *FM* talks accountancy, philanthropy and the future of talent with the knight of social entrepreneurship

Interview by Scott Payton

You qualified as a management accountant in the sixties. What drew you to the profession?
When I left school at 16 my mother marched me down to night school, where I signed on for a course that I don't think either of us understood. It turned out to be the Institute of Chartered Secretaries' qualification. I struggled with the exams, failing a number of times, but eventually passed. I got a job at Gillette and started studying to become a certified accountant. Then, aged 26, I started my business and wrote to my institute to inform it of my change of details. It wrote back, telling me that I couldn't be a student if I was self-employed, and threw me out.

In 1961, I decided to focus my business on recruiting accountants. This was when I realised the real value of the qualification provided by the Institute of Cost and Works Accountants (CIMA's original name) and embarked on the course myself. It was clear that management accountants were in high demand in the recruitment market.

Why did you set up your company?
During my time at Gillette I was desperate to be self-employed. It wasn't about earning more money. I was earning £900 at Gillette; I simply wanted to be self-employed earning £900 a year. So I started Reed Employment in Hounslow – and it grew. I soon had three branches with a manager in each. It wasn't a full-time job to manage three managers, so I devoted my spare time to starting Reed Executive. Our unique selling point was that all of our consultants had to be qualified accountants. After the business went public in 1971 we repositioned it as a multi-branch operation, having previously concentrated solely on the City of London. Today, we have more than 400 branches, as well as reed.co.uk – the biggest recruitment website in the country.

What have been the biggest changes to the role of management accountants, and to the environment they work in, since you qualified?
CIMA has had a fantastic opportunity over the decades, because management accounting is much more important than financial accounting. A lot of chartered accountants are focused on tax, as that's where their biggest fees come from, but management accounting is a much broader, more varied field. We have a lot of CIMA members

Photography by Mark Read

in our company – we all talk the same language. Yet I still believe that the accountancy profession across the world has a long way to go. I don't think it's fully kept up with the changing world around it.

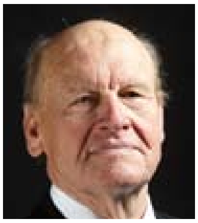
The complexity of business today is not reflected in the practice of accountancy. Computers simply splurge out numbers and can provide a huge amount of detail, which initially seems to be a positive thing. But there needs to be much more focus on the performance of people and on identifying the really meaningful figures. Our business is a good example: we have hundreds of branches, but we don't focus on how one branch compares against another; we focus on how successful our individual people are, because that's what really matters.

In 1995, reed.co.uk was the first site of its kind to be launched by a UK recruitment company. How did you go about identifying and harnessing the impact of the internet on the recruitment business so early?
Here at Reed, if we see a bus going somewhere, we will tend to jump on it – whatever the commercial opportunity in question. The downside risk of jumping on a bus that doesn't go anywhere is very small, but the downside risk of missing the right bus is very large. So, when the internet emerged, we jumped straight on that bus.

Initially we put only Reed's jobs on the site. Then we opened it up to vacancies advertised in other media. One of my young colleagues suggested allowing our competitors to post their advertisements on our site for free. My initial reaction was: "It costs us £500,000 a year to run this site – you must be mad." But a week or so later he repeated the suggestion. Thank goodness he did. I agreed and the decision proved to be the key to our success in becoming the UK's number one job site. One of the favourite sayings of my son James [the group's chairman] is that "a crowd attracts a crowd". This is exactly what our web strategy achieved.

Today we still give away 50 job listings to other agencies, but we charge for the rest. Charging for listings on the site has actually improved it, as it eliminates the amount of duplication that we used to have when agencies could post as many jobs as they wanted.

'Young people are all turned out of school on the same day each year, flooding the market. It's a recipe for disaster – a recipe for criminality'



CAREER LADDER

1960: founds Reed, now a global recruitment group with 400 offices around the world.

1961: qualifies with CIMA's forerunner, the Institute of Cost and Works Accountants.

1971: floats Reed on the stock exchange.

1989: Sets up Womankind, a charity that supports women in developing countries, on International Women's Day. Founds Ethiopiaid, the only UK charity to focus its efforts solely on Ethiopia.

1995: sets up reed.co.uk – the first job website launched by a UK recruitment firm and now the UK's largest. It now receives more than two million job applications a month.

1998: launches Reed in Partnership, an organisation that has since helped 115,000 people to move from welfare to work.

2007: establishes theBigGive.org.uk, a virtual charity that has raised more than £20m in the past four years.

2011: receives a knighthood for services to business and charity.

When you received your knighthood this year, you said: "Without charity what's the point of business? And without business there would be no charity." What's your advice to other business leaders who want to maximise their organisations' contribution to charitable causes?
Contributing to charity isn't an organisational issue. It's personal. I don't think that I should give away my company's money; I should give my own.

I recently coined the phrase "financial obesity is ugly". There are about 3,400 mass-affluent individuals in the UK – those with more than £20m in personal wealth. We need public pressure on these people to donate to charity. We tend to admire the guy with the new BMW, yacht or private aeroplane. The social pressure is on these people to show off by buying toys. We need more public pressure that encourages them that financial obesity is ugly.

Why did you get involved in charitable causes?
It was nothing to do with money; it was about fairness. My mother taught me that the biggest sin was meanness. She couldn't bear it – and this was instilled into me. After I floated my company in 1971 I took a bit of a breather and set up a charitable employment agency for drug addicts. Over the years I've started a number of other charities, including Womankind, which works to reduce violence against women. I visited Ethiopia in the late 1980s, and that led to the launch of Ethiopiaid, which strives to reduce poverty, preserve health and enhance education in the country.

Today the Reed Foundation owns 18 per cent of the Reed Group's shares. I like to tell co-members: "One day each week you're working for mankind; not just for the company."

TheBigGive.org.uk was launched in 2007. What's the premise behind it?
It's a virtual charity that started as a kind of Wikipedia for big givers. Initially we catered only for people who could donate at least £100,000 – and there aren't that many of those around. In the first year we had a few contributions. Then I decided to put up £1m in order to match donations. We put it up at 10am one Monday and it took only 45 minutes for that sum to be equalled by other donors.

The real innovation was what we've called "challenge matching" – encouraging donors to compete to get there first. Then we allowed people to donate on three levels. First, you could be an online donor and get your money doubled. Second, you could pledge to double another donor's contribution – increasing your donation fourfold. Lastly, you could be a donor who sponsors all donations across a specific sector – cancer charities, for example. These donors get to see their original contributions increase sixfold.

Youth unemployment is rising. How should this problem be tackled?
Reed in Partnership is a welfare-to-work initiative that has helped more than 115,000 people to find a job. But what society should aim for is not welfare to work but school to work.

If I had a magic wand, every comprehensive school would have a sixth form catering for children who know that they aren't cut out for the academic study offered by a traditional university. These young people should be given access to personal advisers who will explain the career options available and teach them general work skills, as well as how to behave in the workplace. These advisers should then help the students to find jobs. As soon as these young people find employment, they should be free to leave the sixth form. If, six months later, the job falls through, they should come back to school. At the moment young people are all turned out of school on the same day each year, flooding the market. It's a recipe for disaster – a recipe for criminality.

> 'The Reed Foundation owns 18 per cent of Reed Group. I tell staff: "One day each week you're working for mankind"'

In an increasingly globalised market for talent, where do you think the UK can maintain any competitive advantage?
Developing our strength as a centre of ideas and innovation is our only hope. Companies need to set up suggestion schemes for their employees. We awarded £100,000 to a guy who came up with an idea for reed.co.uk. The Reed employee who has the best idea for 2011 will get £50,000. Recruitment is a commodity market, like a growing number of other sectors. But a new idea can be a rocket that explodes the competition.

Coming soon...

Darren Rajanah, finance director of The Hut Group... on creating a £140m turnover business in seven years.

China's new partners

The resource-rich countries of Latin America and Africa are enjoying an economic revival thanks, in part, to China's deep pockets. Pessimists warn that the country is taking more than it is giving, but the evidence suggests there are widespread benefits from this new world order

Elliot Wilson
is a regular contributor to publications including The Spectator *and* Asiamoney

China's rapid ascent has been the narrative of the 21st century. The phenomenal pace of change has continued unabated over an epic, 30-year industrial revolution that has lifted hundreds of millions of Chinese out of abject poverty and created unimaginable wealth for a lucky few.

But it has done much more than that. The nation's rise has also shifted the global structure of business, shattering established trade patterns before remoulding them according to China's own needs. Nowhere is this process more startling than in Africa and Latin America. The currency crises in Brazil and Argentina and civil wars across sub-Saharan Africa in the eighties and nineties are becoming distant memories.

There are still many challenges for developing countries across these two continents, but having China as a benefactor – a willing investor and active trading partner – will be a major help in overcoming whatever obstacles lie ahead.

At the vanguard of this new world order is China's army of state-owned enterprises. Oil giant Sinopec, power infrastructure specialist State Grid Corporation, and about 1,000 similar state firms are marching across both continents in search of resources and profit. They are building infrastructure and making new friends, and the occasional enemy, as they go.

"We are seeing Chinese companies venture into Africa and Latin America, searching for oil and gas in Brazil and for iron ore, copper and gas in Africa," says Liu Li-Gang, head of economic research for greater China at Australian lender ANZ. "This is a once-in-a-generation shift and one that is changing the way global business works. It is, in many ways, the business story of the new century."

The forecasts for future trade and investment are eye-wateringly large. China will be investing $50bn a year in Africa by 2015, according to research from Johannesburg-based Standard Bank. Meanwhile, bilateral Sino-African trade is on track to hit $300bn in the same year.

Yet it is in Latin America where China has surprised everyone. This, after all, is a nation viewed first by Europeans and then, following the Monroe Doctrine of 1823, by Americans as their natural backyard. Now, it seems, Beijing has hopped over the gate to play.

Boom time in Brazil

Last year, China replaced America as Brazil's largest trading partner – a situation barely conceivable ten years ago. Beijing is also the leading trade partner of Argentina and copper-rich Chile.

Bilateral Sino-Brazilian trade hit $56bn in 2010, up from $9bn six years before, according to Brazil's Ministry of Development, Industry and Foreign Trade (MDIC). Dozens of Chinese trade delegations tour Latin America every month and it's a rare year when China's president, or Brazil's, isn't hosting the other.

So far, the long-term influence on both continents is unclear. Neither has a shared culture with the People's Republic, but nor did Europe or America before their navies and multinational corporates came calling.

For now, Beijing's money is creating many positives. At Itau BBA, the wholesale and investment banking arm of Brazil's largest private bank, Itau Unibanco, few are grumbling about the spreading Chinese influence.

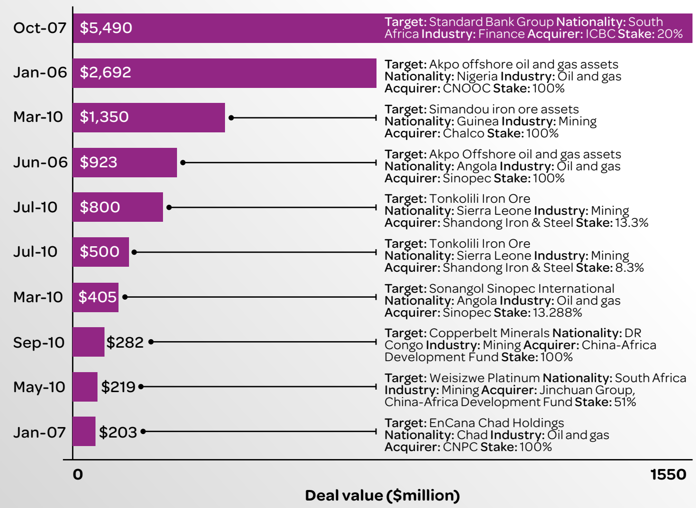
Renato Lulia-Jacob, head of corporate banking for the Americas, Europe and Asia at Itau BBA, says the lender first opened a representative branch in Shanghai six years ago with the intention of helping Brazilian firms do business in China. Before long, though, Itau BBA found itself acting as a proxy and adviser for both sides and, more often than not, for Chinese rather than Brazilian corporates.

"Over time we started helping Chinese companies to better understand Latin America," says Lulia-Jacob. "During the past few years we have helped around 35 Brazilian firms start operations in China, and hundreds of Chinese companies establish themselves in Brazil. It's a genuinely two-way trade flow."

Itau BBA has become adept at helping Brazilian firms gain access to credit lines from China Development Bank (CDB) and China Export-Import Bank. And trade continues to grow, says Lulia-Jacob.

Illustration by Borja Bonaque

LEADING CHINESE INVESTMENTS IN AFRICA



Source: Dealogic

In 1990 China was Africa's 27th largest trading partner. By 2009 it had vaulted to first place

Two-way street?

So far, the trading relationship remains overwhelmingly one-dimensional. Nearly 85 per cent of Brazilian exports to China in 2010, worth $31bn, were "basic goods", with the MDIC noting recently that Brazil was "increasingly dependent on exports of iron ore, soy beans and petroleum".

Brazil, in turn, imported $26bn-worth of goods from China, the vast majority of which (97.5 per cent) were finished manufactured goods from computers, notebooks and hard drives to shoes and wicker baskets.

However, Brazil is one of a few resource-rich nations to run a trade surplus ($5.2bn in 2010) with Beijing. And China welcomes Brazilian investments. In February 2010, CDB handed Brazilian oil giant Petrobras a $10bn loan; in return, it will supply 100,000 barrels of oil a year to a division of Chinese rival Sinopec.

When it comes to capital market activity, Brazilian companies are starting to benefit from access to Chinese investors. Brazilian resources giant Vale announced this year that it plans to sell shares in Shanghai. The world's largest miner of iron ore now generates one-third of its operating revenue in China. Meanwhile, there has been an increasingly healthy flow of M&A activity in the opposite direction. Six of the seven largest acquisitions in Latin America by Chinese firms occurred in 2010, led by Sinopec's $7.1bn acquisition of a 40 per cent stake in Repsol Brazil.

Chinese companies are also bidding to build as well as jointly own the infrastructure Brazil needs to host a successful 2014 World Cup and 2016 Summer Olympics – another sign of how Beijing is locking in its relationship.

Yet not everyone in Brazil is happy. The weak dollar and China's refusal to let its currency naturally appreciate hurts Brazilian exporters of finished goods and benefits Chinese exporters accordingly. This lets the Chinese economy develop in leaps and bounds while Brazil's – stuck as it is in the role of miner and grower – remains earthbound.

Reviving Africa's outlook

Africa is a different story. Beijing was a major investor in east Africa during the Cold War and Chinese entrepreneurs and state-owned enterprises have been active there for decades. In recent years, a host of new state institutions have pumped money into Africa, including sovereign wealth fund China Investment Corporation and infrastructure lender China Development Bank.

Bilateral trade has ballooned. In 1990, China was Africa's 27th largest trading partner, but by 2009 it had vaulted over the US into first place.

Africa's relationship with China is more nuanced. Beijing knows the continent much better than Latin America, but the People's Republic is often accused of acting like a new colonial master – sucking out oil, gas, iron ore, copper and numerous metals to fuel its economic juggernaut.

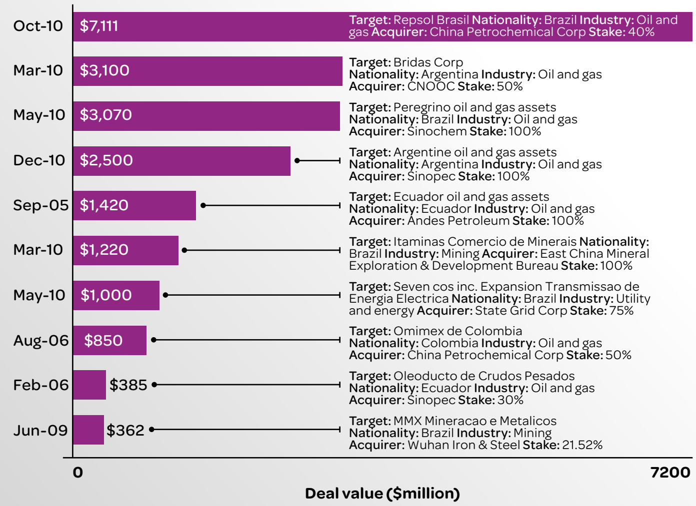
> 'Chinese companies employ thousands of African construction workers to help rebuild an entire continent'

The reality is more complex. It is certainly the case that Beijing needs minerals and energy to drive its manufacturing-based economy. To achieve this end, mineral- and energy-rich Africa is a vital business partner. But the mainland provides much in return.

Chinese companies employ thousands of African engineers and construction workers, as well as importing thousands of Chinese labourers. They are quite literally helping to rebuild a continent. African infrastructure went to wrack and ruin in the eighties and nineties as civil strife and corruption took hold, leading many to quietly give up on the continent.

China has almost single-handedly reversed that trend. Beijing-run companies are everywhere – building oil refineries in Sudan, power stations in Zimbabwe, ports in Ghana and South Africa,

LEADING CHINESE INVESTMENTS IN LATIN AMERICA



Source: Dealogic

railways in Algeria and trading everywhere. In Libya alone Chinese state-owned enterprises, including China State Construction Engineering and Sinohydro, are working with local firms to build $20bn-worth of new infrastructure, including railway lines and hydroelectric dams.

Close cooperation

There is perhaps no stronger Sino-African relationship than that between Standard Bank and mainland lender Industrial and Commercial Bank of China, which surprised the world when it bought 20 per cent of the Johannesburg-based bank in October 2007 for $5.5bn. In return, ICBC got a boardroom seat and, more importantly, financial access to the heart of Africa.

"The relationship [between Standard Bank and ICBC] has grown strongly because of the commitment of both organisations to develop and learn," says Craig Bond, chief executive officer of Standard Bank China and a seasoned banker used to working across different cultures. "It was acknowledged early that understanding and operating together would take time and patience. Having a positive outlook and a desire to work smartly together have been the critical success factors as the partnership has matured."

Bond, the former head of Standard Bank Africa, heads a 40-strong team of investment and corporate bankers in the Chinese capital. The team works on Standard Bank deals in China, ICBC-directed African deals and cross-platform transactions, focusing on the metals, mining, power, infrastructure, oil and gas sectors.

"Working-level cooperation is good, with a number of landmark joint cross-border debt and M&A transactions having been concluded in Russia, Ghana, Ethiopia, Zambia, Botswana and South Africa. We have a healthy deal-pipeline across Africa and other emerging markets," says Bond.

Broader benefits

In a sign of how China is joining up the dots between key emerging regions to the benefit of all, Standard Bank and ICBC have worked together on a number of deals in Latin America, notably Brazil.

Looking ahead, Chinese influence on both continents – and across the world – is only going to go in one direction. Many people in the US and Europe are prone to fretting about Beijing's waxing influence in their traditional backyards. But, in practice, the country's hunger for African oil and Brazilian iron ore is good news for economies across the globe.

China is helping rebuild Africa's infrastructure and has helped to set Latin America back on the road to greater prosperity. What's more, European and US multinationals seeking access to these fast-growing regions are benefiting as much from improved infrastructure as local companies.

In Africa, in particular, Standard Bank's Bond is insistent that the West isn't missing out. "Africa's traditional partners – the US and Europe – are still significant trade and investment partners. The Chinese have invested heavily, they trade more and have engaged with governments and commercial partners in more dynamic ways than in the past."

"But we don't see the West sitting back and watching it happen," he adds. "The competitive environment will evolve and we will find business interaction will become more dynamic and engaging for Africa."

China's rise in Africa and Latin America has been phenomenal. It has altered global trade patterns while creating challenges and opportunities for Western governments. And this is only the beginning.

BRAZIL-CHINA BILATERAL TRADE (ALL FIGURES IN $MILLION)

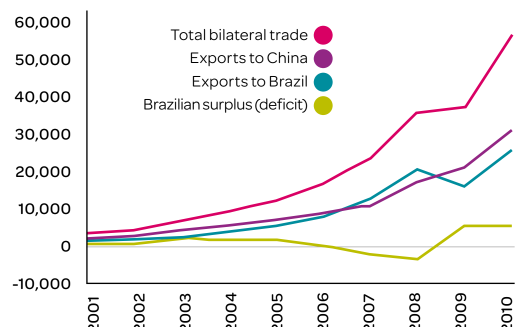


Illustration by
Martin Nicolausson

Greener IT

The number of computers in use globally is set to hit four billion by 2020. With energy costs increasing, companies have a strong incentive to ensure that they are not sinking money into inefficient technology

As the world's environmental challenges go, the impact of servers, desktops and printers may not seem particularly important. But the combined contribution of information technology (IT) is significant, and growing fast. As a result, many companies are starting to think about how they can reduce their IT footprint.

IT accounts for approximately two per cent of global carbon dioxide emissions and this is set to rise to three per cent by 2020, according to the Global e-Sustainability Initiative (GeSi), a group representing the UN Environment Programme, the International Telecommunications Union and several leading global companies. IT-related CO_2 emissions doubled between 2002 and 2007 and are expected to triple by 2020.

One reason is the continuing growth in computer use: there were an estimated 592 million PCs in use in 2002, but GeSI expects this to rise to four billion by the end of the decade.

Any company that cares about climate change therefore has an incentive to consider how IT equipment is designed, organised and bought. Moreover, many have found that there are substantial cost savings to be made from adopting green IT principles – reducing energy and equipment costs and driving greater efficiency in working practices and procedures.

The potential for savings becomes starkly tangible when you consider the inefficiency of the myriad machines in offices and other locations. A typical data centre, for example, is an energy sink, where the power input is simply being used to keep the hardware operating.

"The recession has encouraged companies to think about green IT in terms of its return on investment. It is no longer just about corporate social responsibility," says Rhonda Ascierto, senior green IT analyst at researchers Ovum. "Previously, the driver was good business positioning; now it's about demonstrating return on investment."

'The recession has encouraged companies to think about green IT in terms of its return on investment. It is no longer about corporate social responsibility'

Data centres

But what exactly is "green IT" and how can these savings be realised?

Most experts agree that the greatest potential lies in the data centre – the collection of servers companies use to store and distribute data. Many data centres have ballooned in size as computing requirements have grown, leading to significant over-capacity.

A survey by the Green Grid group of well-known IT companies found that one server in ten is a "zombie" machine, essentially redundant, and that there may be as many as 4.4 million such computers worldwide. And an IBM study found that companies, on average, use only six per cent of their servers' capacity.

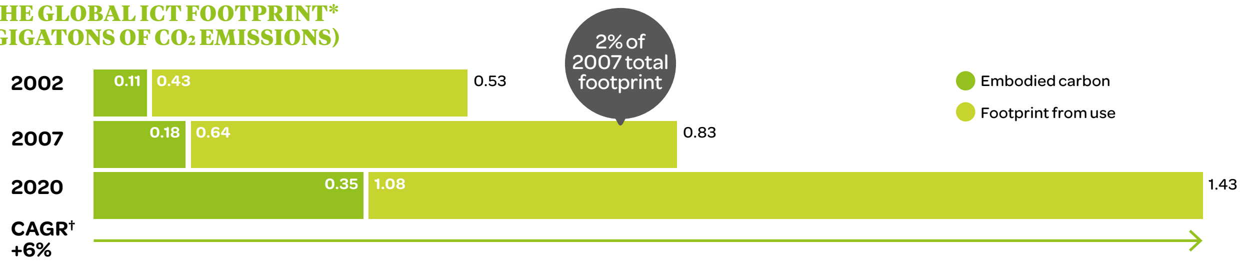
Jon Bentley, IBM's smarter energy lead, identifies three main reasons for this. First, departments make decisions based on their own needs, without reference to a wider procurement policy. Second, companies worry about satisfying new IT needs, sometimes forgetting the equipment they already have. Third, IT staff fail to design networks for efficiency, building in applications that share information but place few limits on storage. It is common for companies to have huge amounts of "unstructured" duplicate data sitting on their systems – for example, years of emails.

In addition, many companies have tended to be over-cautious about their "mission-critical" services – the internal ones and those for public consumption – believing that spare IT capacity equates to greater resiliency, says Bentley.

He recommends companies undergo a five-step procedure to align a data centre with actual needs, starting with an assessment of what they already have. "We're astonished when we get the real estate, finance and IT folk together and ask them what they've got and they do not know the answer. The first goal is to understand what you've got," he says. After that, engineers can begin to understand how the centre is configured, how much capacity is being wasted, what services are actually needed and how the architecture can be designed more efficiently.

There are various approaches that IT experts can then take. There is "virtualisation", where a server is partitioned into several "virtual" machines, consolidation, modelling of air flows between machines and eliminating heat loss hot spots – all of these can substantially reduce CO_2 and cut costs. For example, IBM has consolidated 3,900 servers on 33 mainframes, leading to an 80 per cent fall in

THE GLOBAL ICT FOOTPRINT*
(GIGATONS OF CO_2 EMISSIONS)



*ICT includes PCs, telecoms networks and devices, printers and data centres. †Compounded annual growth rate. Source: 'SMART 2020' The Climate Group and GeSI.

'It's astounding how many people don't turn off their computers at night. They think they're going to mess up things they are working on and that their computers won't start up again in the morning'

44% UK-based employees who fail to shut down their PCs before leaving the office

£300m a year in wasted energy or 1.3 million tonnes of CO_2

£16,800 Saving per year on a fleet of 1,000 PCs

energy costs. It has also led to a similar reduction in floor space use, which could in time reduce property charges.

Power management

Bentley says that although data centres offer the greatest opportunity for cost savings (up to 40 per cent of the total) and that most companies have looked to this area first, they are not the only place where companies can hope to reduce costs and improve energy efficiency.

Ascierto says that the PC fleet is often overlooked. "It's astounding how many people don't turn off their computers at night. They think they're going to mess up things they're working on and that their computers won't start up again in the morning. IT departments even think they won't be able to do routine maintenance if the machine is off, which isn't true with the latest power management software."

According to IE, makers of software such as NightWatchman, 44 per cent of UK-based employees fail to shut down their PCs before leaving the office, equating to £300m a year in wasted energy, or 1.3 million tonnes of CO_2. Companies can save £16,800 per year on a fleet of 1,000 PCs, according to the company.

HSBC, one of its clients, expects to save $1m worldwide by installing such software. Parker Hannifin, a US-based maker of motion and control technologies, has already saved $600,000 a year, it says.

Ascierto describes power management software, which simply powers down a computer when it is not in use, as a "no-brainer", something any company can do relatively simply and cheaply. Ovum estimates businesses can save $32 per machine per year after installation. "If you've got thousands of computers, that's a really nice annual saving," she says.

There are also opportunities outside the office. Bentley says IBM is currently working with a major UK retailer to power down its 2,000 point-of-sale machines when stores are closed. Although the extent of savings has not yet been calculated, Bentley again says they could be considerable.

Peripheral benefits

There are also potential savings from reorganising how offices print, scan and photocopy documents. As with the data centre, there has tended to be a proliferation of devices in recent years, driven by the needs of an individual department without an enterprise-wide policy.

Murray Sherwood, managing director of the green IT consultancy Externus, says companies should think about moving to "multifunction" printers that incorporate printing, copying and faxing, but also allow stricter controls on the level and type of printing by employees.

Reducing the number of units cuts the cost of replacing and supporting the machines, while limits on how much printing staff can do will cut ink and paper costs. "By making it more difficult to print, it makes people less prolific in their output. You can also set machines to print only duplex and non-colour, which can also save quite a lot," he says.

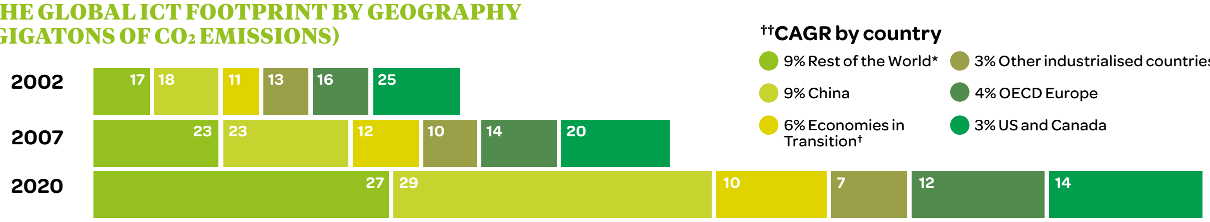
'Parker Hannifin, a US-based maker of motion and control technologies, has already saved $600,000 a year'

Externus worked with cruise holiday company Carnival to replace 240 printers with 39 multifunction units. In the process, it has reduced printing by 43 per cent, which it estimates will lead to a £267,000 saving over five years and a 417-tonne reduction in CO_2 emissions.

Across Carnival's entire green IT programme, which has included a reduction in servers from 150 to just 15, the company hopes to save £1.4m over five years.

Another emerging green IT area, says Sherwood, is "desktop virtualisation", where applications and data are stored centrally and fed to client machines. This can reduce energy costs because computers do not have their own processing units. The cost of replacing hardware to keep up with software upgrades, such as new versions of

THE GLOBAL ICT FOOTPRINT BY GEOGRAPHY (GIGATONS OF CO_2 EMISSIONS)



*Rest of the world (includes India, Brazil, South Africa, Indonesia and Egypt).
†Economies in transition (includes Russia and non-OECD Eastern European countries). ††Compounded annual growth rate.
Source: 'SMART 2020' The Climate Group and GeSI.

Windows, can also be reduced. This is lik.0ely to be used most where limited applications are needed, such as in call centres, says Sherwood.

Wider goals

A survey last year by Ovum of 500 companies found that more than two-thirds of companies had already invested in some form of green IT, while a further nine per cent planned to by 2012. The survey showed a marginally higher adoption in the US than Europe, where legislation (such as the UK's mandatory CRC energy-efficiency scheme) is as much a cost as a driver.

The question for the future, say observers, is how companies will begin to use green IT in other areas. For example, to reorganise or reduce their need for office space. "During the recession we have seen technology used more and more for supporting business processes. Companies were freezing their travel budgets, so we saw more investment in teleconferencing and collaboration systems. These go hand in hand with a more globalised workforce and more flexible working environments," says Daniel Krauss, an analyst at Forrester Research in Germany.

Dorota Oviedo, an analyst at Frost & Sullivan, says collaboration systems such as those that allow work to be carried out on shared documents from different locations can provide the flexibility that employees say they want. "You can increase your employee satisfaction and retain your people easier, and it can help you to reduce office space, which is a scarce resource in Europe."

Although these systems can cost hundreds of thousands of pounds, there is little doubt that standard technologies save money. Tesco, for example, has saved £14m in travel costs and cut CO_2 emissions by 2,500 tonnes since introducing video and audio services, according to BT.

Cost is not the only factor, though. A recent WWF survey of 150 large UK firms found that 47 per cent had reduced the number of flights taken by staff in the past two years, while 85 per cent said they did not intend to return to "business as usual" levels in the future. Many cited sustainability as a consideration, as well as improved productivity from having fewer people out of the office.

Given the wealth of evidence about the benefits of green IT, the biggest challenge may not be what to do but how to manage the organisational changes.

Rhonda Ascierto recommends giving the IT department responsibility for reducing costs, with senior managers overseeing what they deliver. "If your IT department is responsible for the energy bill it is a more effective way to reduce costs," she says.

> 'It is a good idea to factor in the full operational costs of the solution, rather than just the commissioning costs'

Companies should consider changing the way they make IT procurement decisions. "It is a good idea to factor in the full operational costs of the solution, rather than just the commissioning costs," says IBM's Bentley. "You should also look at enterprise-wide considerations, even if the decision appears to be made at a departmental level."

Sherwood says companies can sometimes be unclear about who is responsible for green IT, with roles split between IT professionals, marketing and green specialists. The best results come when firms get "commitment from all areas of the business" and top-level managers are involved.

i **You can find out more about CIMA's IT financial management Mastercourse by visiting www.cimaglobal.com/mastercourses/ITSC**

Ben Schiller
is a freelance business journalist and former editor of European Business Forum

The CIMA report, "Green Veneer or Green Revolution?", can be downloaded at www.cimaglobal.com/greenveneer

The list

Illustrations by Dmitry Litvin

8 ways to...

Give finance feedback

When times are tight, providing good feedback to business units is essential. It's all about accountability, influence and clear explanations. Here are eight tips to help you set the right tone

1 Think strategically

Stop. Before you send any feedback to a business unit, ask yourself: "What am I trying to tell them?" At DVD rental pioneer LoveFilm there is not much focus on financial performance in isolation from the underlying business activities. "Providing feedback is more about how each function is doing against the metrics they control, rather than managing profit centres," says Jim Buckle, chief operating officer and CFO.

If cost control or cash are important elements in support of strategy, then a more financial approach is needed. But unit p&ls often confuse the issues.

"As we are focusing on growth opportunities we challenge our sales experts," says Mark Tweed, FD at GMAC UK. "Continual communication throughout the organisation is crucial so everyone understands the impact of their individual performance, works as one team and contributes to the overarching business priorities."

2 Focus on accountability

"In any set of financials, there's an awful lot that isn't controllable by individual managers," says Buckle. "Even with subscription revenue there isn't a simple translation from what the customer is billed for, through to overall monthly revenue, owing to revenue-recognition policies and other factors. It's much better to measure a commercial team on the underlying average subscription, which they can control, than on the accounting revenues."

So it's important to limit feedback to the things that are under someone's influence. How does LoveFilm decide what to include? "Each line manager has areas directly in their control, whether that's costs, revenue or non-financial metrics," says Buckle. "As a finance team, we make sure they get the right reports to help them understand what's happening in those areas from a financial point of view."

It also helps to explain why the performance of their business area is important. "We have a big collections department, which performed extremely well in a difficult environment. We can only grow business by keeping delinquencies tightly controlled, which means we have to build that awareness."

3 Be crystal clear

Even if you target your reports, the messages should be startlingly obvious. "It's all about clarity," says Johanna Dow, FD of Edinburgh-based water company Business Stream. "We make it dead simple – and also a bit gimmicky – in terms of presentation. It can't be boring." Individuals have their own KPIs, which come from a performance wheel that's up on the wall. This includes all of the corporate KPIs – so people can see how they fit in, she says.

Nathan Tate is the financial controller of FAUN Municipal Vehicles and led the roll-out of a programme to provide financial feedback to the company's nationwide network of depots and service centres. "We used simple methods, such as colour coding, to help that along," he says. "We presented the majority of the information graphically and as trends. Supervisors and depot managers don't want to see 12 columns of p&l on a spreadsheet."

4 No guff, no surprises

Most finance teams can generate complex reports in incredible detail at the click of a mouse. But is the information useful? "We decided that if a figure hadn't been used for a couple of months, it wouldn't be prepared any more," says Tate. That's a great way to thin out the volume of information and allow operational teams to focus.

The FAUN team also realised that it was a good idea to ease people into financial responsibilities. "If someone is promoted to area manager and is suddenly lumbered with a bunch of p&ls that they've never seen before, you can get problems," says Tate. "We make sure that the depot foremen and supervisors see a p&l for their location so they can start to understand it. We've also made sure that everything is in exactly the same place on all our reports. As they move up through the organisation, there isn't a different set of management accounts that they haven't encountered before."

At software licence firm Trustmarque Solutions, financial controller Vicky Godliman has extended that "no surprises" concept to cover the finance function. "Our team never saw the bank statements," she says. "Now, each morning we review the cash-flow forecast for the next 12 months. The team puts in what we collect, what we pay out, what the new balance is and what effect that has on the month end. Revealing this to the team could have scared them, but it's actually a fantastic way to help them do their job. They can see how they're contributing."

5 Position finance well

It's easy for finance staff to forget that while cash and working capital are straightforward concepts, many people in other business areas don't know how they work. Finding ways to explain

these concepts in layman's terms can make a huge difference.

Godliman has also tried to highlight how the finance function can help other areas of the business to solve problems. For example, credit insurers had tightened up the rules on which clients they would cover. So finance started to have more detailed discussions with the sales team about which customers were deemed credit-worthy and which were too big a risk. Then they helped to figure out other kinds of inducements that could be offered to clients to compensate for the less generous credit terms. "We've found other ways to make those kinds of deals work for the business," says Godliman. In some cases, the credit terms were tight at the outset and then relaxed when the payment history was more reassuring. "We have a richer conversation with sales and it's a more proactive approach," she says.

FIGURES TO TELL A STORY

Jon Moon is an expert in making financial reports easier to understand. It's not just a question of using charts and graphs (although that's important, as the financial managers we spoke to make clear). Getting the right charts and graphs is also key.

And just because graphs are good at explaining financial information to non-financial managers, that doesn't mean tables are dead. Here's Moon's four-step guide to better tables:

1. Put the most important column next to the labels. Make it easy for the eye to match an item with the crucial data.

2. Put the rows in some order other than alphabetical. If there is a key column of data, not order the table by those numbers to make the whole thing send a message about priorities.

3. Put comparable columns next to each other. Again, make it easy for readers to see what's changed and how similar areas compare.

4. Put comparable columns in some sort of order. Again, you can emphasise the most important information and create a message from the table itself, not just the data.

Visit: www.jmoon.co.uk or www.snipurl.com insightgraphs for his series produced for the CIMA Insight e-newsletter.

6 Explain the big picture

Making sure that finance feedback is well targeted ensures fewer distractions for front-line staff. But they should feel part of a bigger mission. "All the key people understand the financial priorities for the business," says Buckle. "And we communicate strategic goals and financial targets across the company. Our monthly all-staff meetings include a financial update."

That's easier in a smaller business. "We used to have a monthly sales rally, but we realised it would be great to open it up to the whole company," says Godliman. "With 130 staff, we can still get everyone in the same room and the atmosphere is fantastic. Last time, our CEO talked about revenue being down compared to last year, but highlighted our increased gross margin, which is the key metric in our business. The buzz when people left the room was great."

But it doesn't have to be face to face. "I send a monthly business performance review to all staff," says Dow. "It tells them how we're doing against the core KPIs in a language that's easy to understand. It also has a call to action, so if we're failing on a particular KPI it explains what people can do to help."

7 Make it a two-way process

"Instead of simply presenting figures from the reports, I'm challenged on them," says Tate. "If I pass on data that says overtime has gone up this month, supervisors can question whether we've got the numbers correct."

But, he adds, it wasn't an easy process for the finance function. "I struggled at first with some of the figures being questioned by a supervisor or a depot control manager," Tate says. "But then I realised: they have every right to. They're being held to account over a figure and they should be testing us."

8 Persevere

At FAUN, increasing finance feedback to front-line staff wasn't an easy decision. "There was concern at management level that we might have gone too far in sharing information," says Tate. "We reasoned that they are responsible for the operational efficiencies of a depot and that's something we report on. So we pressed ahead. There was a great deal of stress to start with."

The team persevered, using road shows to explain the new levels of accountability and what the reports meant. Gradually, front-line staff warmed-up. "We started to see improvements from the depots," he says. "As we've stepped up the information we're supplying and the expectations we have, they're getting recognition for solving their own issues and that's really positive."

Richard Young is a freelance journalist and editor who has been writing about finance functions for 16 years. Twitter.com/RichardYoung

Prime number

GDP
(Official exchange rate)

$1.43trn

GDP real growth rate

8.3% (2010 est) 7.4% (2009 est) 7.4% (2008 est)

GDP per capita (PPP)

$3,400 (2010 est) $3,200 (2009 est) $3,000 (2008 est)

GDP composition by sector (2010 est)

55.3% Services

28.6% Industry

16.1% Agriculture

Labour force
(2010 est)

478.3m

Unemployment rate

10.8% (2010 est) 10.7% (2009 est)

Labour force by occupation (2009 est)

52% Agriculture

34% Services

14% Industry

Energy
Oil, natural gas and electricity consumption

2.98m bbl/day (est 2009) **Oil consumption**

51.27bn cubic metres (est 2009) **Natural gas consumption**

568bn kWh (est 2007) **Electricity consumption**

878,700 bbl/day (est 2009) **Oil production**

38.65bn cubic metres (est 2009) **Natural gas production**

723.8bn kWh (est 2009) **Electricity production**

Economy
Export partners (2009)

12.87% UAE

12.59% US

5.59% China

Reserves of foreign exchange and gold

$284.1bn (est 31.12.2010)

India's economy

Now the fourth largest economy in the world, India has taken an unusual growth path, led by a strong service sector and rising domestic consumption. This contrasts with China and east Asia, where the export of low-cost manufactured goods has been the main driver of growth. India's demographic profile – it has one of the lowest median ages among the major economies – also bodes well for many more years of rapid growth to come.

Photography: Getty Images

Overseas debt

India had $237bn in external debt in 2010 – about 38 times less than the UK's...

$9.0trn (2010)

Overseas investment

India's foreign direct investment was $89bn in 2010 – about 20 times less than the UK's...

$1.7trn (2010)

Source: CIA World Factbook

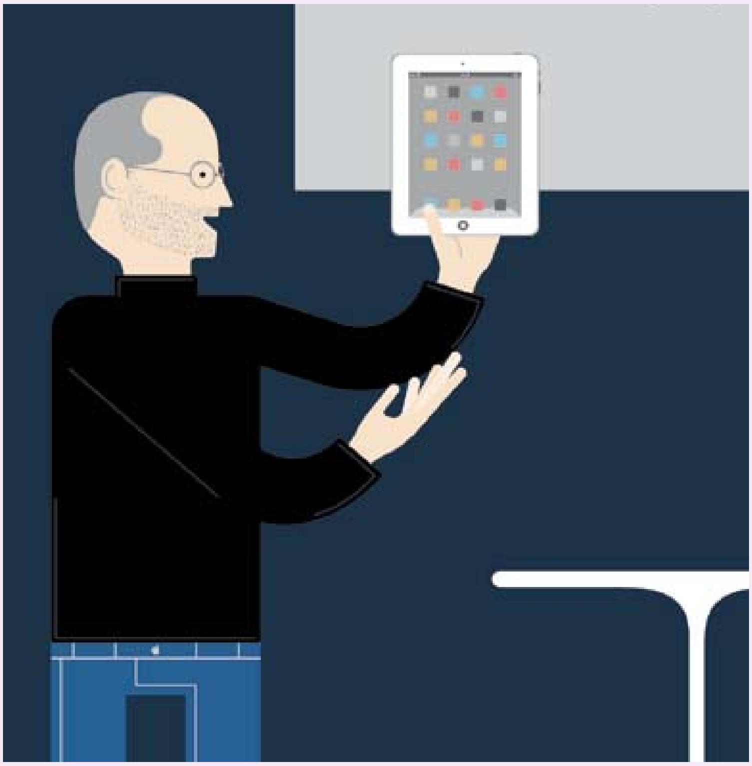
Study Notes

Paper P2
Performance Management (also relevant to paper P1) **p50**

Paper E2
Enterprise Management

Apple has earned a distinct competitive advantage in the technology market, but can this be attributed to the traditional positioning approach to strategic planning or to the emergent resource-based view?

By Alan Marsden
Associate lecturer at Manchester Metropolitan University Business School



This January, at the end of the longest recession in decades, Apple cemented its place among the world's leading companies by announcing that buoyant sales of its iPad and iPhone had produced record quarterly results. The figures exceeded investors' expectations and assuaged their fears about the company after Steve Jobs' sudden decision to take medical leave from the role of CEO.

The company describes itself as follows: "Apple designs Macs, the best personal computers in the world, along with OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple is reinventing the mobile phone with its revolutionary iPhone and App Store, and has recently introduced its magical iPad, which is defining the future of mobile media and computing devices."

These claims may seem excessive, but they do indicate the company's main areas of business and aspirations. Apple operates in a cutthroat and fast-changing market where a failure to compete with your rivals' latest products can have damaging consequences. Nokia provides a case in point: unable to develop a smartphone to compete with those

CORRECTION:
On page 45 of the April edition of FM, a study notes article states that:
"X's current WACC is: [Kd x 0.8] + [Kd(1 - t) x 0.2] = [(10% + 1.8{15% - 10%}) x 0.8] + [10%{1 - 0.3}) x 0.2] = 16.6%"
The first "Kd" in this statement should have read:
"X's current WACC is: [Ke x 0.8] + [Kd(1 - t) x 0.2] = [(10% + 1.8{15% - 10%}) x 0.8] + [10%{1 - 0.3}) x 0.2] = 16.6%"
A corrected version of this article is available at www.fm-magazine.com

Paper E2
Enterprise Management

of market leaders Apple and Google, it has been forced into an alliance with Microsoft.

Two decades ago – and sometimes even today – Apple's achievements might have been attributed to some form of clever formal strategic planning. This would normally involve an appraisal of the organisation's strengths, weaknesses, opportunities and threats (Swot analysis) and the application of other frameworks – eg, Pest analysis and Michael Porter's five forces model. The aim of all this was to help the business position itself most favourably in relation to its rivals, suppliers, customers and other key stakeholders (the positioning approach), because competitive advantage was – and is – claimed to derive from a firm's ability to find the most advantageous position. At the same time, a number of generic strategies, including Porter's typology of cost leadership, differentiation and focus, offered a menu of policies from which a company might choose in order to gain an advantage. If it had access to cheap labour, for instance, it might take this opportunity by driving its costs down and undercutting its rivals – ie, pursuing a strategy of cost leadership. By contrast, an enterprise such as Apple, which set itself the goal of being an innovator, might build on the design skills it had acquired to pursue a differentiation strategy and compete on product quality.

But in recent years the emergence of resource-based theory has led to a change in thinking. It has shifted the emphasis of strategy development from an outside-in focus to an inside-out view. The new approach assumes that the secret of competitive advantage has more to do with identifying, developing and exploiting the organisation's core resources and capabilities (sometimes called "competences") than with trying to find the best position for the organisation in its environment. More particularly, the resource-based approach assumes that an organisation is a collection of resources and capabilities that are rare or even unique, and that these should provide the basis for its competitive strategy. Although companies can acquire new ones as they develop, it takes time to do this, so a firm already possessing a relevant set of value-adding resources can gain an advantage.

'The dividing line between tangible and intangible resources is often unclear and theorists differ on how they classify them'

Feel or no feel?

The resource-based approach typically classifies resources into two types: tangible and intangible. The former are inputs that can be seen, touched and/or quantified. They include assets such as plant and equipment; access to raw materials and finance; and a skilled workforce. The latter include intellectual property rights such as patents and trademarks; the firm's reputation and organisational culture; and its employees' knowledge and informal networks. The dividing line between tangibles and intangibles is often unclear and theorists differ on how they classify them. Despite the classification problems, they do agree that, while both types are necessary for any business to work, intangible resources are the most likely source of competitive advantage. Their reasoning is that a company's intangible resources are harder for its rivals to understand, substitute or imitate.

But merely possessing such resources is not the basis for achieving a competitive advantage; it's the way in which an organisation integrates them with each other to perform activities. The most important resources for any organisation, therefore, are the skills and knowledge of its employees. Acquired over time and embedded in the corporate culture, these are the resources that influence how the business operates and determines its success.

Of the various contributions to the resource-based approach, the theories of John Kay, visiting professor at the London School of Economics, seem particularly appropriate to an explanation of Apple's success. Kay believes that sustainable competitive advantage derives from three related sources: architecture, reputation and innovative capability.

An organisation's architecture is the system of relational contracts that exist both internally and externally. The internal architecture refers to relationships among employees. The external architecture refers to the company's relationships with customers and suppliers. The firm may also engage in collaborative relationships with rivals – as Apple has done with Microsoft. Kay argues that a business with a distinctive architecture can create an organisational knowledge that is more than the sum of its employees' efforts. To be sustainable, these relational contracts must be hard for rivals to identify and copy. Such relationships must be implicit, complex and subtle – the lack of formalisation makes imitation difficult and ensures that the architecture remains a source of advantage. This is particularly relevant in Apple's case. Industry analysts have long observed the great secrecy with which it guards its product development processes. The company's success in this area is a testament to its ability to surprise the market with its innovative products.

Reputation is especially important in markets where consumers can gauge the quality of a firm's products only from long-term experience. But, once trust has been established, it can give the company a distinctive capability. The brand loyalty of Apple's customers is legendary and the company has made the most of this when entering related markets.

According to some theorists, the ability to innovate successfully, as Apple has done in recent years, is the most important source of competitive advantage. Kay thinks this may derive partly from the internal architecture as innovation processes become embedded in organisational routines. By seeking patents and copyrights, organisations can protect innovative products and ensure that they gain full value from their R&D investments. But sometimes such safeguards may not be adequate in hyper-competitive high-tech markets. A more realistic course of action in such circumstances is a strategy of continuous product development that enables the business to stay ahead of its rivals. This seems to characterise Apple's current strategy.

The height of ambition

A number of writers have referred to the notion of strategic intent (sometimes referred to as an organisation's determination to stretch its core competences). This term was coined by HR management professors Gary Hamel and C K Prahalad to describe how a firm would apply its resources to achieve what might at first seem impossible goals in the face of the competitive forces confronting it. Cases of strategic intent cited by various authors include:

- Otis Elevators calling on its staff to pursue the industry holy grail of finding a way to move people up and down a mile-high building.
- Texas Instruments urging its employees to "find new businesses in the white spaces" among its existing business units.
- DuPont asking its scientists to help the company "invent its way" out of its financial malaise.

We might justifiably add to this list Apple's target of becoming the leading innovator in the mobile phone and tablet PC market. Because the idea of strategic intent implies that an organisation's ambitions are temporarily beyond its capabilities, management academics have also considered how these might be best acquired. Because this is a developing field, a range of views exist. For example, Peter Senge and Chris Argyris stress the importance of internal methods of learning, while Hamel and Prahalad set more store by external tools such as licensing and alliances. Writers who favour the internal approach do so because they think it gives the advantages of secrecy, exclusivity and surprise. The proponents of external methods prefer these on the grounds of the flexibility and speed they offer.

'According to some theorists, the ability to innovate successfully is the most important source of competitive advantage'

Apple appears to have used both methods. It has nurtured internal learning to a point where its innovative capability to produce ever-better products is a constant source of surprise to outsiders. It has also formed alliances with a range of other organisations where these have been in its interests.

When Apple entered the mobile market in 2007, a survey asked senior executives worldwide to rank the 50 most innovative companies. For the third year running, Apple topped their list. A similar poll today would probably give the same result, but we shouldn't conclude that the ability to innovate is all that's needed for success. While the development of new products is clearly a great source of advantage, it's not enough on its own. New products need to be made efficiently at the right quality and delivered to the market at the right price. Apple has sometimes failed to do this – for instance, when it has had insufficient production capacity to satisfy demand. But the company's recent performance suggests that it has learned from such mistakes and developed core competences in other areas to enable it to remain the world's number-one technology company.

Exam practice

Now try the following question to test your understanding of resource-based view (the panel on the next page contains a model answer):

(a) Explain how you would formulate a strategy for your organisation using the insights developed by resource-based theorists (*15 marks*).

(b) Discuss the proposition that the resource-based approach to competitive advantage is of limited usefulness to managers (*10 marks*).

Paper E2
Enterprise Management

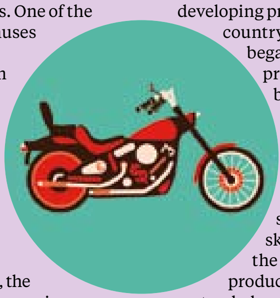
MODEL ANSWER TO THE EXAM PRACTICE QUESTION

(a) The resource-based view assumes that an advantage can be gained by exploiting a firm's resources and capabilities rather than securing it a favourable position in its environment. It also assumes, as Jay Barney has argued, that resources and capabilities must be valuable, rare and hard to copy or substitute. It follows, therefore, that these must be evaluated before a strategy can be formed.

Most theorists refer to resources as what a company possesses, and to its capabilities (or "competences") as the processes through which it uses its resources to work effectively – eg, delivering excellent service. Gerry Johnson and Kevan Scholes make the distinction between the "threshold" resources and competences that a firm must have merely to survive and the unique resources and core competences that underpin its advantage. Any analysis of resources and capabilities will, therefore, have a much better chance of creating a competitive strategy if it can identify the latter type. The classification of resources will depend partly on the industry, but one general classification might cover capital equipment (eg, buildings and plant); the skills and knowledge of staff; and items such as patents, customer databases etc.

Michael Porter's value chain is generally viewed as a useful means of analysing processes, as it provides a systematic ordering of activities for a typical manufacturer. The following example illustrates an application of this method, which can be used by any business (service companies may need to adapt it to make it relevant). Toyota's inbound logistics inventory and material control systems are widely recognised in the car industry for enabling the company to maintain enough inventory to meet demand by having parts delivered just in time before assembly. In respect of other primary activities in its value chain, such as operations, Toyota's efficient, automated plants are packed with quality-control systems. All this is supported by sales and marketing via global advertising and dealership networks offering warranties. And Toyota's value-chain activities are configured with those of its suppliers in a way that provides the core competences that give the company its competitive advantage.

But even giants such as Toyota must always benchmark their value-chain activities. In 2009 it had to recall millions of cars owing to faults with key components. Such cases highlight the need for vigilance and the importance of upgrading resources constantly. Because resources depreciate and capabilities can be imitated over time, there is a constant need to monitor any erosion, checking that the organisation is not falling behind. There is a particular need to retain individuals whose skills are crucial to the organisation's core competences. Examples include the investment banking sector, where a few talented people often earn billions for their banks. One of the reasons why large bonuses are paid is to prevent these individuals from being recruited by rival banks.



The control that a firm has over the mobility of its capabilities varies among industries. In some, the nature of organisational routines – in particular, the tacit knowledge and unconscious coordination embedded in the culture – makes them hard to replicate in a new setting. In others, the dependence of an organisation on the skills of a few people means that a loss of capability to the competition poses a real threat.

Formulating strategy using a resource-based framework involves reviewing the information on strengths and weaknesses gained from benchmarking and choosing a strategy that builds on the strengths and compensates for the weaknesses. An example of this is the way in which Harley-Davidson restored its fortunes in the mid-eighties. The key to its success was the management's recognition that the sole durable, irreplaceable asset was the Harley image of individuality and ruggedness – and the loyalty that this inspired. In almost every other aspect of performance, including cost and quality, the firm trailed its Japanese rivals. It decided to build on its image while minimising its failings in other areas. The motorbikes it introduced in this period were based on traditional design features, while the marketing strategy involved extending the appeal of the Harley image from its traditional customer base to a more wealthy clientele. The firm exploited the brand via extensive licensing and at the same time protected it by imposing tougher controls on dealers. While Harley also improved the quality of its bikes over this period, it was the broadening of their market appeal that proved vital.

The final stage of strategy formulation is the identification of resource gaps and the development of resources and capabilities to extend positions of competitive advantage into the future. Matsushita provides an example of this process. When developing production in a foreign country, the firm typically began by making simple products such as batteries and then moved on to producing goods requiring greater manufacturing and marketing sophistication. The skills learned during the production of simple products were refined and extended, enabling the firm to make more complex products. This strategy of developing capabilities that can then be used as the basis for broadening the product range is commonly applied by companies pursuing strategies of related diversification.

(b) The fact that the resource-based view is now standard textbook fare – and that managers increasingly talk of "building core competences to gain a competitive advantage" – might suggest that questions about its usefulness are superfluous. Yet numerous writers have their doubts. One of their objections concerns the theory that states that capabilities lead to competitive advantage because they are rare and valuable, and then defines competitive advantage in terms of rarity and value. This, the critics argue, verges on tautology (a statement that is necessarily true).

Others have similarly argued that to say that one business performs better than another because it has superior resources or is better at doing certain things is stating the obvious. As some researchers rightly point out, such statements can be helpful only if it's possible to specify which capabilities are important – and why.

A further objection concerns the lack of specificity in much of the literature on the resource-based view. For instance, the claimed importance of "tacit knowledge" as a basis of competitive advantage, while plausible in theory, is hard to deal with, especially as it's inherently unknowable. This is also the case for other claims about the bases of competitive advantage – eg, "reputation" and "organisational culture". Such terms mean little unless we can be specific about the activities that comprise them.

Barney, one of the main exponents of the resource-based approach, admits that some of these points are valid, but he maintains that it is of practical use to managers because it highlights the need to identify and develop the most critical capabilities.

Other problems with the resource-based view include the argument that, because of its focus on particular products and markets, it may point to strategies that deplete a firm's wider core competence. For example, by deciding to withdraw from a market or cut costs by outsourcing, it risks losing crucial sources of organisational learning.

Even when a firm is involved in a range of industries and has a unique core competence across them all, there is no guarantee of an advantage against more focused players in each market. For example, in the eighties IBM had a unique global architecture and reputation, and it owned proprietary technology, but this did not save it from being beaten by focused rivals in each of its sub-industries.

Lastly, the resource-based approach starts with a decision about what makes the organisation unique, and builds strategy on the core competences identified. It necessarily involves finding an appropriate environment and/or adaptation of the environment to fit the business. But few businesses are large enough to be able to shape their environment.

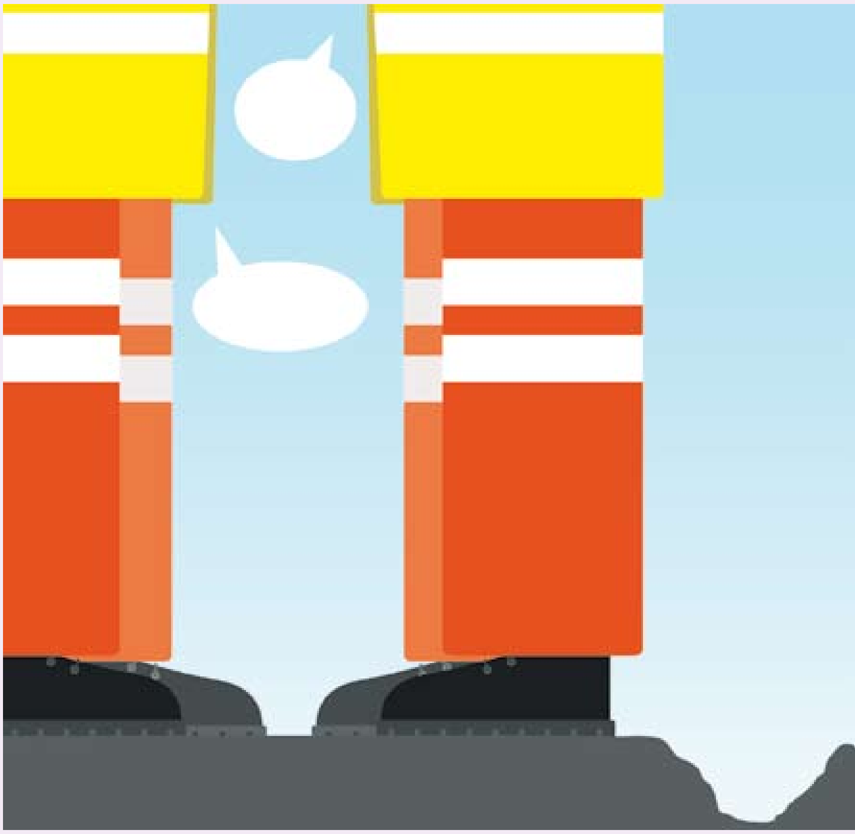
Illustration: Denis Carrier/Dutch Uncle

Further reading A Norton and J Hughes, *Enterprise Management – CIMA Official Learning System*, CIMA Publishing, 2009.

Paper P2
Performance Management

If, as the UK government intends, not-for-profit bodies are to play a bigger role in providing public services, many of them will need to improve both their efficiency and their effectiveness

By Bob Scarlett
Accountant and consultant



A flagship policy of the UK's coalition government is known as the Big Society. The idea behind it is to "take power away from politicians and give it to people" by promoting the development of social enterprise and local community groups to take on tasks formerly performed by central government. This implies a rearrangement and reinforcement of the not-for-profit sector.

The sector incorporates a wide range of not-for-profit operations (NFPs), including executive agencies, local authorities, charitable trusts and community-interest companies. The obvious central feature of such operations is that they are not primarily motivated by making a profit, whereas the ultimate goal of a commercial enterprise is to generate a profit for its owners. A business may take a short- or long-term view of how it wishes to achieve this, but it has a clear primary objective from which subsidiary objectives may be derived.

NFPs' objectives may be partly legislated for, partly constitutional and partly political. For example, the Driver and Vehicle Licensing Agency is legally required to keep vehicle registration records and to issue drivers with licences and road tax discs. Mencap, a leading UK charity, has the obligation to aid mentally disabled people written into its constitution. The education department of Sunderland City Council has a duty to run schools in the city, but has a wide measure of discretion over how it does this. It can spend money on salaries for teachers or it can switch some of that cash into acquiring IT systems and making greater use of computer-aided learning.

'There is generally no market mechanism by which the users of an NFP's services can take their business elsewhere if they are dissatisfied'

There is generally no market mechanism by which the users of an NFP's services can take their business elsewhere if they are dissatisfied with the quality or cost-effectiveness of what's provided. In an article in October 2010's *Harvard Business Review* (www.snipurl.com/27ogwb) professors Robert Kaplan and Allen Grossman contend that the management of many NFPs involves a "black hole". The organisations operate without any clear measurement of how they are faring. Resources are tipped into this hole with little idea of what they might achieve, according to the authors, who argue that an NFP's financial report will reveal "virtually nothing about its effectiveness or efficiency in creating social value". They go on to advocate the use of a balanced scorecard approach for measuring performance and the introduction of a market mechanism to the funding system for NFPs.

Illustration: Denis Carrier/Dutch Uncle

Practical problems with resource management in the NFP sector include the following:

- Objectives may be unclear. For example, is the goal of a police service to provide foot patrols or is it to contain crime? The two are not the same.
- Objectives may change over time. For example, some NFPs involved in promoting the welfare of disabled children have recently switched their emphasis from providing segregated education facilities for their clients to aiding their integration into mainstream education.
- Different methods may be available to achieve a given objective. For example, a charity seeking to relieve starvation in a less-developed country may provide food to contain famine or it may promote economic development to make that country more resilient to the causes of famine.

A further consideration is that the relationship between objectives and means is often poorly understood. For example, one objective of policing would be "to contain street crime within limits considered to be acceptable". One means of doing that is to use traditional foot patrols. In fact, these are a relatively poor method of containing many forms of street crime; the use of patrol cars has proved far more cost-effective. Having said that, seeing police on the beat may make the public feel safer. But many local politicians advocate having more foot patrols in their manifestos, which reflects some lack of clarity: is the objective to contain crime or to make the public feel safer? Are foot patrols a means to an objective or are they an objective in themselves?

'Experience suggests that the private finance initiative system has generally improved efficiency'

Black holes and potholes

In recent years much of the debate on management in the NFP sector has concerned the twin concepts of efficiency and effectiveness. Efficiency concerns making the maximum possible use of resources. It involves a straight comparison of input and output – eg, the total cost per mile of road resurfaced. Many local authorities in the seventies were judged to be making inefficient use of resources. They performed most of their activities, such as road repairs, by using large numbers of directly employed staff. It was often found that this cost far more than comparable private-sector operations to achieve given outputs.

Financial management initiatives in the eighties required local authorities to put many of their works programmes out to tender, allowing businesses to bid for contracts. The current private finance initiative system involves continuing private-sector participation in the running of facilities such as schools and prisons. For example, in the past a contractor would probably have built a school and simply handed it over to the council. In a public-private partnership the contractor might build the school and then lease it to the council. The contractor therefore remains responsible for aspects of the school's management after its construction. It has an incentive to consider the trade-off between construction costs and operating costs: possible economies in the construction phase may lead to higher operating costs – and the contractor has an in interest in both. Experience over the past 20 years suggests that this system has generally improved efficiency and value for money, although the concept does have its critics.

Paper P2 Performance Management

The concept of effectiveness is a little harder to handle than efficiency. It concerns finding the cheapest combination of methods of achieving an objective. NFPs will normally have a number of objectives. For example, a public authority may have "containing youth crime within acceptable levels" as one of its objectives. It has several means of achieving this, including:

- Providing school attendance officers to ensure that children are not regularly absent from school (education department)
- Providing leisure facilities – eg, sports grounds and youth clubs (recreation department)
- Providing help for disadvantaged or problem families (social services department)
- Providing police patrols to tackle young criminals (police department)
- Providing young offenders' institutions at which criminals can be detained (prisons department).

All these departmental activities play a part in achieving the objective. The problem is to find the optimum combination of spending for all of them together. Practical solutions to this problem are the core of planning techniques such as zero-based budgeting systems.

A policy of detaining young felons may achieve the objective, but at a high cost. Imprisonment is an expensive last resort and it may turn a marginal criminal into a habitual one. Experience suggests that much crime can be prevented by using less extreme methods. A high proportion of crime is committed by males aged 13 to 18. Ensuring that all children attend school regularly and that adequate recreational facilities are available to them may tackle the causes. An insensitive cutback in one area – eg, making an attendance officer redundant – can have a high cost impact in other areas when truant schoolchildren commit petty crimes. The key to effectiveness is to find an optimum pattern of spending to achieve the objective. Finding that pattern will usually involve determining a programme of activities that cuts across traditional departmental boundaries.

The emphasis in modern public-sector planning tends to be on outputs rather than inputs. A council's departments may be efficient, but the organisation as a whole may be ineffective if the overall pattern of departmental activity has not been planned carefully. Conversely, an organisation may have detailed inefficiencies in its operations, yet still be effective.

'Experience suggests that much crime can be prevented by using less extreme methods than imprisonment'

The charity Oxfam operates in crisis relief, development and advocacy in the developing world. In a December 2010 interview on the BBC World Service's *Global Business* programme, Oxfam's chief executive, Barbara Stocking, stated that the effectiveness of its development projects could be measured using seven metrics including: the rise in household incomes in affected areas; the perception of increased "resilience" among people in affected areas; and the improvement in Oxfam's perceived standing among its local partners.

Market mechanisms for the NFP sector

A conceptual underpinning of the Big Society is the introduction of an element of competition among NFPs in order to promote efficiency and effectiveness. One feature is the proposed Big Society Bank, from which NFPs will be invited to bid for funding. This corresponds to the US Social Innovation Fund (established in 2009), which allocated $50m to 11 NFPs in July 2010 alone.

Let's imagine that a local community decides to act in order to improve the prospects of young people in a deprived area. Various means are available for achieving this objective, including devoting resources to housing, childcare, recreation, education and training. Rival NFPs might be invited to submit competing proposals for funding. Their alternative programmes may offer widely differing spending patterns and they will be required to submit performance metrics relating to their past operations. The funding authority will then be able to choose a proposal based on which seems to offer the best value for money in terms of both efficiency and effectiveness.

As Kaplan and Grossman state in *Harvard Business Review*: "The ultimate prize is a social capital market that delivers real impact for the dollars donors contribute. The discipline of such a marketplace would motivate non-profit leaders to: adopt clear models for creating social impact, provide a solid framework for measuring and reporting performance, and help non-profits to develop the leadership and management capabilities they need to achieve their missions."

Further reading J Avis, *Performance Management – CIMA Official Learning System*, CIMA Publishing, 2009.
"Conservative manifesto: What's the big idea about the Big Society?", *The Observer*, 18 April 2010: www.snipurl.com/27ohki.
C Spottiswoode, *Improving Police Performance*, Public Services Productivity Panel, 2000: www.snipurl.com/27ohjq.

Exam notice

Visit www.cimaglobal.com regularly for updates

May 2011 exams

The exams will be held on 24, 25 and 26 May. The deadline for entries has passed, as has the deadline for changing papers and exam centres. CIMA does not accept cancellations and will not refund fees.

Tax rules for paper F1 Financial Operations

Details of the relevant tax rules are posted on the F1 "Study resources" page on CIMA's website at least six weeks before the exam and are reproduced on the question paper.

Going to the exams

You must download the exam rules from CIMA's website and read them when you download your admission advice. As well as your admission advice, you will need to bring to the exam hall another identification document containing your photo, name and signature – such as a passport, driving licence or national identity card.

You will receive an attendance slip for each paper you take. You should keep these slips for at least four months after the exams as proof of your sitting.

Talkback service

You can send CIMA your comments about the papers, exam centres and facilities via its Talkback service. This is available for two weeks during and after the exams. For further information, visit www.cimaglobal.com/talkback.

Appeals process

The closing date for appeals is 28 June. Details of the process can be found in the "Instructions for exam entry" document on CIMA's website.

Exam results

The results for May's T4 on PC exam will be sent out by first-class post or airmail on 16 June. The results for all paper-based exams will be sent out on 14 July. Results will also be emailed to students who have registered to receive them online via their MyCIMA accounts. The institute cannot give out results on the telephone or to personal callers at any CIMA office.

The results will include a breakdown of the marks awarded for each question. You should review these marks together with the question papers, model answers and post-exam guides to help identify any problem areas.

March 2011 question papers

Papers and model answers from the March sitting are available for registered students to download free via their MyCIMA accounts using the "Student information" link. (The T4 part B model answer will not be available until after the May exams.)

Post-exam guides

Post-exam guides for the November 2010 and March 2011 professional level papers are both available to download from www.cimaglobal.com/studyresources. These are essential reading for unsuccessful candidates and for those studying a new subject.

Script review service for papers at strategic level and T4 part B

A script review service is available for the three strategic level papers and the T4 part B Case Study. It is available only if you scored between 40 and 49 marks (20 and 24 credits for T4 part B) in the paper for which you want a review.

An administrative review service is available for all operational, management and strategic level papers. Visit www.cimaglobal.com/scriptreview for more information about these services and how to apply for a review.

CIMAstudy.com

Visit www.cimastudy.com for information about a new online learning resource for papers at certificate, operational, management and strategic levels. This can be used for self-study or as part of a blended approach.

Computer-based assessments at certificate level

For full information about entering for a computer-based assessment, visit www.cimaglobal.com/certificateentry.

Queries

Visit www.cimaglobal.com to see if your question is answered there. You can also phone or email CIMA Contact or your nearest CIMA office (*see panel, right*).

GLOBAL CONTACT DETAILS

CIMA Global Contact
E: cima.contact@cimaglobal.com
T: +44 (0)20 8849 2251
F: +44 (0)20 8849 2450

United Kingdom
26 Chapter Street, London SW1P 4NP
T: +44 (0)20 8849 2251

Australia office
Suite 1305, 109 Pitt Street, Sydney, New South Wales 2000
E: sydney@cimaglobal.com
T: 1800 679 996 (toll-free in Australia)
or: +61 (0)2 9376 9900
F: +61 (0)2 9376 9905

CIMA Botswana
Physical: Plot 50676, Second Floor, Block B, BIFM Building, Fairgrounds Office Park, Gaborone
Postal: PO Box 403475, Gaborone
E: gaborone@cimaglobal.com
T: +267 395 2362
F: +267 397 2982

CIMA China office
Unit 1508A, 15th Floor, AZIA Center, 1233 Lujiazui Ring Road, Pudong, Shanghai 200120
E: shanghai@cimaglobal.com
T: +86 (0)21 6160 1558
F: +86 (0)21 6160 1568

Hong Kong Division
Suites 1414-1415, 14th Floor, Jardine House, Central HK
E: hongkong@cimaglobal.com
T: +852 2511 2003
F: +852 2507 4701

India liaison office
Unit 1-A-1, Third Floor, Vibgyor Towers, C-62, G Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051
E: india@cimaglobal.com
T: +91 22 4237 0100

CIMA Ireland
45-47 Pembroke Road, Ballsbridge, Dublin 4
E: dublin@cimaglobal.com
T: +353 (0)1 643 0400
F: +353 (0)1 643 0401

Malaysia Division
Lots 1.03b and 1.05, Level 1, KPMG Tower, First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan
E: kualalumpur@cimaglobal.com
T: +60 (0)3 77 230230
F: +60 (0)3 77 230231

Poland contact point
Warsaw Financial Centre, ul E Plater 53, Warsaw 00-113
T: +48 22 528 6890
F: +48 22 528 6701
E: thierry.iovane@cimaglobal.com

Pakistan office
No 201, Second Floor, Business Arcade, Plot 27-A, Block 6, PECHS, Shahra-e-Faisal, Karachi
T: +92 21 3432 2387
E: pakistan@cimaglobal.com

Russia/Ukraine contact point
T: +7 906 091 4550
F: +44 (0)20 8849 2472
E: helen.buniatyan@cimaglobal.com

CIMA Singapore
51 Goldhill Plaza, #08-02, Singapore 308900
E: singapore@cimaglobal.com
T: +65 6535 6822
F: +65 6534 3992

CIMA South Africa
Physical: First Floor, South West Wing, 198 Oxford Road, Illovo, Johannesburg 2196
Postal: PO Box 745, Northlands 2116
E: johannesburg@cimaglobal.com
T: +27 (0)11 788 8723
or: 0861 CIMASA (0861 246272)
F: +27 (0)11 788 8724

Sri Lanka Division
356 Elvitigala Mawatha, Colombo 05
E: colombo@cimaglobal.com
T: + 94 (0)11 250 3880
F: + 94 (0)11 250 3881

CIMA Zambia
Physical: Plot Number 6053, Sibweni Road, Northmead, Lusaka
Postal: Box 30640, Lusaka
E: lusaka@cimaglobal.com
T: +260 1 290 219
F: +260 1 290 548

CIMA Zimbabwe
Physical: Sixth Floor, Michael House, 62 Nelson Mandela Avenue, Harare
Postal: PO Box 3831, Harare
E: harare@cimaglobal.com
T/F: +263 (0)4 708600/250475

Excel hell?

Finance professionals' devotion to spreadsheets can lead to costly errors. What are the greatest potential pitfalls and how can they be avoided?

By Neil Hodge
Freelance writer specialising in business and regulation

All around the world accountants, auditors and financial managers are in love with the electronic spreadsheet – it is the most commonly used piece of equipment in their inventory. Unfortunately, it is also the one that is most prone to significant error. IT experts fear that organisations may be putting themselves at risk as they rely on Excel spreadsheets to report a wider range of financial and management information.

A look through news cuttings will show that there have been some high-profile causalities of problematic spreadsheets, such as C&C, the Irish group that owns Magners cider. A spreadsheet error caused the company's shares to fall by 15 per cent in July 2009 after it admitted that its total revenues in the previous four months had dropped five per cent, not risen three per cent as previously reported.

Another example was the £5.6m fine that Swiss banking group Credit Suisse received from the UK's Financial Services Authority (FSA) in August 2008. The regulator said the booking process that its structured credit business relied on "was complex and overly reliant on large spreadsheets with multiple entries", which "resulted in a lack of transparency and inhibited the effective supervision, risk management and control".

And in November 2005 – thanks to a faulty spreadsheet – US camera and imaging giant Kodak found a hefty US$11m severance error after too many zeros were added to an employee's accrued severance.

Rob Stavrou, director of consultancy at IT consultant Northdoor, says that there is growing awareness within companies that spreadsheets are creating several "versions of the truth" and that, as a consequence, the integrity of the data that they are basing management decisions and business strategies on is not sound enough.

'The more that people think that software will detect problems and correct errors, the more likely that errors will occur'

"Regulators want greater assurance about the integrity of the raw data and more transparency about how financial and management information is being crunched to produce the numbers. We have seen in the past couple of years that companies have woken up to the fact that spreadsheets cannot deliver that level of certainty," he says.

Indeed, analyst IDC has found that dependence on spreadsheets is blamed by companies as the second most commonly named challenge in implementing revenue policies and the "timely and accurate generation of revenue numbers".

According to IT experts, the key problem with Excel occurs when inputting data, or trying to change incorrect data entries: people see an incorrect entry and change it within the box, but they often forget to make sure that the new entry does not corrupt the data for the entire column. Another problem is that because financial and management data on spreadsheets is shared among management and staff, it is easy for people to amend the figures on their own PCs and laptops when they either make a new data entry or spot an error. As a result, employees inadvertently create multiple sets of figures ostensibly based on the same data. As the software does not enable an audit trail to find the original error, users have to find the original data source – if they can.

There is a host of other common problems with spreadsheets, one of which is the use of formulas. When sorted, these can produce corrupted results, especially if care has not been taken to address these risks. While the use of the software's "edit" and "paste-special" functions may well resolve these difficulties, it will still require the user to amend the data. Joining databases also poses problems as it can make the analytical spreadsheet complex to develop and even more difficult to review.

Colin Taylor, head of risk management at Prime Risk Solutions, a professional indemnity broker, says that there is an over-reliance on the integrity of software packages like Excel. "The more that people think that software will detect problems and correct errors, the more likely that errors will occur. Our increasing reliance on spreadsheets to carry out even basic aspects of financial accounting means that companies are at risk," he says.

But some organisations are beginning to wake up to the risks. In the UK, Salford Primary Care Trust (PCT), part of the country's National Health Service, used spreadsheets to manage its £43m portfolio of fixed assets, but the system proved inefficient and time-consuming. Karen Pickersgill, Salford PCT's assistant financial accountant, says that "using spreadsheets to manage our fixed assets presented a number of problems, including the fact that formulae would often not read through to the following table, resulting in unstable and inaccurate data. With the number of assets increasing we realised it was just not viable to continue with this system and we decided to invest in a specialist package."

Andrew Cherry, group finance director at Volex Group, a global producer of electronic and fibre optic cable assemblies, says that his organisation has greatly reduced its reliance on Excel spreadsheets for budgeting and forecasting. "Excel did not provide a robust and detailed enough view of either the historical or future business performance," he says.

Tougher regulation seems to be a positive driving force in making companies question their use of spreadsheets. For example, companies with a US listing are taking spreadsheet risk more seriously because they are duty-bound to do so under US corporate governance legislation.

Richard Shaw, sales manager at software vendor Real Asset Management, says that regulatory reporting requirements such as the US Sarbanes-Oxley Act 2002 (SOX) and the move to adopt International Financial Reporting Standards (IFRS) has made it apparent that spreadsheets simply cannot deliver the level of visibility and transparency needed. "SOX and IFRS want more detail and disclosure about the information used to produce the figures that are being reported," he says.

But some experts believe that the key driver for change needs to be strategic rather than compliance-led. Rich Murphy, executive in residence at US IT consultancy Plainview, says that the real danger facing organisations is the fact that their reliance on spreadsheet software may be impeding business growth and strategy.

"There is a risk that the finance department becomes disconnected from what the company is doing on an operational level because it always wants to crunch data in a spreadsheet to pass on to management to make a decision on. This takes time, provides flawed analysis and results and there is a danger that companies may not be reacting quickly enough to opportunities in the market, or to what their competitors are doing. What a spreadsheet says is happening in the market, and what is actually happening, can be two very different things," he says.

'What a spreadsheet says is happening in the market, and what is actually happening, can be two very different things'

But organisations may be able to mitigate many of the key risks through careful planning and tight controls about how spreadsheets are to be used and who has access to them. For example, to reduce the likelihood of creating different sets of figures, organisations should ensure that business-critical spreadsheets are held on the organisation's network rather than on PCs or laptops, and that these are regularly backed up. Stavrou recommends rigorous and ongoing testing of the formulae and calculations within spreadsheets and that the results are reconciled back to the underlying data each time it is amended, or the data refreshed.

Crucially, says Shaw, organisations should use an accounting package to store financial data and only use Excel to analyse that data to create financial reports. "A key area where errors occur is when people use Excel to store financial data. The package isn't designed to do that and should only be used to provide analysis," he says.

Malcolm Trotter, chief executive of the International Association of Book-Keeping, says that the key is to provide appropriate training and to implement robust policy and procedures governing spreadsheet use, secure storage and access.

"An all too common weakness is that executives have had minimal formal training in the use of spreadsheets, developing skills on a 'needs must' or 'just in time' basis," says Trotter.

"There needs to be an established framework, set by management, within which spreadsheet use is defined and clearly linked to other business processes," he adds.

While experts can easily flag up the flaws inherent in Excel, most agree that the software package is likely to be around for some time yet. "Excel is a popular and ubiquitous accounting tool. It is hardly going to disappear overnight," says Stavrou. "However, the package contains serious risks and organisations need to be aware of them and mitigate them as much as possible," he says.

Further reading Details of the CIMA Mastercourse, "Spreadsheet Skills for Forecasting, Planning and Budgeting", can be found at www.cimaglobal.com/mastercourses/SFPB

What you learn on the... 'Achieving process excellence' CIMA Mastercourse

Course speaker: Dr Vince Grant FCMA, director of Catalyst Consulting. Grant is an expert in Lean Six Sigma methodologies and regularly trains Black Belt and Master Black Belt programmes.

The course gives delegates a clear understanding of "process excellence" and the methods underpinning Lean Six Sigma. It's designed for financial controllers, finance directors and other senior executives interested in improving business processes inside the finance function and helps delegates to manage the financial aspects of process improvement activities across their company as a whole.

Delegates find it particularly useful to meet peers from other organisations who face similar issues to themselves. We strive to make the course as interactive as possible through a range of business simulation exercises.

The one-day course begins with a brief overview of what Lean Six Sigma processes actually are, the principles behind them and the history of Six Sigma theory. I tend to use the example of a pizza delivery service – a logistical operation that is easy to understand – to help bring the Lean Six Sigma process to life and demonstrate how it can improve the reliability, effectiveness and efficiency of a business process.

ELEMENTS OF CHANGE - MAKING THE TRANSITION

We then walk through the Lean Six Sigma methodology, which comprises five parts: "define, measure, analyse, improve and control" (known collectively as DMAIC). Next, we run through the essential tools and techniques used in process improvement, such as "project charters", SIPOC (suppliers, inputs, process, outputs and customers) mapping and root-cause analysis.

We then look at the roles of different people in the Lean Six Sigma process, such as the project champion, sponsor, team leader and members. Delegates are then taken through the change management process and methods for encouraging people to accept change within an organisation. Finally, we examine the governance of specific Lean Six Sigma projects, and of an overall programme.

A number of people who have taken this course have gone on to be involved in large-scale process improvement programmes across their organisation – with a highly positive impact on both their own careers and on their business at large.

i Visit www.cimamastercourses.com for more details about this and all other CIMA Mastercourses.

A delegate's view

Arjan Philips ACMA, UK controller, ADP

I took this course in November because my company was looking into using Six Sigma in various accounting processes. The course gave me a clear idea of the framework of Six Sigma, its advantages over other approaches and why it had proven so popular. The exercises built up a complete picture of how each aspect of the Six Sigma process fits together, and how they can be used to streamline processes and eliminate bottlenecks.

Course components:

History, evolution and overview of Lean Six Sigma management
- A management philosophy and business improvement strategy.
- The core values of Lean Six Sigma management.
- Why bother? The business and operational benefits.
- Why Lean Six Sigma is different from other quality improvement programmes.
- The who's who of Lean Six Sigma.

Deciphering the jargon, understanding the key principles
- Focusing on the customer.
- Understanding how the work gets done – the "value stream".
- Process flow – managing, improving and smoothing.
- Removing non-value added activities and waste.
- Reducing variation and managing by information and analysis.

Selecting and using Lean Six Sigma tools and techniques
- Undertaking improvement in a systematic way – DMAIC.
- Basic quality improvement tools.
- Statistical tools.
- Other relevant tools.

Organising and planning for Lean Six Sigma
- Involving people and the various roles in Lean Six Sigma.
- Gaining "acceptance".
- The role of training and education.
- Getting started and gaining the commitment to roll it out across the organisation.
- Types of project, project selection and deployment.
- Financial metrics and governance.

Photography: Getty Images

CIMA global events

Past Events

Academics discuss the future of CIMA's professional qualification

CIMA hosted a two-day lecturers' conference in March, where it unveiled the new Certificate in Business Accounting and outlined how it will be introduced alongside the existing syllabus. Delegates also reviewed the professional management accounting qualification 2010. The event, held in Warwickshire, UK, was an opportunity for lecturers to attend workshops on how the CIMA professional qualification is progressing and to give their input about its future development.

Robert Jelly, CIMA Education executive director, addresses delegates

CIMA and Tesco partnership

22 February, Tesco Stores Malaysia

Tesco Stores Malaysia has earmarked RM1m ($330,000) for its finance graduate trainee programme as part of the Tesco and CIMA partnership to develop local talent through training and development. To date, a total of 22 Tesco staff are pursuing the CIMA programme.

CIMA and Manpower recruitment event

26 January, Cape Town, South Africa

More than 100 students and members attended this event, which focused on recruitment issues affecting management accountants. Badibanga Promesse, strategic account director in the global corporate relations team at CIMA, gave a presentation on the employability of CIMA students and members. Peter Winn, managing director of Manpower Recruitment, also talked about the value of management accountants. The event was held at The Westin Grand Hotel and was sponsored by Manpower Recruitment.

New challenges and opportunities for business

28 March, The Hague, The Netherlands

CIMA and Shell hosted a joint event in March engaging the audience on a range of new challenges and opportunities for business. Speakers included Stuart Chaplin, head of business accounting and analysis at Shell, Michael Kentish, accounting policy R&D analyst at Shell, and Tanya Barman, ethics manager at CIMA.
www.cimaglobal.com/shell

This is a man's world – or is it?

Successful female CIMA business leaders shared their secrets about how to overcome barriers and reach the top at an event titled "Breaking Glass – strategies for tomorrow's leaders".

The event was organised by CIMA East Midlands and East Anglia region at the De Montfort University in Leicester, UK, in March. Sandra Rapacioli, research and development manager at CIMA, and Sara Shipton, a consultant and former director of finance for the Leased division at pub chain Punch Taverns, were speakers.

Pictured left to right: Sara Shipton (speaker), Sandra Rapacioli (speaker), Cathy McGrath (event coordinator), Sue Stapleford (regional secretary)

Paula Roberts becomes CIMA fellow

Paula Roberts became the only newly qualified member in Ireland to become a fellow, at an event to mark the latest intake of members. Roberts, who is finance manager with Ireland West Airport Knock, where she is also a member of the senior management team, is studying for a Masters of Business. Roberts was the only FCMA admitted out of 226 new Irish members. There are 557 FCMAs in Ireland out of a total 4,000 CIMA members.

Paula Roberts (centre) is pictured with Dervla Geraghty, president of CIMA West of Ireland branch, and Alan Flanagan, vice-president CIMA Ireland

Western Cape new members' breakfast

28 January, Durbanville, South Africa

The Western Cape branch committee welcomed its new members at a celebratory breakfast at the Bloemendal Restaurant in Durbanville, South Africa, in January. Attendees included Maryvonne Palanduz, chairman of the Southern Africa Regional Board (SARB) and Caren Robb, Western Cape branch representative of the SARB, who converted to FCMA status. Congratulations to the nine new ACMAs and two new FCMAs.

Coming events

Malaysia

CIMA Global Business Challenge (GBC) 2011 – Malaysia final

11 June

TAR College, Kuala Lumpur

The GBC 2011 is open to all undergraduates with a passion for business management and finance. Participating teams will submit their first stage report on 1 April. The four Malaysian finalists will be announced on 13 May, with the final on 11 June. The winner will then proceed to Chengdu in China from 25–26 July, where winning teams from 17 countries will compete.

Contact Ms Karen Yeap on 03 77 230 255

CIMA Green Sustainability Conference Asia 2011

12–13 July

Kuala Lumpur (venue tbc)

More than 300 senior decision-makers from all over Asia will converge in Kuala Lumpur for the conference. CIMA members can use 200 CPD credit points to offset the registration fee for the conference.

Contact Ms Saras or Ms Saritha on 03 77 230 337/286

UK

CIMA Global Business Challenge 2011 UK Final

17 June, 10am to 5pm

Barclays Capital, Canary Wharf, London

Join us to see UK finalists compete for their chance to represent the UK at the global GBC final in China. This event has been organised by CIMA in partnership with Barclays, and is supported by Arcadia Group.

Email uk.gbc@cimaglobal.com or call 020 8849 2461

CPD Summer Academy

9–10 June, 9am to 5pm

CIMA, 26 Chapter Street, London SW1P 4NP

Cost: £749 plus VAT (£649 plus VAT on bookings placed by 16 May)

This two-day event will cover a wide variety of topics, including a case study and time for networking.

Email conferences@cimaglobal.com or call 0845 026 4722

Management accounting update – adding value beyond the numbers

13 May, 9am to 5pm

London (venue tbc)

Cost: £599 plus VAT (£539 plus VAT for CIMA members)

This Mastercourse is designed to introduce delegates to current hot topics in the management accounting field.

www.cimaglobal.com/mastercourses/MAUA

Implementing winning KPIs

20 May, 9am to 5pm

Manchester (venue tbc)

Cost: £599 plus VAT (£539 plus VAT for CIMA members)

This Mastercourse will help you improve the way KPIs are measured and reported.

www.cimaglobal.com/mastercourses/KPIS

20 major mistakes made by accountants – and how to avoid them

26 May, 9am to 5pm

London (venue tbc)

Cost: £599 plus VAT (£539 plus VAT for CIMA members)

This Mastercourse will demonstrate how corporate accountants can work more smartly.

www.cimaglobal.com/mastercourses/TTMI

Corporate governance – keeping up to date

7 June, 9am to 5pm

London (venue tbc)

Cost: £599 plus VAT (£539 plus VAT for CIMA members)

This Mastercourse will provide an update on the latest developments in corporate governance.

www.cimaglobal.com/mastercourses/CGOV

CFO of the future – strategic management

15 June, 9am to 5pm

London (venue tbc)

Cost: £599 plus VAT (£539 plus VAT for CIMA members)

The second of a series of workshops offering insight into the latest tools, techniques and best practices for driving positive growth and change inside your organisation.

www.cimaglobal.com/mastercourses/STMG

Fundamentals of transfer pricing

24 June, 9am to 5pm

Manchester (venue tbc)

Cost: £599 plus VAT (£539 plus VAT for CIMA members)

This Mastercourse will provide a practical introduction to transfer pricing techniques.

www.cimaglobal.com/mastercourses/FOTP

Visit www.cimaglobal.com/events for updates and a full list of events.
Events are free unless otherwise stated.
CIMA Mastercourses – your catalyst for business change: www.cimamastercourses.com
To submit an event for this page, email michaela.lambert-beresford@cimaglobal.com

The Institute

Disciplinary committee

The disciplinary committee found Robert Moore ACMA guilty of misconduct. He had i) failed to submit his client's company accounts to Companies House by the deadline, incurring a penalty; ii) failed to submit value added tax returns for the company to HM Customs and Excise by the due date; iii) failed to submit the relevant PAYE return for the Inland Revenue by the deadline, incurring a penalty; and iv) failed to reply to the client's correspondence, including a letter dated 10 May 2009. Although Moore relied on his staff, he was responsible for the assignment and had thereby failed to comply with the Laws of the Institute (Sections 100.4 (c) of the Code of Ethics (2007), which included the obligation on a professional accountant to act diligently and in accordance with applicable technical and professional standards when providing professional services; and Section 130.4 encompassing the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. While the committee considered the sums involved to be relatively low, there had been failings by Moore and his practice over a reasonably prolonged period of time, which culminated with a failure to engage with the client once the initial complaint was raised at practice level. Moore was reprimanded and fined £750. He was also required to pay a contribution towards costs of £3,000.

The disciplinary committee found Keith Lawrence FCMA guilty of misconduct; he had failed to provide a thorough and accurate trial balance to his client (he sent the wrong version) and, following termination of the retainer, had failed to respond to a letter from the former client, thereby failing to comply with the Laws of the Institute (the requirement for diligence in Section 130.4 of the Code of Ethics, including the responsibility to act carefully and to act in accordance with the requirements of an assignment, which the committee considered included an obligation to answer any reasonable queries raised in relation to work done, even after the end of the professional relationship between the client and the CIMA member).

The committee noted the favourable references submitted on behalf of Lawrence. The committee also expressed the view that Lawrence had lacked insight into the potential implications of his actions. Lawrence was reprimanded and required to pay a contribution of £4,000 towards costs.

PRESIDENTIAL ENGAGEMENTS

18 May Anthony Howitt Lecture, London.
21 to 31 May China/ Hong Kong visit.
4 June AGM.
17 June Global Business Challenge UK Heat.
24 to 28 June CIMA Mayor's Trophy.
5 July New members' celebration event.
14 July Lion Heart final and dinner.
19-27 July Hong Kong/China trip.

What's wrong with 'beyond budgeting'?

A team of researchers from Kingston University is inviting CIMA members to participate in research to understand why beyond budgeting has not been adopted more widely. Presented by some in the early 2000s as a panacea for the problems with traditional budgeting, the take-up so far has been low. Any readers participating in the online survey – which can be found at www.hudson.de/bb – can be sure they are making a welcome and valuable contribution to this research.

March 2011 CIMA exam results announced

CIMA is pleased to announce the results from a successful second sitting of the pilot resit examinations. Papers P1 (Performance Operations), P2 (Decision Management), E2 (Enterprise Management), E3 (Enterprise Strategy), P3 (Performance Strategy), F2 (Financial Management) and F3 (Financial Strategy) were offered via a number of high-quality tuition partners to allow students to resit their exams and so facilitate progression through the qualification. T4 Part B Case Study on PC was available as usual for both first-time and resit students globally.

Pass rates were on the whole satisfactory – though the pass rate for P2 (Performance Management) suggests that there is room for improvement on this paper.

As a result of the success of this pilot, the September 2011 exam session will be expanded to include papers E1 (Enterprise Operations) and F1 (Financial Operations). Offering all ten papers in the professional qualification from September 2011 is an improvement that CIMA believes will significantly benefit all stakeholders. CIMA will also review the March 2011 examination with a view to making the September 2011 exam available in more centres.

Illustration: Dmitry Litvin/Dutch Uncle. Photography: Gallery Stock

CIMA CEO column

‘Integrated reporting must complement a company’s strategic goals’

There is a growing momentum for change in corporate reporting, with each initiative seemingly calling for greater alignment between the information reported to users of corporate reports and that used internally by directors and managers for effective decision-making.

This broadening of the domain of the management accountant is something we at CIMA are already engaged with. I had the honour of being asked to sit on a Financial Reporting Council (FRC) advisory panel to examine ways of simplifying corporate reports, and am also a member of the International Integrated Reporting Committee, which looks at how organisations can produce reports that better integrate strategic, financial, environmental and social information. In addition, CIMA is participating in the Department of Business, Innovation and Skills’ (BIS) review of narrative reporting.

The FRC project has the working title “Cut the Clutter”. As the name implies, its aim is to identify information presented in corporate reports that obscures the key messages and to propose more engaging and effective ways to present the material. Producing effective “de-cluttered” reports requires a thorough understanding of both the business and the market in which it operates. It also demands an efficient management accounting information system to provide the source data and narrative content. The FRC’s report on how financial reporting could be improved is available from its website (www.snipurl.com/27dhxs).

The International Integrated Reporting Committee (IIRC) has also been established to promote what it calls an “Integrated Report”. This will require organisations to provide a concise, clear, comprehensive and comparable integrated reporting framework. This should be structured around the organisation’s strategic objectives, its governance and business model, as well as integrating material financial and non-financial information.

The IIRC project has been driven by developments in South Africa under the auspices of Professor Mervyn King and the Prince of Wales’ Accounting for Sustainability initiative.

And as a committee member, I am helping to shape an initial consultation document that will be published this summer. It is important to me that the IIRC recognise the key imperative of a board of directors, which is to ensure the long-term success of their business. The integrated report should only contain financial and non-financial information relevant and material to that aim.

A third reporting initiative that is also under way, in which CIMA is playing an active role is the BIS narrative reporting review. One of the commitments of the coalition government was the reintroduction of the Operating and Financial Review. This developed into a wider review of the state of narrative reporting and is now being pursued within the Vince Cable-led review “A Long-Term Focus for Corporate Britain”.

CIMA’s response to the review said: “It’s important to understand and communicate the major drivers of long-term success, such as quality information and reporting, as well as clear articulation of the business model. The key question to ask is: ‘What are the performance factors that create world-class, successful businesses?’”

In my view, the answer to this question is that companies should focus on the aspects of their business models that will ensure their short-term actions support a long-term future. These elements are: cost leadership, durability of the supply chain, a motivated and skilled workforce, attracting and retaining customers and innovation.

One of CIMA’s main objectives is to produce “financially qualified business leaders”. As part of this commitment, I believe it is important that we continue to be involved in all aspects of business life, including external communications through effective corporate reporting.

The Financial Reporting Council’s report on improving financial reporting can be found via www.snipurl.com/27dhxs

Charles Tilley
Chief executive, CIMA

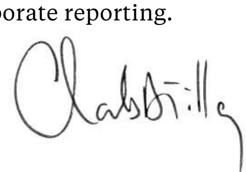


Illustration: Masao Yamazaki/Dutch Uncle

CIMA and an entrepreneur answer your questions

This month...

'With sterling being so low everyone at my firm is talking about starting to export. To me it seems like a headache. We're a small consumer goods brand with £10m in sales. Exporting means dealing with currency shifts, regulations and new competitors. The UK is a country of 60 million people. Am I being too negative?'

CIMA versus Will King

A. CIMA

Successful businesses overcome headaches, so perhaps you are being too negative. But a large dose of realism needs to accompany any decision to export. The decision should not be based simply on sterling being low, as this may not always be the case. My first question would be: is exporting in your organisation's long-term strategic plan? If so, are there other initiatives in the plan that are potentially more lucrative and would need to be deferred if the decision was taken to export?

For instance, are you satisfied that you have sufficiently tapped your home market? Management accountants are comfortable dealing with the concept of opportunity cost, which is relevant to this decision. Starting to export will consume time and money. Could these be better spent?

A recent survey by TheCityUK, a body that promotes the UK financial services industry, revealed that just over a quarter of small businesses see regulatory and political systems in overseas markets as a barrier. What's more, 23 per cent are concerned about exchange rate fluctuations and 22 per cent are uneasy about excessive bureaucracy.

But there is evidence that the UK government recognises these issues and is focused on supporting SMEs seeking new markets abroad. The recent White Paper "Trade and Investment for Growth" promises an overarching strategy for international trade later in 2011 and greater access to trade finance, particularly for SMEs exporting.

There is free information on exporting from HMRC and Business Link, while CIMA can help through its International VAT Mastercourse, which deals with the international aspects of the tax.

Nick Topazio is a technical specialist at CIMA

A. Will

Negative? That's an epic understatement. If you hadn't noticed, the world's commercial tectonic plates are shifting fast. You should treat your £10m UK business as a hard-dug foundation on which to build a £100m business that exports your wares to the world.

We've gone from boom to gloom in the UK, while just ten hours away the economies are growing ever faster. For sure, you need to spend some time examining whether your business is applicable to the various economic zones – Asia Pacific, Europe, the Middle East and Africa, or the Americas – and you can only do that by getting on the ground. Plenty of help is available from the government, including grants to help with visiting trade exhibitions and more. But, if the issue is whether to supply a market of 60 million or 600 million people, I know where I'd want to be.

Your top priorities should be ensuring that your company's products or services are competitive in a hardening global market, and finding a friend (or investor, distributor, local market partner) to help you.

Finally, remember that your home market is someone else's export market. Toyota is number one in global car sales. Twenty years ago, people would have scoffed. Will King of Shaves be challenging for global shave supremacy in 2020? Who knows?

Will King founded King of Shaves in 1993 with a range of shaving oils. He has since diversified into razors, moisturisers and gels and exports his products worldwide.

Illustration: Dmitry Litvin/Dutch Uncle

Do you have a question you'd like to pose to CIMA and a top entrepreneur? Tell us at questions@ fm-magazine.com