Financial Management

CIMA
Chartered Institute of Management Accountants

www.fm-magazine.com • June 2011

Gulf of Mexico oil spill, Deepwater Horizon

From natural disasters, via industrial accidents, to political protests, it's been a year of global turmoil. How can companies stay on track in an increasingly volatile world?

Demonstrations in Cairo, January 2011

March earthquake and subsequent tsunami, Japan

A word from the president

‘I commend the innovative spirit at CIMA’s heart’

After what seems like no time at all, I find that this is the last column of my presidential year. One of the greatest privileges of being CIMA president is being able to visit so many members and students around the world. The past 12 months have found me in Bangladesh, India, Sri Lanka, Zambia, Malawi, Dubai, Australia, Canada, South Africa, New Zealand, the UK and Ireland. Although each trip has been a unique experience, the warmth I have received from CIMA members and students, and the enthusiasm I have felt from CIMA staff, have been consistently inspiring. I think that as individual members we often fail to see the wide-ranging opportunities that our qualification offers, within and beyond the conventional boundaries of financial management.

Despite ongoing economic instability in many countries it has been reassuring to see CIMA go from strength to strength during my tenure. The Institute has had a record year for student intake and a healthy increase in membership. And our members’ influence is being felt more than ever. In 2010 we achieved our target of establishing a significant presence (ten or more members and students) in 72 per cent of CIMA’s top 500 employers. We have also continued to develop stronger international links in regions such as the Philippines, Russia and Pakistan and via joint venture discussions with the American Institute of Certified Public Accountants.

One of the reasons why chartered management accountants are so highly valued is that they are bound by a rigorous code of ethics. Throughout 2010 CIMA staged a series of high-level, round-table discussions on the future of business ethics with senior executives, which highlighted a clear link between ethics and business performance. This emphasis on ethics means CIMA members are equipped to play an essential role in repairing the global financial infrastructure and driving businesses towards a successful, sustainable future.

We are also leading the way in developing business best practice. In 2010 CIMA’s thought leadership programme launched more than 30 pieces of research on subjects ranging from cost leadership to the gender imbalance on many company boards. One of the Institute’s key focuses is on encouraging businesses to develop strategies that ensure their long-term survival. I firmly believe that our members’ finely tuned skillset puts them in a unique position to provide the right business intelligence and support strategies for true sustainability. We are delighted to be contributing to the Prince of Wales’ Accounting for Sustainability project, as well as the newly established International Integrated Reporting Committee, which focuses on the critical importance of sustainability.

Finally, I would like to commend the innovative spirit at the heart of the global CIMA community. Not only does CIMA produce some groundbreaking research, but it leads the field in terms of marketing. The Institute’s staff produce events such as the annual Global Business Challenge (more than 2,100 teams are registered for this year’s competition) and CIMA Sri Lanka’s televised *Spellmaster* competition. Such events instil in young people the core CIMA values of discipline, honesty, respect and integrity.

In Canada, CIMA members are the driving force behind the annual Mayor’s Trophy cricket match. At first glance, the worlds of cricket and management accounting may seem poles apart. But on closer inspection, there is an evident synergy. Both produce fantastic team players, nurture a sense of fair play and aim to use their skills to bowl over the opposition. I look forward to seeing the Institute and its members play an increasingly important role in the development of business excellence around the world. To lead such a powerful team has been a pleasure and a privilege.

George Glass
CIMA president
George McT Glass

CIMA’s 2010 Annual Review can be found at **www.cimaglobal.com/annualreview**

Illustration: Masao Yamazaki/Dutch Uncle

At a glance

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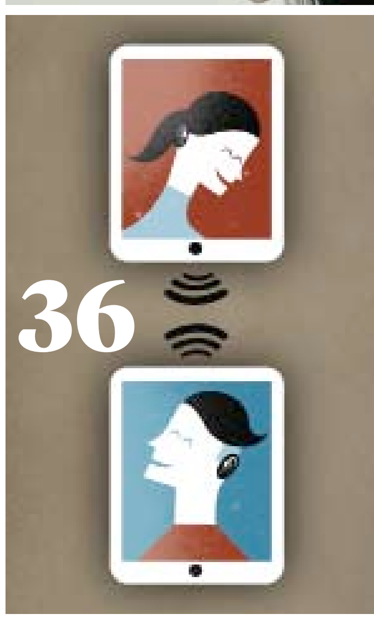

CIMA is the Chartered Institute of Management Accountants
26 Chapter Street, London SW1P 4NP
020 7663 5441
www.cimaglobal.com

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

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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
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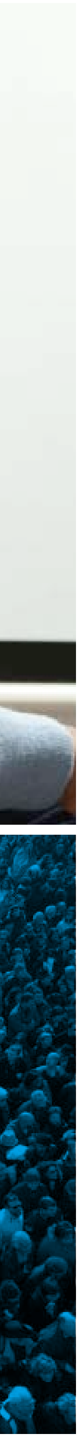

Editor's note

Global businesses have been through a period of extraordinary turbulence over the past few years, which has undermined confidence in efficient markets and economic forecasting. On page 26, we look at the steps that companies are taking to adjust to this more uncertain environment and ensure that they are better prepared for the next crisis.

One factor that may determine whether a company is able to thrive in a volatile world is the quality of its people (page 32). Companies that have lost their top talent over the past few years out of necessity, or as a result of mismanagement, will have to work hard to rebuild their reputations as good employers. A company's best people can contribute 80 per cent of its value, but only if they are handled with care.

In our Q&A, Darren Rajanah, FD of online retailer The Hut Group, also highlights the vital role that the finance function plays in supporting business growth, particularly in volatile markets (page 20). The Hut Group's revenues have increased sixfold since 2008 – a shining example of how companies can prosper even in an increasingly complex and turbulent environment.

Dawn Cowie

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Picture editor
Nicola Duffy
Senior 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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I worked on ...
Dubai International Airport

Start date December 2004 **End date** December 2007

"I started studying for the CIMA qualification in the early nineties. I then took a break to work in Jamaica, before returning to complete the final year of my studies in 1998.

I've been at Murray & Roberts for six years. As finance and commercial director for Middle East operations I'm in charge of the financial side of all of our projects in the region. This includes the statutory, banking, treasury and company secretarial sides of things and, most importantly, project budgeting and forecasting.

The word "commercial" was added to my job title around nine months ago, which means that I now oversee all contract and commercial surveying activities, as well as finance. This has been quite challenging because these were not historically my core areas of expertise. My CIMA qualification has helped because it is practical and broad based, unlike other accountancy qualifications. This is useful when you get into business because not everything is purely about finance. CIMA prepares you for this – it gives you the confidence to step into other areas.

Our company created everything that you see inside the new airport terminal. It's one of a series of iconic projects we've been involved in across the region. Others include Burj al Arab – the world's tallest structure with a membrane façade – and the World Trade Centre in Bahrain, the first skyscraper to have wind turbines integrated into its design.

Each of our projects is treated as a mini-business and designed to run semi-autonomously. If I have to monitor them on a day-to-day basis it means I haven't done my job properly.

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Name: David Cox

Organisation: Murray & Roberts Contractors (Middle East)

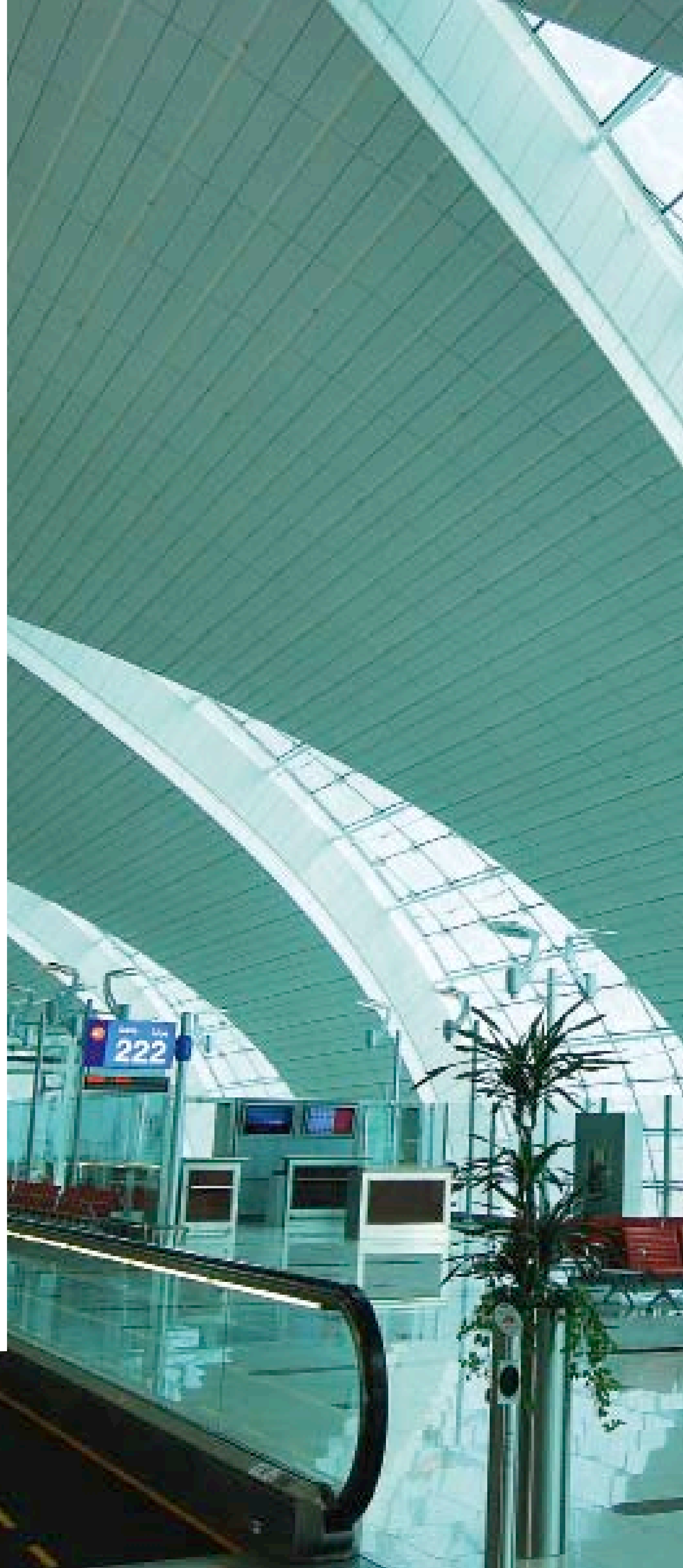
Location: Dubai

Project client: Government of Dubai/ Department of Civil Aviation

Project partners: Al Habtoor Engineering and Takenaka

Project value: multibillion AED

CIMA qualified: 1998



Update

Best start to the year for global M&A since 2007

The value of global mergers and acquisitions in the first three months of this year hit $608.3bn, a rise of 32.7 per cent compared with the same period in 2010. Transactions by energy, mining and utilities companies led to the highest level of activity since the first quarter of 2007, when the value of M&A deals was $806.9bn, according to data provider mergermarket.

In the US the value of M&A deals in the first quarter was $271.7bn, a rise of 87.3 per cent compared with the same period last year. This was the strongest quarterly level of M&A activity in nearly four years – deal value hasn't been higher since the second quarter of 2007 when it was $478.9bn, according to mergermarket. US-based M&A accounted for 44.7 per cent of the global total.

BRIC activity up 84.3%

Total M&A activity in the BRIC countries – Brazil, Russia, India and China – hit an all-time record for the first quarter. The value of deals was $93.2bn, an increase of 84.3 per cent compared with the same period in 2010. Overall emerging markets M&A accounted for 22.6 per cent of the global total in the first three months of the year and it was the largest quarter for inbound deals ($76.8bn) since records began in 2001. Meanwhile, the value of European M&A deals reached $174.4bn, making it the busiest first quarter in three years.

Gallery Stock

CIMA agrees tie-up with Robert Gordon University

Students at Robert Gordon University (RGU), Aberdeen, will be able to study a newly created BA Accounting degree, including all the papers needed to achieve the CIMA Advanced Diploma, as a result of an innovative alliance. This combined qualification can also be studied online in order to widen access to students across the world.

The course will combine the multimedia approach of the CIMAstudy.com material with the instructor-led guidance provided at RGU. It will also provide opportunities for relevant work experience. The degree takes three years to complete for fast-track students but there is also a slower-track opportunity allowing students to spread their professional and academic study for up to six years. For students who currently hold the CIMA Advanced Diploma, a one-year top-up degree will be available.

Professor Elizabeth Gammie, head of the department of accounting and finance at RGU, said: "This educational provision provides students and employers with a viable alternative to either the CIMA school leaver route, with no enhanced degree provision, or the traditional degree followed by CIMA study. We are of the view that this provision meets the current educational challenges head on and will pave the way for a new type of education where employability, accessibility and flexibility are key."

Update

European IPOs slump due to market jitters

The amount raised by companies through initial public offerings (IPOs) in Europe dropped 71 per cent in the first quarter compared with the final three months of 2010, according to professional services firm PricewaterhouseCoopers.

The 94 floats in the first quarter raised just under €3bn compared with 129 deals in the previous three months that raised more than €10bn, according to PwC's latest IPO Watch Europe survey. Several large companies, such as Indian paper producer BILT Paper and oilfield services company Topaz Energy and Marine, decided to withdraw their IPOs.

PwC found that investors are being uncompromising about their pricing expectations, which will put pressure on other companies scheduled to float in the coming months. Richard Weaver, capital markets partner at PwC, said: "It's a bitter pill to swallow for companies to be told that the value of their business has fallen dramatically from their initial valuation. Investors are currently so wary that the price they are prepared to pay often doesn't come close to matching sellers' expectations."

June deadline for accounting convergence slips

The US and international accounting standard-setters have warned that their convergence work will not be completed by 30 June. A recent update does, however, highlight the progress made to eliminate differences between the US and international rules.

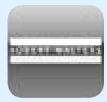
The accounting boards have finished five projects on financial statement standards, joint arrangements, post-employment benefits, fair value measurement and the presentation of other comprehensive income.

There has also been "substantial progress" on three other projects, covering financial instruments, accounting, leasing and revenue recognition, and a joint project aligning insurance accounting standards. However, the project on insurance contracts is the most delayed.

Getty Images

App of the month

Our guide to the best online tools



Salary checker

Do you know what you are really worth? In a competitive talent market, here's an app that allows you to check how much you should be earning in your current role in 20 markets across the world. The salary checker provides access to salary information collected by specialist global recruitment consultancy Robert Walters and is based on its Global Salary Survey.

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Cost: Free
Category: business
Updated: 3 April 2011
Current version: 1.0.5
Size: 3.5 Mb
Language: English
Seller: Robert Walters plc
Compatible devices: iPhone, iPod touch, iPad
System requirements: iOS 3.2 or later

UK mid-caps warn of another recession

Almost four in ten (38 per cent) medium-sized businesses surveyed by CIMA expect the UK to slip back into recession in 2011. Despite the lack of confidence in economic growth this year, 98 per cent of the companies said they were confident that their own business would survive, according to CIMA's latest Mid-Size Business Confidence Survey. This was the highest level reported since the survey was launched in 2009.

One-third of UK mid-caps reported they had already lost revenue as a direct result of public sector spending cuts. One in five expects the government cutbacks to have a knock-on effect on their number of full-time employees this year. Operational functions will be hardest hit – 84 per cent of respondents predicted cutbacks – followed by finance (39 per cent), IT (33 per cent) marketing (30 per cent) and human resources (28 per cent).

There was some good news for school leavers – almost one-quarter of respondents expected to take advantage of the government's £1.4bn funding initiative to train apprentices and each of those businesses expected to recruit on average three apprentices this year.

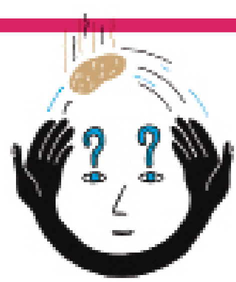
Update

Sales fall at global consumer goods firms

Sixty per cent of the world's largest 250 consumer goods companies reported falling sales in the most recent financial year, according to research by professional services firm Deloitte. US companies were worst hit, with a 3.2 per cent contraction in sales in fiscal year 2009, which includes year-ends to 30 June 2010.

Although net profits remained robust due to changes to their cost structure, the industry must tap into demand from ageing baby boomers in developed markets. Some US companies have already responded by "overhauling product lines, enlarging typeface and lowering store shelves" to cater for the affluent ageing population in their home market, according to Dr Ira Kalish, director of consumer business for Deloitte Research in the US.

The biggest source of growth, however, will be the estimated 70 million new consumers expected to enter the middle class each year in developing nations. Consumer goods firms will need to develop innovative products at price points that are typically well below equivalent products in developed markets.



Hot potato
This month's dilemma:

I worked for several years as head of finance for the UK subsidiary of a US corporate. As part of a global restructuring process my role was made redundant, with my responsibilities shifting to the US. An ex-colleague of mine from this firm has suggested putting together a bid for the UK business, which may be more successful if managed separately. Although I am interested in getting involved in the bid, I would be doing so as an ex-director of the company with inside knowledge of the finances. I am not sure where I should draw the line as I will be expected to draw up financial models and projections. In this situation, the principle of confidentiality (using information acquired through employment for personal gain as set out in Section 140 of CIMA's Code of Ethics) poses a threat (as defined by Section 100.12 of the Code).

Our response:
To remove the threat, you could consider involving someone else to prepare the financial part of the bid, or preferably not be involved in the bidding process at all. You could limit your role to being named as potential head of finance in the proposed venture and have your former role and status declared. It would be challenging to "unknow" what you "know", so there would be many risks to your overall integrity. It is also advisable to document decisions in writing with your ex-colleague as the process develops in order to avoid the implication that you have provided any confidential information during the formulation of the bid.

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

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Experts assess Bribery Act impact

The UK Ministry of Justice released its guidance related to the UK Bribery Act 2010 at the start of April. This outlines procedures that commercial organisations can put into place to prevent persons associated with them from being involved in bribery. Expert panellists discussed the role that management accountants have to play in implementing the anti-bribery guidance at a seminar in April.

Claire Ighodaro, a board member and audit committee chair of Lloyd's of London, said that the Act would make life difficult for a small minority of businesses engaged in bribery but it would not be a burden for the rest. She said that the guidance had provided useful clarification about the new corporate offence of failing to prevent bribery, which has been of concern to companies.

Robert Barrington, director of external affairs at anti-corruption lobby group Transparency International UK, stressed that the UK was not "going out on a limb" and introducing gold-plated legislation; the anti-bribery rules were "middle of the road". While organisations may argue that they have to pay bribes in order to operate in certain countries, Barrington said the way to stop the estimated $1 trillion in annual global corruption payments is for the bribe payers to cut off the supply source.

Competition hots up in the Global Business Challenge

The search for tomorrow's business leaders in the 2011 CIMA Global Business Challenge (GBC) has created intense competition between 2,135 teams from 17 countries across the globe. The business management competition, supported by Barclays, is designed to bring out the best in the young business leaders of tomorrow.

The GBC, now in its third year, is a great opportunity for students to gain practical business experience that will enhance their development. It's also a great way for undergraduates to meet some of the world's top employers, who are sponsoring or judging the competition.

The national champions from Australia, Bangladesh, mainland China, Hong Kong, India, Ireland, Malaysia, the Middle East, Pakistan, the Philippines, Russia, Vietnam, Indonesia, Singapore, South Africa, Sri Lanka and the UK will compete at the global final in Chengdu, China, at the end of July. Chengdu, capital of the Sichuan province, is one of the most important economic centres in western China.

CIMA has launched a Facebook page for the GBC which allows students to share pictures, upload videos and get involved in discussions. Check it out at www.cimaglobal.com/gbcfacebook.

Book in brief

Getting Better
by Charles Kenny,
Basic Books, £15.99

The income gap between the richest and poorest of the world may be widening but many measures of quality of life reveal that inequalities are narrowing, according to economist Charles Kenny, who is on leave from the World Bank. Here is a brief synopsis:

1. One billion people live on less than one dollar a day and one-third of the global population lives on less than two dollars.

2. Convergence in global health and education has been more successful than closing the income gap.

3. In 2000, Vietnam's average income was equal to the UK's in the early 1800s; its literacy rate was 95 per cent versus 69 per cent in 19th century Britain.

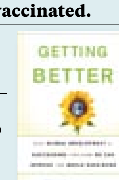
4. Poor countries without growth still benefit from new technologies such as mobile phones.

5. Migration has reduced regional inequality far more than aid.

6. Aid agencies should focus on conditional cash transfers, where mothers are rewarded for sending their children to school and getting them vaccinated.

7. Big government helps to raise quality of life.

8. Improvements in quality of life do not need rapid economic growth to sustain it.

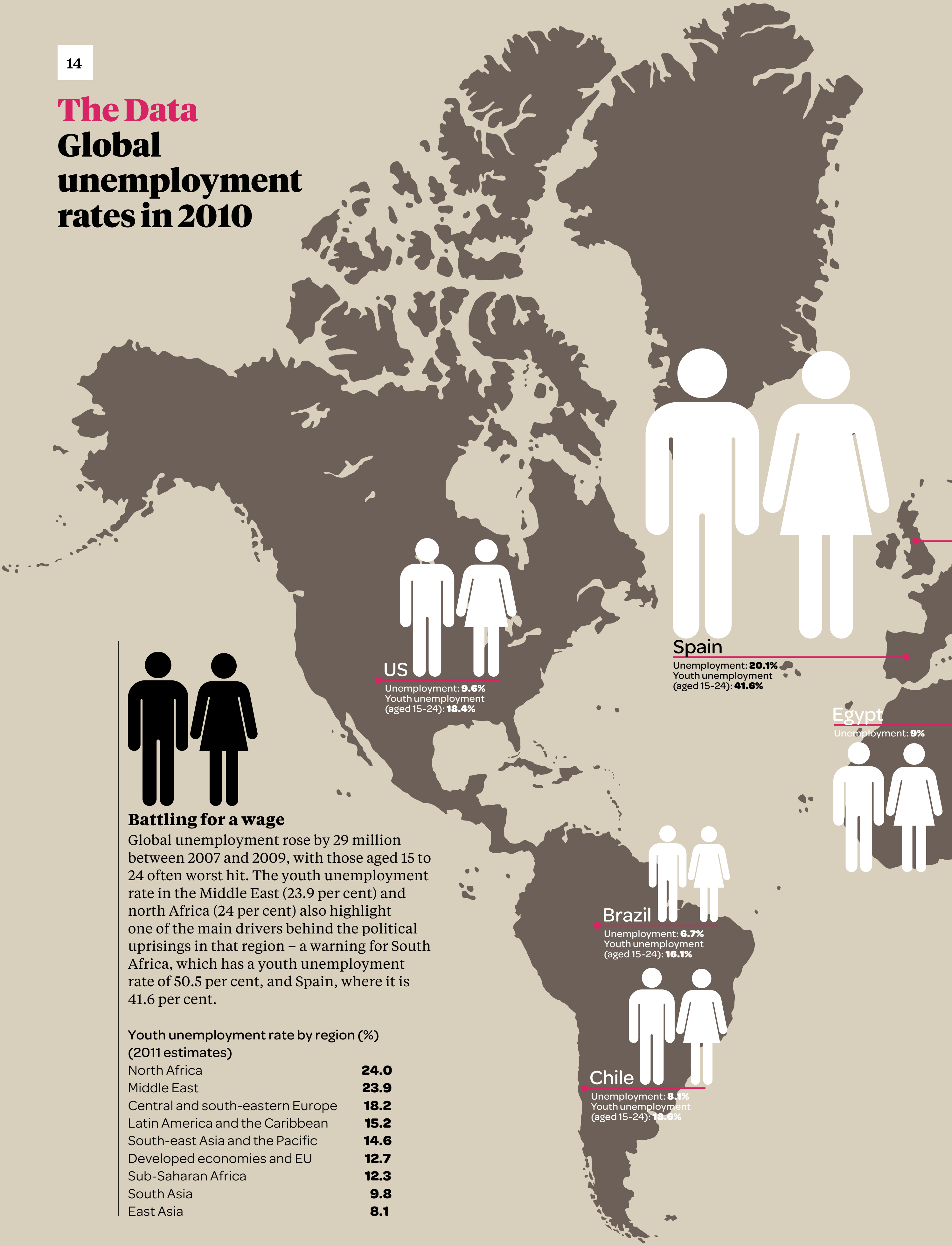


Learn from...
Symrise's club of food fanatics

As a supplier of fragrances and flavourings, Symrise is keen to impress its customers, the makers of perfumes, cosmetics and foods, with its understanding of their products. So it set up an online community of 800 handpicked individuals with informed opinions about the food and drinks industry. By getting to know its customers' customers, it has increased revenues and loyalty.

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

The Data
Global unemployment rates in 2010

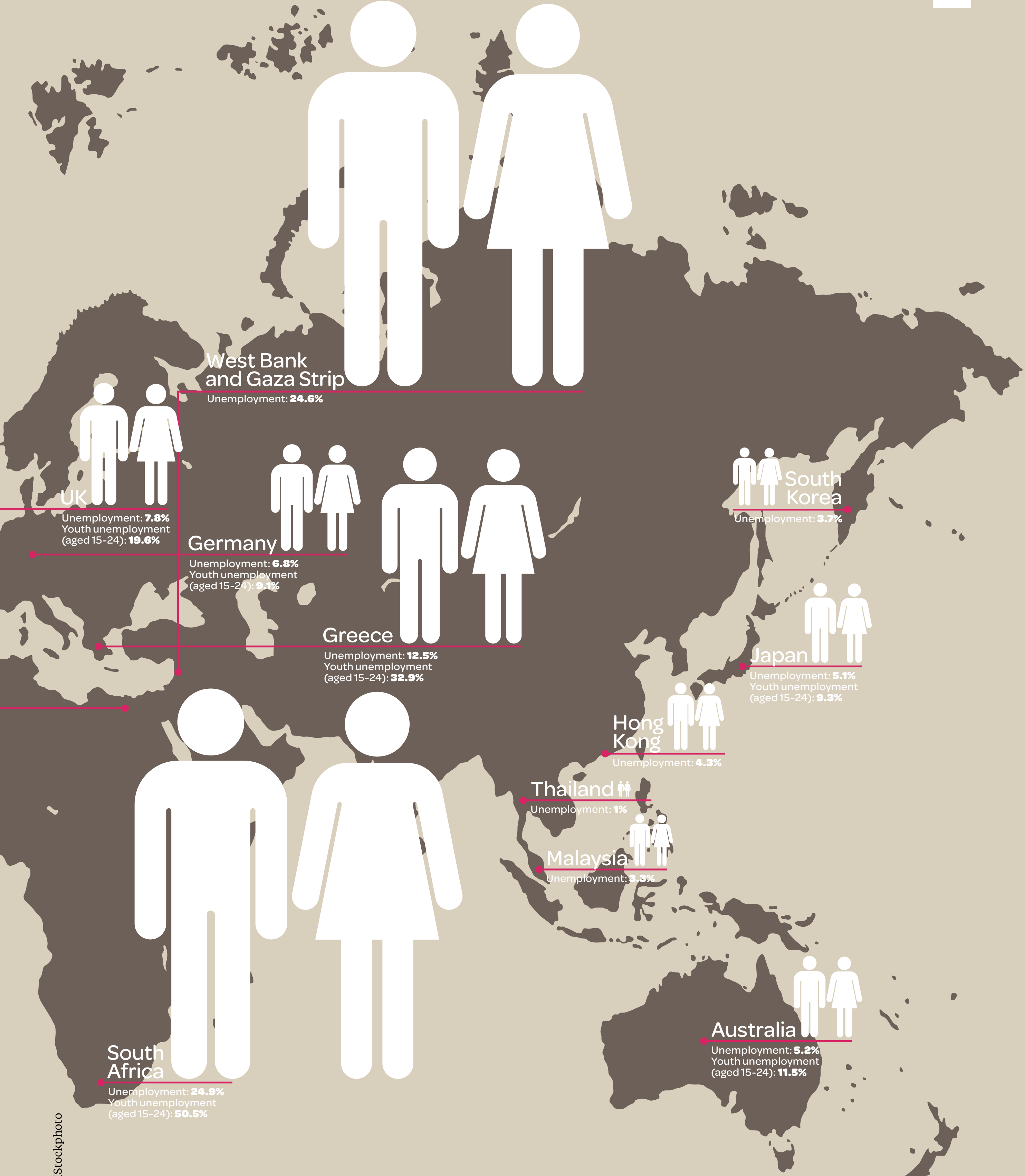


Battling for a wage

Global unemployment rose by 29 million between 2007 and 2009, with those aged 15 to 24 often worst hit. The youth unemployment rate in the Middle East (23.9 per cent) and north Africa (24 per cent) also highlight one of the main drivers behind the political uprisings in that region – a warning for South Africa, which has a youth unemployment rate of 50.5 per cent, and Spain, where it is 41.6 per cent.

Youth unemployment rate by region (%)
(2011 estimates)

North Africa	**24.0**
Middle East	**23.9**
Central and south-eastern Europe	**18.2**
Latin America and the Caribbean	**15.2**
South-east Asia and the Pacific	**14.6**
Developed economies and EU	**12.7**
Sub-Saharan Africa	**12.3**
South Asia	**9.8**
East Asia	**8.1**



World map: iStockphoto

Source: International Labour Organisation

Forum

From the blogs

UK Bribery Act: how will you act?

At the end of last year CIMA surveyed UK members to find out how prepared they were in relation to the enforcement of the Bribery Act 2010. The results of the poll showed that, while 67 per cent were aware of the act, only 43 per cent felt that their employers were ready for it.

Nearly a third of respondents said that the act would affect their jobs directly. It is therefore no surprise that they recognised their duties not only in assessing risk, revising policies and reporting processes, but also in setting the ethical tone and raising awareness. As one CFO stated: "I will be deemed responsible for any breach in my area."

A key step that many companies still need to take is the briefing and training of staff as well as related subsidiaries and agents. For large multinationals that haven't already established such practices there is a lot of work to do and CIMA members have a pivotal role in both implementation and communication.

Tanya Barman, head of ethics at CIMA

Wayne checked

Coca-Cola has announced that it's no longer sponsoring Wayne Rooney. Reportedly, it was paying the Manchester United footballer £600,000 a year, but now seems to have decided that it's best not to associate with him any more. After all, who could argue that his recent actions sit well with the family image that Coca-Cola wants to portray?

This got me thinking about the marketing mix so beloved of students of the Enterprise papers. For years in the UK, if you wanted to have a Coke it was a choice between the original drink or Diet Coke. While many people would have bought the low-sugar option, they were deterred by the name "Diet". The firm identified that young males were most likely to take this view and it duly created Coke Zero. But was this really a new product? Surely a low-calorie Coke is a low-calorie Coke whatever name it's given? So the base part of the product component of the marketing mix stayed the same, but what other elements changed? The name is one of them and Coke Zero arguably has a more macho sound to it. The colours of the cans and bottles were also changed to a bold black and red from the more neutral white and silver.

Coke already has the place component under control – sometimes it's harder to think of places where you *can't* buy one. Price should be similar to the rest of the product range, so that leaves promotion. With a target market of young men, who could be better as the face of Coke Zero than Rooney? After his recent exploits, it looks as though Coca-Cola is asking itself this very question.

Steve Crossman, CEO of training company ExP Group

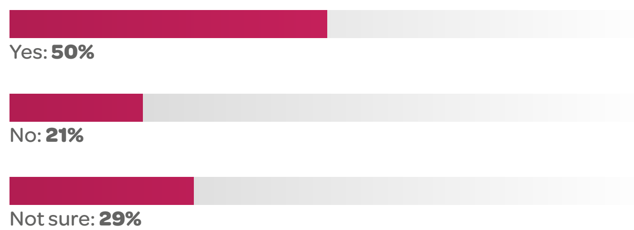
(*FM* reserves the right to edit letters and blogs for length and clarity.)

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

Poll of the month

We asked...

Is your company revising its risk management processes in the light of recent economic and geopolitical turmoil?



Source: *Survey* on CIMAsphere, 2011

You asked...

How do you work around questions involving the weighted-average cost of capital (WACC) and what does it mean to ungear and regear?

The WACC is a function of a firm's cost of equity and cost of debt. Cost of equity means the return on equity finance expected by its shareholders from their investment. Cost of debt means the average return expected from holders of debt – ie, average interest charges incurred from borrowing. Cost of capital is a weighted average of the returns expected by all providers of capital.

The point of ungearing and regearing the beta values of companies is as follows. An asset beta value is a measure of the systematic risk of any asset, whether that's a project, a bond, a share (an equity beta is the beta value for a particular share) or a portfolio of shares. If you need to determine a discount rate to use in evaluating an investment that has a significantly different risk profile (beta) than that of the existing business, you first estimate the systematic risk of the project's operating cash flows by comparing it with the published betas of companies operating in the relevant industry. Then you adjust these beta values to allow for the firm's level of gearing by ungearing the published beta and then regearing this ungeared beta using the company's own gearing ratio. This gives you a project-specific geared beta.

See the *CIMA Official Learning System* for paper F3 for a discussion of how models such as WACC can be used to estimate an entity's cost of capital.

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

Opinion

Adam Roberts

South Asia bureau chief, *The Economist*

India's economy is booming, though its infrastructure is woeful. This creates many opportunities to jump on board the juggernaut but gains will be slow in coming

Take almost any measure and India's rise looks unstoppable. Its population will surpass China's in a couple of decades. Rapid GDP growth – expect eight per cent or more in the coming year – has set it on course to be the planet's third-largest economy in the foreseeable future. Its diplomatic heft is increasing: it is now a temporary member of the UN Security Council and a permanent spot will follow one day. It is home to dozens of dollar billionaires, a booming middle class and some huge companies with global reach. Not only that, its cricketers are world champions.

But where India fails is in wearily familiar territory: its rotten roads, crowded ports, unreliable energy supply, jammed up rail tracks and crumbling cities. Investors say that frustration with broken and overused infrastructure is their number one problem. Plant operators cannot rely on a steady supply of electricity; potholed, half-rebuilt, single-lane highways make trading goods slow and costly. Tourists shy away, anxious about public health and getting around safely, and locals are spooked by reports of "superbugs" in Delhi's overwhelmed public water system.

India aspires to be a great power, but much of its infrastructure is worse than parts of Africa. The Economist Intelligence Unit's most recent study of the subject ranked India a miserable 75th out of 82 nations for the quality of infrastructure. Embarrassing showpiece failures – notably crumbling stadiums and a collapsed bridge in the 2010 Commonwealth Games in Delhi – damage the national reputation. Poor agricultural logistics mean chronic difficulties getting fresh goods from farm gates to consumers' kitchens, which causes massive wastage.

But not all the news is bad. The government plans to spend $1trn (nearly half to be raised by the private sector, local and foreign) on infrastructure between 2012 and 2017. Liberalisation has brought real gains. India's privately run airports and competitive airlines have become the great transport success of recent years. Delhi, Mumbai and several other cities now have world-class terminals. Delhi, too, saw its high-speed airport train open earlier this year, which connects to a well-run, air-conditioned city metro. In the next few years other large cities across India will add their own metro rail networks. More often than not private contractors, in partnership with the government, do the heavy lifting.

A competitive market for private mobile-phone operators has followed huge investments and the rolling out of 2G and 3G spectrum. Internet access lags far behind most countries, so expect a big boost in spending there. And look, too, for a big rise in spending on farming – especially if foreign retailers such as Walmart or Tesco are allowed to get logistics chains and supermarkets running.

The government wants the private sector to help build massive new highways. One such road will form an immense industrial corridor stretching from Delhi to Mumbai

Where matters are less obviously rosy is in old-fashioned areas, such as roads, railways and ports. The government recently eased restrictions on foreign capital being loaned in this area. It wants the private sector to help build massive new highways – the aim is for 10km of new roads to be built each day (half the value of an old target that proved impossible to reach). One such road will form an immense industrial corridor stretching from Delhi to Mumbai, the commercial capital.

Progress, however, may be slow. Getting access to land is perennially difficult in India's messy democracy (by contrast, China's government can more easily order that land be set aside for factories or high-speed train tracks). Corruption among contractors and local officials, plus will-sapping bureaucracy, all deter investors. And much-needed policy reforms are slow in coming. But, like a juggernaut, getting something as massive as India to move is bound to be a slow process.

Darren Rajanah FCMA

Revenues at The Hut Group have grown sixfold since 2008, making it one of Europe's leading online retailers. Its group FD explains how he helped the business to expand in the face of economic adversity

Interview by Ben Schiller

Why did you decide on a career in finance?
I've always wanted to influence the P&L and have an input into the day-to-day running of a business. I thought the best way of doing that was to become an accountant because you get full visibility. You can see the sales, the margins, expenses, overheads – all the key drivers. You are well-informed and you can influence the company. I wanted to grow commercially and be a strong manager of finance.

That was cemented when I joined the Caudwell Group, which is the company behind Phones4U. When I was there, the spine of the business was accountancy. We had a strong FD, Craig Bennett, who was also CIMA-trained and was quite a big influence. It was a P&L-driven business, with strong financial controls. There were P&L owners who focused every day on sales and profit and considered cost a disease. It was also entrepreneurial. Finance was a facilitator, not a preventer, of sales or growth. Those were the disciplines that I learned as an accountant and shaped where I wanted to go.

How has the CIMA qualification helped you?
The CIMA toolbox allowed me to have a good all-round view of the business. I learned that you have to look not only at the financial KPIs, but also at the drivers of them. If you want to make better-informed decisions as accountants, or non-accountants, you have to look at the key levers and drivers of the business. There's no better-equipped accountant to do that than a CIMA-trained accountant.

I'm always looking to hire CIMA accountants because they're well-rounded. You just need to add that commercial aspect as well.

Photography by
Ivan Jones

The Hut.com is a fast-growing internet property, so we work on real-time information that allows us to make quick decisions and take advantage of opportunities as they arise. I'm looking for CIMA accountants because they are adaptable and flexible.

CIMA has also allowed me to share my experiences with other accountants who want to become FDs. I am 30 now and have been able to talk with other people about the challenges I have faced, and people have given me a lot of input as well.

What have been the high points of your career so far?

At the Caudwell Group we were given opportunities at an early age. At 24 I was already running my own P&L within one of the subsidiaries. The biggest milestones in my career, though, have been at The Hut Group, which I joined as FD in 2008. Revenue was £24m back then; this year it will be more than £150m. There have been a lot of changes and achievements over that period. When I joined there were 50 people; today there are 500. I've built up the finance function and implemented controls and processes throughout the business to support that growth.

Since I joined our credit line has increased by more than £30m – a strong achievement in today's climate. We've done it by working closely with our credit insurers. We've also implemented a substantial working capital facility, which we have never used but it is there if we need it. And we've attracted more than £30m of investment from the City. We now have some high-quality investors on board, who work closely with us to support our organic and acquisition growth. Since 2008 we have acquired and integrated several businesses, including Zavvi.com and I Want One of Those.com. That is part of our strategy to become a multi-category retailer.

The Hut Group has flourished in tough economic conditions. What are the keys to this success?

We have a strong entrepreneurial culture and financial controls. Everyone feels that they can add value to the business and have that opportunity. Everybody believes they can be a profit centre, rather than a cost centre. The way we've set up our P&L and incentivisation scheme also means that staff come in looking for opportunities every day. As a result they are creative and able to offer better propositions to the customer.

In the current environment you need to make sure you manage your stakeholders effectively and have a transparent relationship with them. By being open we can talk about the growth of our business. They can understand what we are trying to do and we understand how they are working. By constantly communicating with these stakeholders we are always ahead of the curve.

What makes a great FD?
It's probably different from what it was ten years ago. In this environment accountants need to be well-rounded and commercial leaders. They need to clearly understand the value drivers of the business. That is not just the P&L, but also the people in the business. You have to understand what makes them tick: how they work, what gets the best reactions and how you can make them work as a team. The FD is the linchpin holding things together.

My view is that company culture comes from finance so as FDs we have to be proactive. We can't be a function that just does number-crunching in a back room. Every single day in this job I'm thinking about profit and cash. I ask myself what I'm going to do to drive the next pound of cash or profit. A good FD needs to be thinking that constantly.

He also has to be good at managing stakeholders because they are the key to success. You have to understand your customers, supplier, investors, credit insurers and banks. You need to understand their perspective in order to interact with them and have a good, transparent relationship with them. A good FD can never get away from the detail. You can't stay above the detail, otherwise, you're just pond-skating. You need to be a control freak.

You also need to keep pace with the business. Sometimes it is like a wave coming over your head. You have to be on top of that all the time. You have to be leading the business, rather than it being on top of you. If all the functions are running at 100mph you need to be ahead of the curve as a finance person. You need to be setting good KPIs and helping people to make the correct decisions so that the momentum is increasing. You can do that only if you are in front of everyone else.

'If you are doing your job properly, you feel part of the business. You get it in your blood and you feel the buzz'

Are there any skills you need particularly because it's an online business?
The difference from a bricks-and-mortar business is that online is so fast. Any decision you make at any time of day can have a profound impact on sales and margins. You have to be able to react in real-time and make decisions quickly, but in an informed way.

We are obsessed with data here. We know how each of our sites is performing, minute by minute. We have a big trading board up in the office so everyone knows how each site is performing, how the categories are doing and how they doing against their budgets. It's all transparent and it culminates in a daily P&L review so people know where they are at the end of every day. The crucial thing is to produce financial information that drives the business forward.

What advice would you give today's CIMA students?
Be passionate about your business. I don't feel that working at The Hut Group is really a job because I love it so much. If you are doing your job properly you feel part of the business. You can influence it every day, which is pretty exciting. You get it in your blood and you feel the buzz.

If you are passionate about your business, then you will learn and understand it inside out. And rather than just sitting at a desk and churning numbers, you will be able to understand them and do something with them. You will be able to pick up that piece of paper, go and see someone and influence something.

The other thing is to take the opportunities in front of you. You've got to be prepared to push yourself. You may have the skills, but you need to believe in yourself as well, and have confidence that you can add value to the business. You need to be able to challenge yourself.

CAREER LADDER

2001-04 Rajanah graduated from Keele University with a degree in finance and economics and joined the finance department of mobile phone distributor the Caudwell Group.

2004-06 Qualified with CIMA and became financial controller at the 20:20 Mobile Group.

2006-08 At the age of 26 Rajanah was appointed by the 20:20 Mobile Group as its head of finance.

2008-present Recruited by The Hut Group as finance director. In February 2009 he led its acquisition of Zavvi.com and by September the company was number one on the *Sunday Times* Tech Track 100 index, which ranks private IT firms in the UK according to sales growth. The following March The Hut Group was named the third-fastest-growing digital company in Europe. Rajanah helped to raise £32.5m in institutional equity from the City and later, in 2010, the company acquired retail websites I Want One Of Those, Mankind and LookFantastic. At the end of that year his department was highly commended in private-sector finance team of the year category at the CIMA's annual awards. In 2011 he became an FCMA at the age of 30 and was appointed group FD of The Hut Group. In February, Rajanah was voted Young FD of the Year in the North West Finance Director of the Year Awards 2009/10.

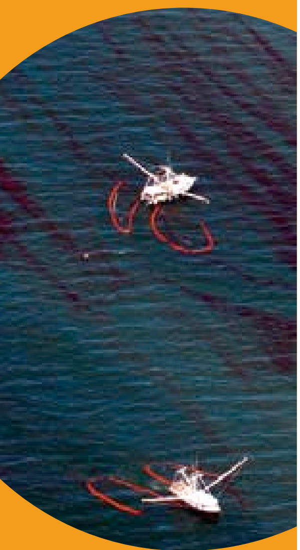
Managing volatility

Volatility is an ever-present feature of business life and the variety of risk variables gets larger every day. This doesn't make it any easier to predict the future, but every new crisis brings valuable insight into how to stay on track in a turbulent world

Gulf of Mexico oil spill, Deepwater Horizon

Demonstrations in Cairo, January 2011

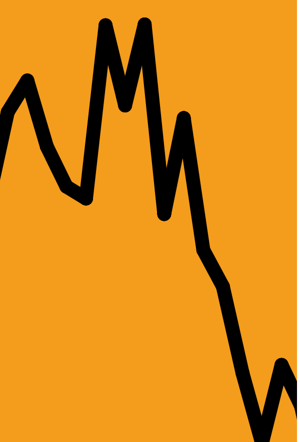
March earthquake and subsequent tsunami, Japan



Faith in the theory of efficient markets was probably destroyed forever by the events of 2008 when market volatility spiralled out of control, overwhelming major financial institutions and spreading contagion throughout the financial system. This has sparked a reassessment of the way companies, across all sectors, analyse and manage risks, a process that puts finance professionals centre stage.

However, the financial crisis has not been the only catalyst for change. Political risk monitoring also failed to anticipate the democratic uprisings that toppled dictators in Tunisia and Egypt this year, and the domino effect across the Middle East and north Africa.

The earthquake that hit Japan in March was another illustration of the uncontrollable forces that we face. Although the country was better prepared than almost any other to cope with such an intense shock, the force of the tsunami that followed still had devastating effects and the damage to the Fukushima nuclear power plant was unforeseen.



At times, this turbulence has no doubt left some companies, governments and communities feeling completely impotent to control the world around them. More importantly, though, it is encouraging organisations to spend a lot of intellectual energy trying to understand how to better predict and mitigate future crises. Strategic risk management is also becoming an integral part of everyday business and financial processes.

Financial risk

In 2006 Paul Woolley, former banker, economist and founder of fund manager GMO Woolley, set out to explain why economies blunder from one bubble and recession to another with such frequency – and why these cycles are getting shorter.

The answer, according to the Paul Woolley Centre for the Study of Capital Market Dysfunctionality at the London School of Economics, is that we have come to believe that markets can be relied on to squeeze out inefficiencies and to correctly value assets such as commodities, stocks, bonds, human talent and intellectual property.

"Financial markets are often significantly mispriced," says Woolley. "And yet all the risk models we use are based on the assumption that capital markets and markets in general are efficient. They aren't. Most of the time they are pointing in the wrong direction altogether."

There were a few voices that predicted the financial crisis, but they were largely dismissed by the herd. Greed and fear can make people do strange things, such as rushing to buy over-hyped commercial property portfolios and then dumping the same assets in the ensuing bear market.

Woolley is concerned that another asset bubble may already be building. "The worst thing that can happen in the next five years is commodity prices rising and creating inflationary pressure," he says. "That would lead to a contraction in GDP, which would erode the economic recovery and result in low interest rates. That, in turn, would encourage investments in high-risk sectors of the market. And that's where we are right now."

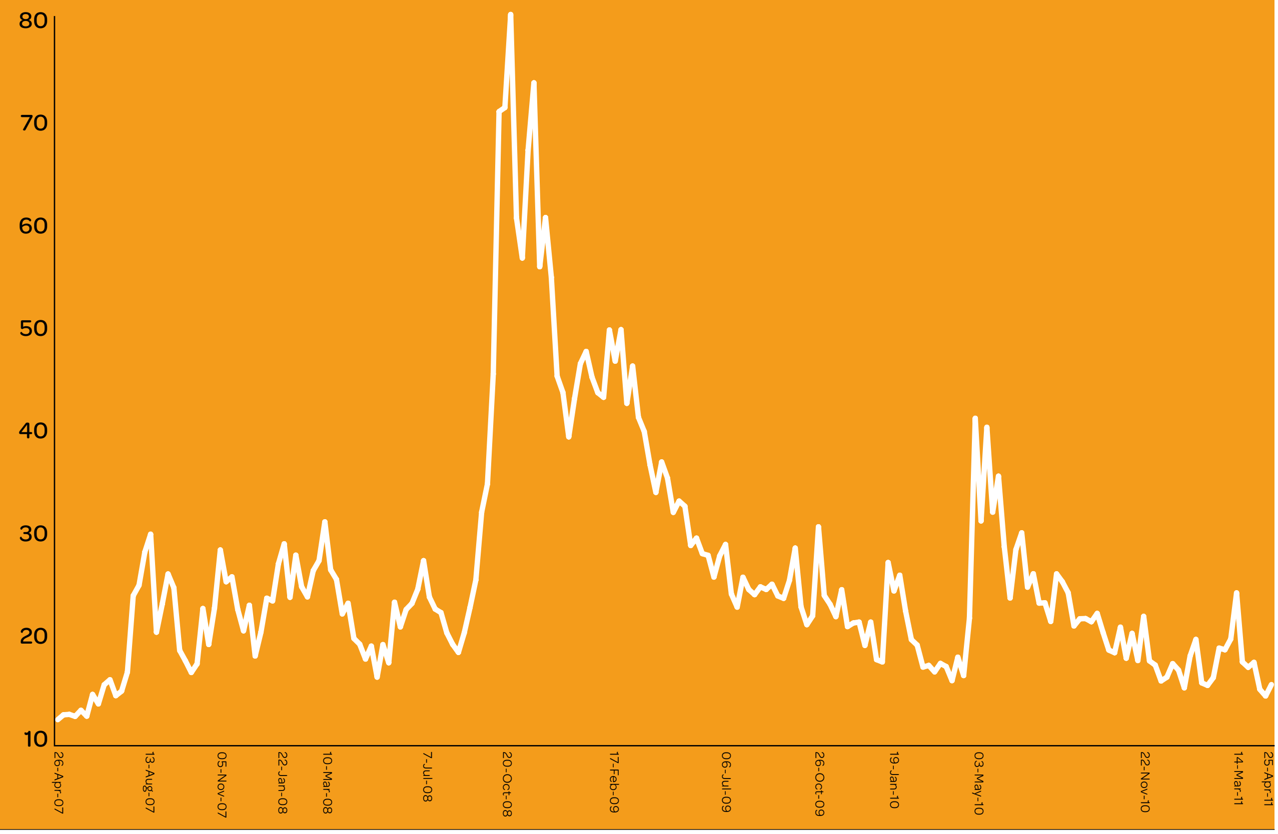
As a result, strategies for hedging inflation, currency and commodity exposures are becoming a vital part of effective risk management. A commodity-driven crisis is not inevitable, but Woolley says that institutional investors need to recognise the need to change the way they value assets. "There is an incentive for giant funds to change their strategies because the way they are acting results in lower returns," he says. However, history shows that it is better not to rely on market efficiency to deflate potential bubbles.

Avoiding the herd

It's not just in financial markets that a herd mentality can be destructive. Companies need to have an open culture in which people are able to raise issues before they become a problem, rather than simply toeing the line. Risk management is most effective in an environment in which people are encouraged to voice concerns, challenge the approach of the business and feed ideas into the strategic decision-making process. Similarly, senior management should be able to change direction without being condemned for lacking a long-term strategy.

Finance professionals have a particular responsibility to challenge management where it

THE CBOE VOLATILITY INDEX THROUGH THE GLOBAL FINANCIAL CRISIS



'The CBOE volatility index is a key indicator of investor sentiment. In 2008 it hit record levels as investors were gripped by fear'

looks like a financial, operational or strategic imbalance is developing. For example, is the company's capital level sustainable relative to its exposures? Does it have the right resource allocation between mature and emerging markets, and the right split between established brands and new, higher-margin products? Are customers and suppliers handled with equal care?

Prepare or die

Black Swan events, named after Nassim Nicholas Taleb's 2007 book, *The Black Swan: The impact of the highly improbable*, have three prevailing characteristics: they are a surprise to the observer, they have a major regional or global impact and, in hindsight, they seem to have been inevitable. But extreme events are almost never predictable.

What companies can do is try to work out which risks pose the greatest threat and make sure they are in a position to react well when disaster strikes. "No one is ever ready for the worst disasters," says Adam Bates, UK head of risk & compliance at KPMG. "The trick is to react to events and deal with customers so that you come out of the situation in better or at least similar shape.'"

In the early seventies, an executive at oil giant Royal Dutch Shell, Pierre Wack, was instrumental in creating a process called "scenario forecasting", using strategies based on military planning. Perhaps this explains why Shell has been better than most at handling overcapacity and kinks in global oil production. But forecasts are fallible – no one in the industry, Shell included, forecast the rise of the OPEC group of oil-exporting nations in the seventies or the rise in influence of environmentalism.

The approach to risk management should be different for every business, but certain elements will help whatever the situation. For example, a contingency plan is needed to keep the business operating as normally as possible, and a communications plan is needed to minimise reputational damage. In addition, a strong balance sheet is a huge advantage in a crisis. Although BP could have been better prepared to cope with the Gulf of Mexico oil spill last year, its ability to shed assets quickly and dip into its cash reserves to pay for the clean-up was a major strength.

On the other hand, the oil giant's handling of the public relations side of the disaster left a lot to be desired. When it becomes clear that a company isn't able to cope with a crisis, it can severely dent trust in a whole industry or the business community in general. The full impact of the Fukushima disaster on the nuclear industry is still uncer-

'No industry is without risks: in fact, uncertainty creates business opportunities. But you have to keep a strategic focus and ensure that resources don't get stretched too thin'

tain, but governments have come under pressure to temper or roll back their nuclear energy plans.

It has also made the job of the industry's lobbyists, such as Lady Barbara Judge, former chairman of the UK Atomic Energy Authority, that much harder. "Maybe the Japanese government and workers should have been ready for Fukushima, but they weren't despite a very close relationship between Tepco [the Japanese utility that managed the plant] and the government," she says.

The failings at the plant have severely undermined Japan's proud nuclear safety record but Lady Judge does not believe that it will stop governments investing in nuclear technology. "The standards of nuclear power plants are high and getting higher every year," says Judge. "The plants that were going to be built in China, India, France, Turkey, Jordan and the UAE are still going to be built. The ones that won't be built will be in countries where the governments were skittish, and they have a strong Green party – places such as Germany and Italy."

> People now accept that we must live with a degree of risk. This helps businesses, and nations, rebound from crises

Calculated risk-taking

No industry is without risks; in fact, uncertainty creates business opportunities. However, it is important to maintain a strategic focus and ensure that resources, notably human and financial capital, don't get stretched too thin. Also, don't go into new business areas or geographies unless you are fully prepared.

In some industries, companies inevitably have to work harder to convince the public or investors that the risks are worth taking. Take the resources sector, where the upfront capital investment is colossal, often demanding a multi-decade commitment. An iron-ore mine may only turn a profit for its owner ten years after the soil is first broken, but it might generate substantial amounts for cash for the next decade.

In this environment planning is everything. Bob Broadfoot, who set up Hong Kong-based advisory firm, Political and Economic Risk Consultancy (PERC) in 1975, says there are three risk priorities for any ultra-long-term investor.

The first is to ensure the asset exists, which is the easy part. The second, far harder part is to predict the scale of the political and regulatory risks to a project in some jurisdictions. "The biggest question a resources companies can ask is: 'Are my mines or my oil wells going to be nationalised five years down the road?'," says Broadfoot, who points to examples of this in Russia and Venezuela. "The second is: 'Will a huge national disaster shut down my operations temporarily or for good?'."

Broadfoot's third priority – the issue of whether the commodity will sell at a price guaranteed to turn a profit – comes much further down the list of risks, particularly given soaring demand for resources such as oil, copper and gold.

Whatever the sector, companies must be constantly aware of country-specific risk. China, for instance, may appear to be open to foreign direct investment – and it is. But it is important to be aware that Beijing is creating its own national champions and may be suspicious of commercial and human interests that it cannot control. This explains the travails of a diverse range of institutions in China including the dispute between Beijing and US search engine Google over hacking and censorship,

Crisis resilience

One piece of good news is that people generally accept that we must live with a degree of risk. This helps businesses, and even countries, to rebound from crises. Barely a decade after the horrific Bali bombs of 2002, which killed 202 and injured 240 more, tourists have returned to the country in droves. Tourism is double the level it was nine years ago. "Look at how long it takes for tourists to come back after a disaster – it's getting faster and faster," says PERC's Broadfoot. "As the number of events rises, the more people are getting accustomed to, and accepting of, risk."

This doesn't mean that past crises should be forgotten. "Our weakness is that, as human beings, we tend to live in a cycle where we make the same mistakes every 20 to 25 years," says Thomas L. Jones, Hong Kong-based managing director and co-head for Asia, at global advisory and restructuring specialist Alvarez & Marsal. "This is part of the human condition, which is why we are so bad at predicting things."

Finance professionals have a central role to play in ensuring that lessons are learned. Although there was a failure to anticipate the financial crisis, or the pro-democracy movements in the Middle East and north Africa, these events provide valuable information that finance professionals can use to improve the systems they use for forecasting future risks. History, as we know, rarely repeats itself, but it often chimes.

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

Photography: Getty Images, Owen Silverwood

On the talent trail

A company's best people can contribute 80 per cent of its value. Ben Schiller investigates how best to exploit this precious resource

For many companies, finding good staff is among their most pressing issues, and a task that is no longer limited to their home country. Businesses today want to find talent wherever it exists, and wherever the company needs to be.

According to a survey of 479 executives conducted by the Economist Intelligence Unit (EIU) last summer, 75 per cent said they expect to compete in more foreign markets over the coming decade, while 49 per cent said they expect to hire more people in foreign markets than at home.

If they are to succeed, however, companies will need to change their approach to finding and retaining talent, HR experts say. They will need to become more aware of cultural nuances; of changing employee expectations; and what motivates high-calibre people.

At the same time, HR observers say shifts in what companies need from staff (including increased creativity and innovation) will mean changes in how they go about hiring and retaining them.

Uneven world

At the moment, Asia remains the fiercest battleground in the "war for talent", according to Claire McCartney, lead adviser at the Chartered Institute of Personnel and Development (CIPD). "Experienced people are in massive demand. Lots of businesses are starting up and expanding. There are lots of multinationals out there and there's never enough people," she says.

Companies in China and India are finding it hard to retain good people, she says. One firm interviewed by the CIPD for a recent report hired 50 graduates in 2010, but ended the year with just one.

By contrast, many European and US companies have been shedding high-quality personnel, says Jeff Joerres, chairman and chief executive at Manpower, the international recruitment group. Although some introduced unpaid leave (furloughs) and voluntary pay reductions during the slowdown, hoping to keep their best people, they ended up making redundancies as the economic slump persisted.

Now, those businesses have to re-establish their reputations as good employers. "Companies that are not identified as 'employer brands' have to do a lot of things very quickly. The downturn was so severe that a lot of employers have been damaged," says Joerres.

Pieter Haen, president of the European Association for People Management (EAPM), says those that have "destroyed the trust of their own people" by cutting back "are going to have a huge problem winning that trust back". On the other hand, those that managed to keep the lion's share of their best employees will be at an advantage, he says.

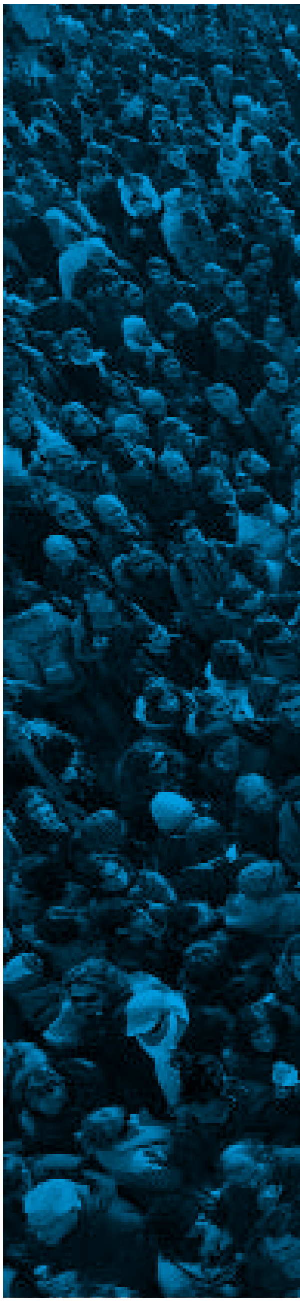
Empowerment

Joerres argues that to attract the best people, and get the most out of them, managers should resist a natural tendency to micro-manage their staff. In the future, companies need to recognise that less control often equals greater productivity in the long run.

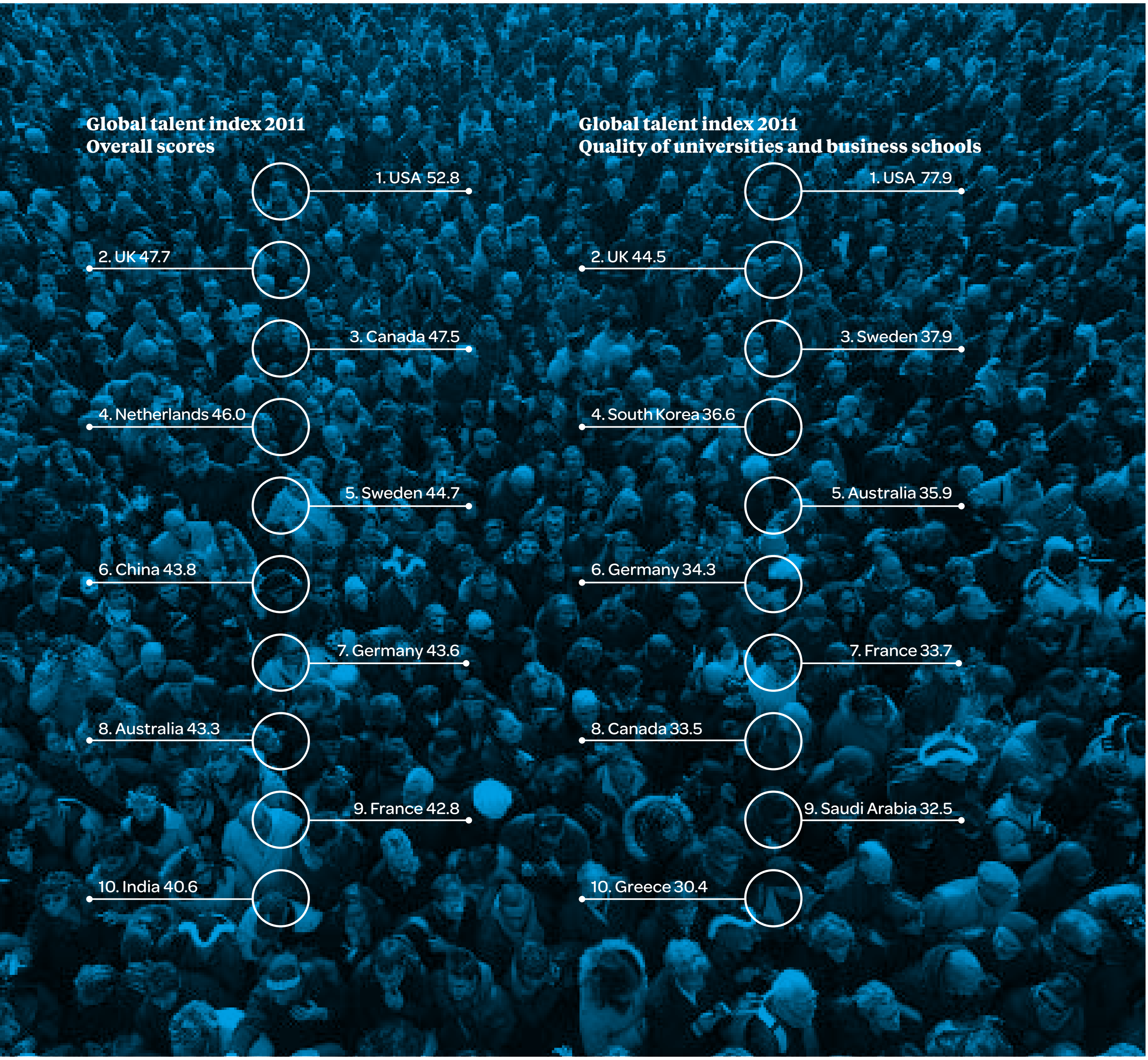
"The notion of command and control, which has so often been the default for management, needs to be reviewed seriously because it is not attractive [to employees]," he says.

"During a tension-filled time, with low margins, the natural propensity is to hunker down and inspect everything. You get rewarded in the short term for that. But in the long term, companies know they need people who can use their influence in a different way."

Studies support the importance of empowering "high-ability" employees. A 2004 paper by researchers Michael Lombardo and Robert Eichinger found



Source: 2011 Heidrick & Struggles International, Inc.



that "top talent" outperforms average employees by 40 to 50 per cent.

Meanwhile, a study by Robert Kaplan and David Norton (also 2004) found that 80 per cent of an average organisation's value can be attributed to its most talented employees.

Having good people is all very well, but you also need to be able to get the most out of them, says Mary Jacobsen, co-founder of Talent Psychology Consulting, which advises companies on talent management. "Talented people are worth every dime and more. But if you can't get them engaged and interested, rather than exploiting them for their ideas, they are not going to stay."

Jacobsen says many companies have misconceptions about high-flyers and fail to understand what makes them tick: "They believe the stereotypes about talented people: that they are difficult to work with, have their heads in the clouds, are socially inept, conceited, temperamental, emotionally disconnected, unstable."

Companies need to get away from a "mechanistic" attitude that treats talent as a commodity, rather than something to nurture and cherish. "They

People

‘Talented people leave companies with a dilemma – they have to give up control to get the most out of their best people’

need to go from ‘what can we get out of these people?’ to ‘what do these people need to thrive here?’ There has to be a shift away from talent being something you just exploit.”

Talented people leave companies with something of a dilemma, says Jacobsen. They know they need the best people and also that they have to give up some control to get the most out of them – something not all are prepared to do.

The fact that managers fail to make the most of their talent is corroborated by the EIU survey of senior executives last summer: 45 per cent of respondents (including 58 per cent of those at large companies) said their employers did not understand what motivates people. Similar proportions did not believe their companies were meritocracies.

Localisation

Some regions of the world remain places of high concentrations of foreign workers. In Qatar and the United Arab Emirates, for example, an estimated 90 per cent of private sector workers are expatriates. Although the six Gulf Cooperation Council (GCC) states have policies to “nationalise” their workforces and open up opportunities for locals, companies frequently get round the restrictions.

Some companies meet their quota for local staff by hiring drivers and security personnel rather than senior staff, according to Milad Rafati, senior HR manager for telecoms equipment supplier Huawei, in Iran. So they comply with the letter of the law but not its spirit.

Elsewhere, however, observers expect business to be increasingly localised, with multinationals using fewer expats, or at least using them differently.

“We think expats must be used sparingly in today’s global world. It’s much better to reverse-expat the leader: to have, say, a Chinese executive go to Sweden or France, then go back to China. That way, they have a deep understanding of what the company needs to accomplish in the context of the Chinese labour market,” says Joerres.

As well as “reverse-expating”, he expects to see more “dipping” where executives are sent to several countries for short periods, rather than spending years in one location. This is an efficient way of training leaders in a company’s worldwide operations and is less likely to demoralise local managers.

More fundamentally, Joerres foresees less “labour arbitrage”, where companies make the most of low-wage countries. Nations such as China will become more important as domestic markets, rather than places to site a factory for cheaper manufacturing.

At the same time, he expects that companies will become more sophisticated in how they exploit sources of expertise around the world – whether it is geologists from Indonesia or engineers in Poland. Companies need to analyse a talent hot spot – see how big it is, how it can be used and how long it will be there. Too often companies will gravitate towards a hot spot, race to set up major operations there and end up depleting the talent quickly, says Joerres.

“For example, Eastern Europe is popular for transaction and shared services. But if everyone runs to Sofia and puts [a centre] in, because they heard the city has good language skills, that hot spot will be dimmed in no time at all.”

Joerres suggests companies adopt a “multi-footprint strategy”, with smaller offices in several countries. That way, they can be flexible depending on what they need and what personnel is available.

Cultural nuances

Aside from basic remuneration, there are many variations in what employees in different societies want and expect. Claire McCartney, at the CIPD, says Asian companies often have quite different retention policies compared to their Western peers.

“It’s about appealing to Asian values, particularly a sense of community. A lot of companies have told us: ‘We’re not like American companies, we don’t associate with individualism and internal competition’,” she says.

“In the West, companies aspire to some of those things – we might talk about corporate social responsibility – but I think the Asian sense of community is at a completely different level. Companies in the West might think about what they can do to help the community, but they may not have that same idea of collective good,” says McCartney.

McCartney says the best Asian employers are combining Asian values with a greater openness and honesty often expected by young people.

Carol Olsby, a Seattle-based HR consultant, agrees that a more consensual approach is needed in China. She set up a division there for the Scandinavian IT consultancy Tieto.

“In China, the average worker wants to build a relationship with their employer, so you can’t just go in and start telling them what to do. In the US, the average tech worker stays in his job for two years. They are not looking for the same thing. China and India, are both more relationship-based,” she says.

In the Middle East, Rafati makes a similar point. “Workers consider salary, benefits and promotion as secondary factors leading to satisfaction. The primary motivators are the nature of the job, colleagues and a supervisor’s behaviour.”

Diversity management is also key, he says. “A one-size-fits-all solution can’t retain staff when you deal with Arabs, Iranians, Westerners and Indians.”

So, finally, if businesses are to become more local they need to understand the nuances of how to attract and retain people in different places.

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

Getty Images

The list

Illustrations by Borja Bonaque

8 ways to...

Harness the commercial potential of tablet PCs

Tablets aren't just cool gadgets – they have the potential to revolutionise how companies do business. Here are some creative applications that could drive sales, improve project management and enhance internal communications

1 Show off wares, replace the till

Retailers are using tablets as "shopping aids". Store assistants can show items that aren't in stock, suggest accessories or talk through the options for after-sales service. Some experts think that tablets could even replace cash registers.

"Retailers are asking themselves if Apple is the future of retailing," says Duncan Stewart, director of technology research at Deloitte Canada. "It has assistants wandering around its stores with smart devices instead of standing behind fixed check-outs."

And being "hip and groovy" is not the only aim, he says. "Apple is doing this because for $500 you can replace a device costing tens of thousands. It allows for a better customer experience and faster processing – usually."

BestBuy, a US electricals chain, is thought to be experimenting with tablets, while several retailers are using point-of-sale applications created by Erply, an Estonian start-up.

2 Arm the sales force

Deloitte says that businesses will buy a quarter of all tablets in 2011. Most of these are likely to be used by mobile workers such as salespeople. The devices enable them to check the availability of stock, play marketing videos to customers and change product information and price lists without printing new brochures.

German software firm SAP has bought 2,500 iPads for its sales and senior executives. Its chief information officer, Oliver Bussmann, says the devices also help to attract younger recruits.

Security fears have delayed many other firms from following suit. But Stewart says the risks are exaggerated. As users get data "from the cloud", nothing is left on the devices when they are shut down. And IT teams can control devices remotely, wiping them if necessary.

3 Navigate electronically

Airlines are testing tablet-based "electronic flight bags" (EFBs), which provide access to in-flight navigation and airport information. Jeppesen, a division of Boeing, recently put its iPad 2 through a rapid decompression test at 51,000ft and has signed up private jet companies to use the product (it is not yet cleared for wider use). Jeff Buhl, Jeppesen's senior manager for enterprise solutions, says that the app is "seven to 20 times less expensive than traditional EFB devices", has greater image clarity and, being Mac-based, is easier to use.

4 Enable on-site working

Manufacturing, construction and logistics companies are using tablets as electronic clipboards. Turner Construction in New York has distributed iPads to quality-control staff who can review project drawings and note any problems. Other firms are using the devices to supervise factories or warehouses. One benefit is that users no longer have to go back and forth

from office to site and can spend more time in the field, Turner says.

Most firms will want to "ruggedise" tablets for use on construction sites, but Stewart warns that "if you wrap these things in rubber, people tend to use them as a football. If you keep them as they are, they tend to be treated more considerately".

5 View patient records, visualise procedures

The healthcare industry sees big potential in tablets and is already using them in a variety of ways. Doctors can use them to explain procedures to patients, exchange clinical information or communicate with drug companies and equipment suppliers, for example.

"Healthcare is one of the early adopters of tablets. It's going to be an active market," says Neil Mawston, director of wireless device strategies at research firm Strategy Analytics.

There are already about 5,400 medical applications available for the iPhone/iPad and many more designed specifically for doctors and nurses. For example, Heart Pro, a training app from 3D4Medical, allows surgeons to open, rotate, label and "slice" through every part of a heart, and to test themselves in quizzes afterwards.

"Sharing radiographic data, showing information, talking about courses of treatment – there are lots of uses," Stewart says. "People are often terrified about procedures, so having a device that helps the doctors to explain to patients what these look like should be enormously helpful."

6 Improve board meetings

Many companies have made their board meetings paperless in the past few years. Instead of handing out thick "boardbooks" (files containing information relating to the meeting), they have instead used PCs. Now some are going further by adopting tablets.

Services offered by the likes of New Zealand-based provider Diligent Boardbooks are becoming popular, with firms such as AOL, Brit Insurance, DirectTV and ExxonMobil signing up. Users say that the iPad version is more portable than the laptop one and less of a barrier to conversation.

7 Brainstorm new ideas

The tablet is an excellent drafting tool – a sort of Etch A Sketch on steroids – and a useful brainstorming device. With hundreds of tools and effects, Autodesk's SketchBook Pro, for example, allows non-techies to flesh out their ideas. Such apps are also useful for architects and designers to show off their ideas to clients, allowing both sides to make changes.

8 Buy or sell insurance

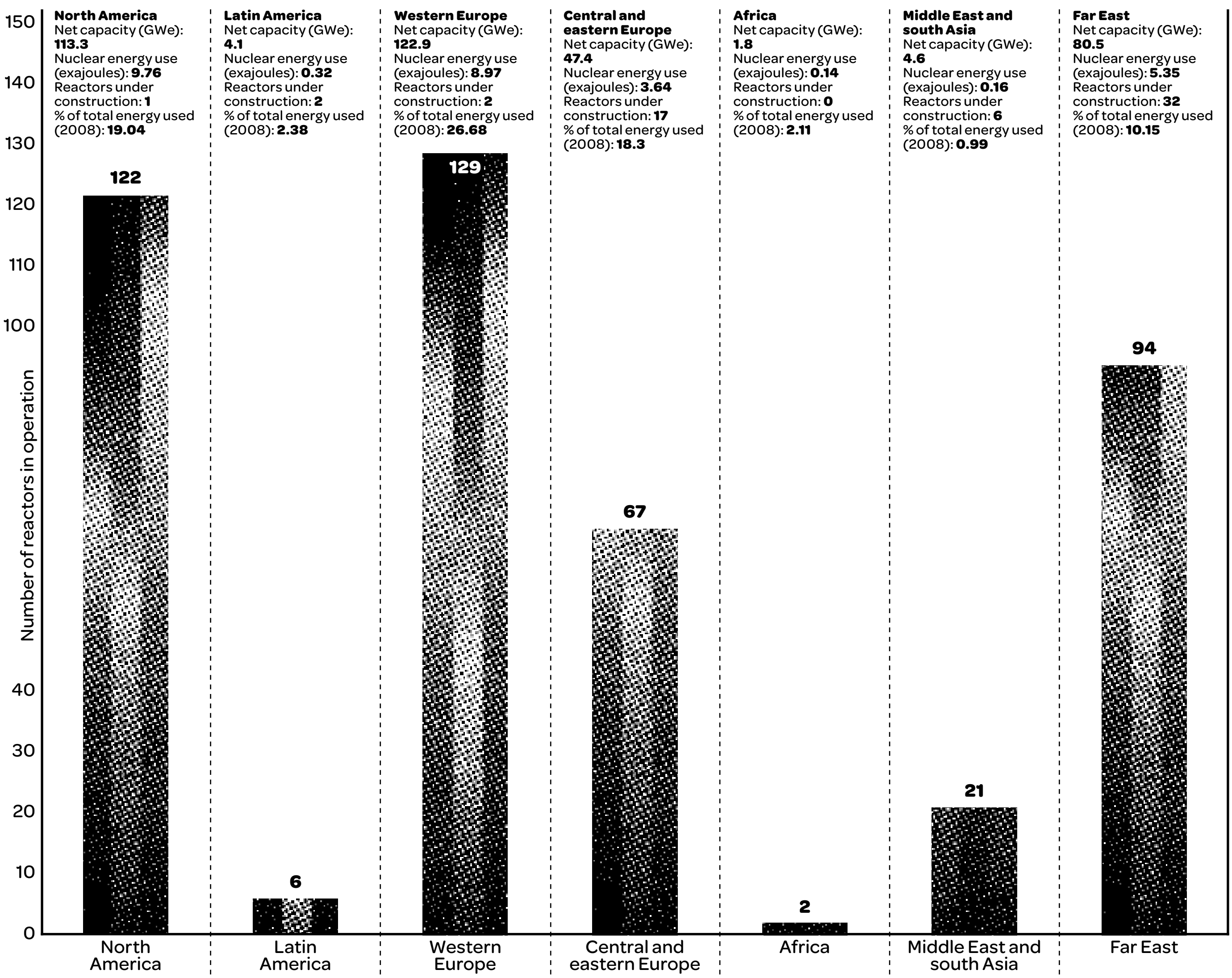
Last year Lloyd's of London, the 300-year-old market for unconventional risks, brought its underwriting room into the 21st century. Traditionally, deals between brokers and underwriters were signed on flimsy slips of paper. This system used masses of paper – an unnecessary cost in itself – but it was also inefficient: both parties would have to re-enter the details on their own systems and work out any discrepancies later. Under the new system, iPads are being used as an "electronic slip case", according to Lloyd's director of market operations, Sue Langley.

"By replacing paper with something that's easier to carry, but which allows amendments and links to other services, we are continuing to support the face-to-face negotiation that makes Lloyd's unique," she says.

Prime number

Global nuclear power capacity by region (August 2010)

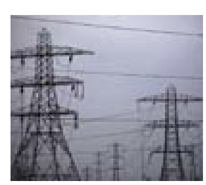
World
Number of reactors in operation: **441**
Nuclear energy use (exajoules): **28.34**
Net capacity (GWe): **374.6**
Reactors under construction: **61**
% of total energy used: **14.03**



Nuclear energy

The leak of radioactive material from Japan's tsunami-damaged Fukushima nuclear power plant has been a blow for the industry. Governments in countries such as Germany and Italy have come under increased pressure to roll back their investment plans as safety concerns have been revived. But soaring energy demand, particularly in emerging markets, should ensure that the 61 new reactors under construction around the world are not the last.

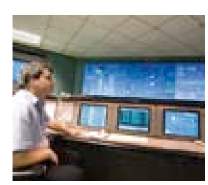
Getty Images



Top nuclear nations

The top three countries by number of reactors are Japan (54), France (58) and the US with:

104



Nuclear projections

By 2030, electricity generated globally from nuclear could be double 2008 levels at:

807 GWe

Source: International Status and Prospects of Nuclear Power, IAEA

Study Notes

Paper C01
Fundamentals of Management Accounting (also relevant to paper F1) p46

Paper P1 Performance Operations

It's estimated that cash flow problems cause half of all small business failures in the UK. Several approaches to tackling such issues exist, but they all have their pros and cons.

By Aaron Toogood ACMA
Senior lecturer in finance and CIMA course manager at De Montfort University, Leicester

Illustration: Martin Nicolausson/Dutch Uncle

Well over a third (38 per cent) of small firms in the UK suffered cash flow problems between 2008 and 2010, according to a recent survey by commercial lender Independent Growth Finance. Furthermore, 32 per cent of the sample – 200 companies with annual turnovers ranging from £1m to £25m – said that these problems were severe enough to jeopardise their business. The main cause they cited was late payment by debtors.

For an example of how cash flow problems can start, even in firms experiencing strong demand for their products, consider the case of a fictitious company called John Smith Ltd (JSL), which has £40,000 in start-up capital. The firm is planning to manufacture and sell royal wedding memorabilia. It has concluded from its market research that it can find demand for its total probable production if it sets the selling price at £30 per unit.

Because the research suggests that there is sufficient demand, JSL takes out a 12-month lease (£5,750 per month in advance) on a new factory, along with a one-off £15,000 charge to fit the factory with the required machinery with a useful life of five years (giving a straight-line depreciation charge equivalent to £15,000 ÷ [5 x 12] = £250 a month).

JSL then recruits three production workers, paying them £2,000 a month each, which will enable it to produce a batch of 1,200 units every month. Next the company purchases, with

Paper P1
Performance Operations

£12,000 in cash, the material required for the first month's batch of products (1,200 units x £10 a unit). It estimates that £6,000 (1,200 units x £5 a unit) worth of variable overheads in the form of utilities will be incurred each month (paid monthly in arrears). So the cost card is as follows:

	£ per unit
Materials	10.00
Labour	5.00
Variable overheads	5.00
Fixed overheads	5.00
Total cost	25.00
Mark-up (20%)	5.00
Selling price	30.00

So, at the end of the first month of production, JSL's cash balance is as follows:

	£
Start-up balance	40,000
Lease	(5,750)
Wages	(6,000)
Materials	(12,000)
Outfit of factory	(15,000)
Closing balance	1,250

To encourage sales, JSL offers 30-day credit – ie, it will give its customers 30 days from the date of invoice to pay the listed price. At the end of the first month a single happy customer takes delivery of all 1,200 units and agrees to pay £36,000 (1,200 units x £30 per unit) within 30 days. JSL's month-one income statement is as follows:

	£	£
Revenue		36,000
Cost of sales		
Opening stock	(0)	
Variable costs	(24,000)	
Fixed overheads	(6,000)	
Closing stock: 100 units x £25 a unit	2,500	
		(27,500)
Depreciation charge		(250)
Gross profit		8,250

In spite of this declared profit, the company has realised that it has no raw material inventories with which to satisfy demand in the second month. There is only £1,250 in cash, with a £5,750 lease payment and £6,000 in utilities bills due to be paid tomorrow. The company is also struggling because the cash inflow will be too late to meet the cash outflow requirements. Although it's a profitable business, JSL has got into financial difficulties because it doesn't appear to have enough cash to continue operating.

'The company's options are either to get a lump sum of capital in immediately or to manage its current cash flows better'

The company's options for survival (and those of the 38 per cent of small UK firms in the survey) are either to get a lump sum of capital in immediately or to manage its current cash flows better. The raising of finance – namely, debt and/or equity – is covered in some detail in paper F3, so this article will focus on the steps that JSL can take to improve cash flow that don't require further capital injections.

First, let's identify the company's particular cash flow problems:

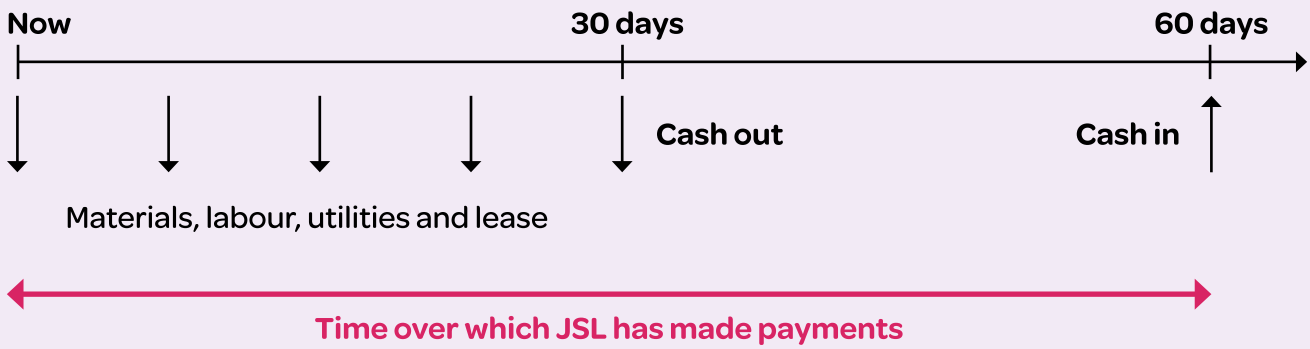
- It paid for its raw materials immediately in cash.
- It took the company 30 days to convert those raw materials into sales.
- The customer will take 30 days to pay (we hope).

If we look at the timeline of JSL's cash flows on the opposite page, the company's predicament becomes apparent. The different periods shown can be defined as follows:

- The inventory period (IP) is the time it takes to convert raw materials into sales.
- The receivables collection period (RCP) is the time required to convert sales into cash or for customers to pay for purchases.
- The payables payment period (PPP) is the time it takes to pay for the purchases received (equivalent to the RCP of a supplier).

The sum of the IP and the RCP is the total time the company takes to convert raw materials into cash (assuming that the delivery date of raw materials is also the invoice date). Subtracting the PPP from this total gives us the time that elapses between paying for the raw materials and being paid for what was made from them. This period is known as the working capital cycle. JSL has a positive working capital cycle, because its IP (conversion of raw material into sales) is 30 days, its RCP (conversion of sales into cash) is 30 days and its PPP is 0, since the company paid for its raw materials immediately in cash. This gives a working capital cycle of 30 + 30 – 0 = 60 days. Making this total shorter, or even negative, would free up cash.

JSL's cash flow timeline



Measure one: lengthen the payables payment period

It's likely that JSL had the option of paying for the raw materials some time after receiving them. If that was indeed the case, it would have been better for the company to have delayed payment for as long as possible. This would have enabled it to spend money in other areas and then pay for the materials using some future cash inflow.

Taking this principle to the extreme, we might say that the company should wait longer than the agreed period – even until its supplier is threatening court action – before paying. In the short term this approach might seem attractive, again freeing up cash that would otherwise be in the supplier's bank account. But, in the longer term, this supplier is unlikely to offer JSL any more raw materials and, when the company applies for credit terms with other potential suppliers, they will routinely seek references from previous suppliers. In that case, the company would quickly have no raw materials – and no business.

Measure two: reduce the inventory period

The company could adopt several approaches in order to shorten this period, including just-in-time purchasing/production methods and business process re-engineering. Although paper P1 touches on these, most of the relevant techniques are covered primarily in papers E2 and E3.

'Extending credit terms to customers will generally increase your sales, while paying sooner for your materials will give you access to more suppliers'

Measure three: reduce the receivables collection period

JSL would like to receive payments more quickly than it currently does, so an obvious option would be to shorten the payment term – in essence, compelling customers to pay earlier.

If the company took this to the extreme, it would insist that all customers pay in cash when they purchase, or even that they pay for the goods before these have been collected or even produced. The longer-term concern here is that customers would be deterred by having to pay immediately – after all, they have their own working capital cycles to consider – and would go to another supplier. Again, JSL would be left with no business in that case.

It boils down to the fact that extending credit terms to customers will generally increase your sales and paying sooner for your materials will give you access to more suppliers. Also, you are in fact the supplier to your customers and the customer to your suppliers.

Measure four: offer customers a discount for faster payments

Because JSL cannot reasonably expect its customers to pay for their goods any sooner than 30 days after receiving them, it needs to offer some incentive for them to do so – eg, a discount for an early payment. The customer then needs to decide whether the financial benefit of paying early would outweigh the cost of being short of cash.

Paper P1 Performance Operations

In the exam you might be asked to determine whether or not a particular discount should be offered, or the question may be phrased from the customer's perspective and ask whether or not to accept the discount. In either case, you should take the same approach:

- First, calculate the financial benefits of the discount – eg, saved overdraft interest for the supplier; lower payment for the customer.
- Second, calculate the cost of the discount – eg, lower payment received for the supplier; higher overdraft interest for the customer.
- Lastly, consider any non-financial factors – eg, the availability of other customers or suppliers.

Measure five: use a factoring company

Another option for JSL would be to engage the services of a finance company offering a factoring facility. For a fixed fee, the finance company (known as a factor) will advance a set percentage of an invoice's value as soon as the sale is made and the balance upon collection, usually by the factor, of the outstanding amount. This advance of cash will incur interest, often at a high rate, until the invoice has been paid in full.

With their credit-control know-how, factoring companies are often able to reduce the level of bad debts that a firm experiences. For an extra fee, a factor could also run JSL's entire credit-control function, including running credit checks on customers and chasing payments.

'With their credit-control know-how, factoring companies are often able to reduce the level of bad debts that a firm experiences'

Worked example

A company called Adam Jones Ltd (AJL) is experiencing cash flow problems stemming from its excessively long working capital cycle. The firm borrows the funds required to keep the business afloat via an overdraft facility (at an APR of 20 per cent). The following options are available to reduce the working capital cycle and alleviate some of AJL's cash flow problems:

1 AJL has 30-day terms with its supplier, purchasing a total of £1m in raw materials a year. The company has been offered a 2 per cent discount on payments made within 10 days.

2 The company is thinking about using a factor to shorten its RCP. This would involve receiving 85 per cent of the invoice value on the date of sale and being charged 15 per cent APR by the factor until it receives payment. The factor would also charge a service fee of 3 per cent of total credit sales. AJL's annual credit sales are £2.4m with an RCP of 45 days (which the factor estimates would drop to 35 days) and its bad debts are 4 per cent (which the factor estimates would drop to 3 per cent). AJL would also stand to save £45,000 a year in credit-control costs.

Should the firm take either of these options?

Let's first consider the cost and benefit of taking up the supplier's offer of a discount for payments made within 10 days:

Benefit	**£**
Payment saving:	
1,000,000 x 2%	20,000.00
Cost	
Extra overdraft interest:	
980,000 x (20% x [30 – 10] ÷ 365)	(10,739.73)
Total benefit/(cost)	9,260.27

Paying early would also improve AJL's credit rating, possibly leading to a more favourable arrangement relating to the length or amount of credit allowed. Taking this option would therefore be a wise move.

Moving on to the second option of using a factor, the costs and benefits would be as follows:

Benefits	**£**
Saving on overdraft interest:	
(2,400,000 x 85%) x (20% x 45 ÷ 365)	50,301.37
(2,400,000 x 15%) x (20% x [45 – 35] ÷ 365)	1,972.60
Saving on credit-control costs:	45,000.00
Reduction in bad debts:	
2,400,000 x (4% - 3%)	24,000.00
Costs	
Factoring fee: 2,400,000 x 3%	(72,000.00)
Interest on funds advanced:	
(2,400,000 x 85%) x (15% x 35 ÷ 365)	(29,342.47)
Total benefit/(cost)	£19,931.50

There is a risk that using a factor could harm AJL's relationships with its customers, because factors' cash collection methods tend to be more direct. They will be more persistent or even aggressive in their approach to debtors and more likely to take legal proceedings if they fall into arrears. This collection experience will be seen as part of doing business with AJL. Also, factoring is generally associated with companies that are in financial difficulties, so taking this option may amplify any concerns about the company that potential customers may have. So it's advisable for AJL to consider all these potential problems before agreeing to use a factoring arrangement, especially since the financial benefits of this approach (0.8 per cent of revenue) are marginal.

Further reading R Scarlett, *Performance Operations – CIMA Official Learning System*, CIMA Publishing, 2009.

Paper C01

Fundamentals of Management Accounting

(also relevant to F1 Financial Operations)

Contract costing can prove as complex as some of the situations it records, but this complexity becomes far more manageable once you have grasped the main principles

By Grahame Steven FCMA
Accounting lecturer and teaching fellow at Edinburgh Napier University

Contract costing is a specific order costing system that's applied to high-value jobs that will not be completed in a single accounting period – civil engineering projects, for example. An account is kept for each contract, and applicable direct costs and overheads – eg, labour, materials, plant hire, depreciation of machinery, share of head-office expenses etc – are, with appropriate year-end adjustments, charged to each account.

Financial accounting normally recognises costs and revenues when goods or services have been provided, but this approach isn't appropriate for contracts that cover more than one accounting year, since this would distort the financial results of the company concerned. Its profits would be overstated when it completes a large number of long-term contracts in a single year and understated when it completes few long-term contracts (or even none). As a result, profits or losses attributable to a contract must be determined for each year to give a fair view of the firm's performance.

Accounting practices for long-term contracts are set out in international accounting standard IAS11. Item 22 states the principles of revenue and cost recognition as follows: "When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period."

Let's consider a fictitious firm called Renaissance Renovations to look at some of the key aspects of contract costing. The company won a contract last year to repair a manor house on an island off the west coast of Scotland. The price of the contract is £5m and the work will take three years to complete. The estimated cost of the contract is £4.2m. Renaissance Renovations recognises revenue and profit on a completion basis – ie, the sales value of completed work as a percentage of the total sales value of the contract.

'Profits or losses attributable to a contract must be determined for each year to give a fair view of the firm's performance'

Customers generally make progress payments as the project goes on. These are normally based on the sales value of the work completed. This assessment is normally conducted by an independent architect or surveyor, who issues a certificate to certify the sales value of the work done. Contracts also often have a retention clause that entitles a customer to withhold an agreed percentage of the value of certified work. This money is retained to ensure that the contractor (or another contractor) attends to any defective work. The money retained by the customer is paid after an agreed period or once the defect has been resolved.

Renaissance Renovations has agreed a retention figure of 10 per cent with its customer. The customer has also agreed to pay 90 per cent of the value of invoiced work (based on a certificate issued by an independent architect) by bank transfer on receipt of an invoice. Each invoice is sent electronically to the customer before the end of the accounting year. The retention money will be paid once the contract is completed to the customer's satisfaction.

Illustration: Martin Nicolausson/Dutch Uncle

The starting point of the accounting process for this contract is to determine what costs can be charged to this contract. Item 16 of IAS11 states that costs shall comprise:

- "Costs that relate directly to the contract."
- "Costs that are attributable to contract activity in general and can be allocated to the contract."
- "Such other costs as are specifically chargeable to the customer under the terms of the contract."

The following costs (all allowable under IAS11) were charged to the first year of the island contract that began at the start of that year:

- Materials supplied to site: £340,000.
- Wages: £820,000.
- Value of the firm's own plant transferred to site at the start of the year: £150,000.
- Equipment hired for one year at the start of the second quarter: £80,000.
- Supervisor salaries: £220,000.
- Costs incurred at head office in support of the contract: £70,000.

The next step is to determine the cost of the work undertaken in the first year. The following extra information was obtained for the contract:

- Estimated value of materials on site at the end of the year: £50,000.
- Unpaid wages for the current year: £10,000.
- Depreciation: 20 per cent (reducing balance).
- Time requirement for pre-paid equipment hire in the second year: three months.

The costs incurred on the contract for the first year are as follows:

	Costs charged	Year-end adjustment	Costs incurred
Materials	£340,000	– £50,000	£290,000
Wages	£820,000	+ £10,000	£830,000
Own plant	£150,000	x 20%	£30,000
Equipment hire	£80,000	– £20,000	£60,000
Salaries	£220,000		£220,000
Head office	£70,000		£70,000

Materials are reduced by the value of the closing inventory; wages include an accrual of £10,000 for unpaid wages; depreciation is 20 per cent of the opening value of the firm's plant (£150,000); and an adjustment is made to reflect the fact that the hired equipment will also be used in the second year: £80,000 x (3 ÷ 12). As a result, the total cost incurred for the first year is £1,500,000.

The next step is to estimate how much it will cost Renaissance Renovations to complete the project. This figure is determined by a team of experts – surveyors, civil engineers, project managers, accountants etc – and it must be based on a thorough evaluation. The cost of the work required to complete the island contract is estimated at £2,600,000.

'Contracts often have a retention clause that entitles a customer to withhold a percentage of the value of certified work. This is to ensure that the contractor attends to any defective work'

The profit that the company expects to earn from the contract is £900,000 – ie, £5,000,000 minus £1,500,000 (the actual cost in year one) minus £2,600,000 (the estimated cost of the remaining work). A profit needs to be calculated for the first year, since the figure of £900,000 is the expected profit for the whole contract. This is done by ascertaining the project's stage of completion. Item 30 of IAS11 allows companies to use a number of methods to determine this:

- "The proportion that the contract costs incurred for work performed to date bear to the estimated total contract costs."
- "Surveys of work performed so far."
- "Completion of a physical proportion of the contract work."

Whichever method is chosen, it must reliably measure the work that has been undertaken in relation to a contract. The architect's certificate for the island renovation states that its sales value at the end of the first year is £1,750,000. The contract is therefore assessed as 35 per cent complete – ie, £1,750,000 ÷ £5,000,000.

The figure for the cost of sales is calculated in relation to the completion percentage based on the total costs (£4,100,000) expected to be incurred on the contract.

Renaissance Renovations' income statement will therefore include the following figures for the first year of the contract:

Income statment for year 1 (£)		*Calculation*
Sales	1,750,000	*per architect's certificate*
Cost of sales	1,435,000	*4,100,000 x 35%*
Profit	315,000	

The balance sheet will contain a number of items relating to contracts. The key ones are "Trade receivables" and "Gross amounts due from/to customers". The first covers unpaid invoices and unpaid retentions. The second reflects work performed in relation to a contract that has not yet been invoiced – ie, costs incurred minus costs included in the income statement. This will usually produce a debit balance. A credit balance will normally occur if a contract is expected to make a loss or a customer has been invoiced for work that is still to be completed by the contractor.

Paper C01 Fundamentals of Management Accounting

The following figures will therefore be included in Renaissance Renovations' balance sheet at the end of the first year of the contract:

Balance sheet for year 1 (£)		Calculation
Trade receivables	175,000	*1,750,000 x 10%*
Due from customer	65,000	*1,500,000 - 1,435,000*

At the end of the second year the cumulative sales value of the work done was assessed as £3,750,000. The actual costs after year-end adjustments for that period were £1,680,000. The projected costs of completing the contract were £950,000. Renaissance Renovations' year-two financial statements will include the following figures for the contract:

Income statement for year 2 (£)		Calculation
Sales	2,000,000	*3,750,000 - 1,750,000*
COS	1,662,500	*(1,500,000 + 1,680,000 + 950,000) x 75% - 1,435,000*
Profit	337,500	

Balance sheet for year 2 (£)		Calculation
Trade receivables	375,000	*3,750,000 x 10%*
Due from customer	82,500	*1,500,000 + 1,680,000 - 1,435,000 - 1,662,500*

The contract was completed at the end of the third year. The actual costs (after year-end adjustments) for year three were £970,000. Renaissance Renovations' financial statements would include the following figures for the contract:

Income statement for year 3 (£)		Calculation
Sales	1,250,000	*5,000,000 - 3,750,000*
COS	1,052,500	*1,500,000 + 1,680,000 + 970,000 - 1,435,000 - 1,662,500*
Profit	197,500	

Balance sheet for year 3 (£)		Calculation
Trade receivables	500,000	*5,000,000 x 10%*
Due from customer	0	*1,500,000 + 1,680,000 + 970,000 - 1,435,000 - 1,662,500 - 1,052,500*

Despite their best efforts, companies don't always make profits from their projects. When a contract is expected to make a loss, IAS11 (item 36) requires that loss to "be recognised as an expense immediately". The exam practice question at the end of this article covers just such a situation.

'When a contract is expected to make a loss, IAS11 requires that loss to "be recognised as an expense immediately"'

Sometimes it's impossible to make a reliable estimate of the outcome of a construction contract. IAS11 (item 32) addresses such situations by stating that:

- "Revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable."
- "Contract costs shall be recognised as an expense in the period in which they are incurred."

Companies must therefore adopt a prudent approach to the treatment of costs incurred in the early stages of a project.

Always remember that, although contract costing is not an art, neither is it a precise science.

Exam practice

Try the following question to test your knowledge. A model answer will appear in the next edition of *Velocity* (www.cimaglobal.com/velocity).

Renaissance Renovations has recently signed a three-year reconstruction contract with one of its customers, which it expects to cost £4m. The price of the contract is £4.2m, the retention is 10 per cent and stage payments are to be made at the end of every year. The following information was obtained at the end of each year of the project.

Year 1	£
Costs incurred in year	1,700,000
Estimated costs to complete contract	2,450,000
Total value of work certified at year end	1,680,000
Cash received from customer	1,512,000

Year 2	£
Costs incurred in year	1,430,000
Estimated costs to complete contract	1,100,000
Total value of work certified at year end	3,150,000
Cash received from customer	1,323,000

Year 3	£
Costs incurred in year	1,090,000
Estimated costs to complete contract	0
Total value of work certified at year end	4,200,000
Cash received from customer	945,000

You are required to determine from the above data which figures will be included in Renaissance Renovation's income statements and balance sheets for the three years of the contract.

Further reading J Watkins, *Financial Operations – CIMA Official Learning System*, CIMA Publishing, 2009.

Exam notice

Visit www.cimaglobal.com regularly for updates

May 2011 T4 part B on PC results

The results of candidates who took the T4 part B Case Study exam on PC will be sent out by first-class post or airmail on 16 June. They will also be emailed on 16 June to students who register to receive them online via their "My CIMA" accounts at least one week beforehand.

May 2011 paper-based exam results

The results for all paper-based exams will be sent out by first-class post or airmail on 14 July. They will also be emailed on 14 July to students who register to receive them online via their "My CIMA" accounts at least one week beforehand.

The institute cannot give out results on the phone or to personal callers at any CIMA office.

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

Appeals process

The closing date for appeals relating to the May 2011 exams is 28 June. Details of the process can be found in the "Instructions for exam entry" document on CIMA's website.

Attendance slip receipts

You will have received an attendance slip for each exam you sat. You should keep these for at least four months after the exams as proof of your attendance.

Question papers

The May 2011 exam papers are now available for registered students to download free via their "My CIMA" accounts using the "Student information" link. Model answers will be available shortly after results are released.

Please note that the model answers for March 2011's T4 part B Case Study exam will not be available until after the May results are released.

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.

Post-exam guides

Post-exam guides for May 2011's professional level papers will be available to download from CIMA's website in early August at www.cimaglobal.com/studyresources. These are essential reading for unsuccessful candidates and for those studying a new subject. They include:

- The exam questions.
- The rationale for each question.
- A suggested approach to answering each question.
- The outline marking scheme.
- Examiners' comments.

August/September 2011 resits and T4 part B on PC

The UK and Ireland exam resit pilot has been expanded to include all professional level papers and will run from 30 August to 3 September. For details visit www.cimaglobal.com/resit.

The next opportunity to sit the T4 part B Case Study on PC is on 31 August. Visit www.cimaglobal.com/t4onpc for information on how to enter.

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 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

Breaking glass

Female entrepreneurs already contribute £60bn to the wealth of the UK economy through their successful start-ups. But many more women are just discovering the joys of running a business

By Emma Warren (pictured)
Managing director of Portfolio Directors

I qualified as a CIMA management accountant in 1993 when I was 26 and working in a large manufacturing company as a business accountant. Roll the clock forward to today and I'm running my own company, Portfolio Directors, which I set up in 2007 to help other entrepreneurs to grow their businesses.

Along the way I gained plenty of varied experience. Within ten years of gaining my CIMA qualification I had managed three systems implementation and change management programmes, acquired an MBA, a husband and a baby – a busy period. Before I started my business I was the finance and operations director of a UK-based division of a large US manufacturing company. When I took over the operations part of that role, running more than 100 factory personnel, my husband gave up work to look after our son.

Looking back over my career and talking to other female entrepreneurs, I have realised that my thought processes in getting to this point were similar to those of my peers. Tereza Nemessanyi, founder and CEO of Honestly Now Inc, sums it up nicely in her article for *Reuters Small Business* (August 2010):

"If women are so good at starting businesses, then why does it take them longer to start one? Well, according to a Tampa University study women are bitten by the entrepreneurial bug later than men. Our start-up sweet spot is between the ages of 35 and 45 – after we've finished school, gained professional experience, had children and transitioned out of the early "interruption parenting" years. We are eager to apply what we know, to create new businesses on our own terms."

The comment "create new business on our own terms" seems to be a common theme for women in business. In a recent article Sandra Rapacioli, CIMA's leadership and sustainability specialist, summarised the thoughts of senior level professional women on career progression gathered by the "Breaking Glass – strategies for tomorrow's leaders" report like this: "The experiences shared by the interviewees show that it is possible to overcome the common barriers experienced by women in the workplace with a combination of support at home and work, confidence and determination, meticulous organisational skills and a strategic approach to career planning."

'A growing number of women are choosing to juggle running their own business with bringing up their children'

These elements also provide good foundations for a successful business start-up. The commercial focus and sound financial grounding of the CIMA qualification, which supports career development, also help women to develop their own businesses and excel as business leaders.

Breaking glass

Research shows that women account for 60 per cent of graduates in the EU and 38 per cent of CIMA members, but only 12 per cent of FTSE 100 board members are female. Although the UK's Department for Business, Innovation and Skills reports that companies owned by women contribute £60bn to the economy, this is only about 25 per cent of the total wealth generated by people who run their own businesses in the UK.

This suggests that the trend for women to take a career break for a period of time, known as "off-ramping", is an important contributor to these results. About 37 per cent of highly qualified women take a break, usually to have a family, according to research published in the *Harvard Business Review* in 2005 titled "Off ramps and on ramps".

'Be realistic about what you need to launch the business and survive until income streams have built up'

Many of these women would have previously returned to their careers, but today a growing number are choosing to juggle running their own business with bringing up their children instead. A key reason for this is the improved ability to work from home. A survey of entrepreneurs who'd set up home businesses found that technology is critical to their companies' success. You can read the findings in the "Home Business Report 2009" by BT and Enterprise Nation (http://enterprisenation.com/services/in-research/).

This, plus a desire to combine a career with family or other interests, means that running your own business is more achievable than ever before.

TOP TEN TIPS

Starting up your own business is always harder than you think it will be. Here are some tips that might help.

- **Research**
Make sure that there is a market for what you want to offer. Talk to friends and family, do detailed research and then speak to someone who will challenge your thinking.

- **Sources of advice**
Talk to entrepreneurs, search online for useful information and contact local business organisations and banks for free start-up guides.

- **Business plan**
A plan provides focus and clarity. If you're using it to raise funds or talk to banks, it must be written for their needs, so ask what they require. The crucial documents are a cash flow and an action plan – one stops money loss and the other stops prevarication.

- **Structure**
Sole trader, partnership or limited company? Get advice on the right structure for your needs now and your growth plans. Consider employees – do you need them or could you outsource at the appropriate time? Buying a slice of someone's time when you need it may be better than putting them on the payroll.

- **Branding**
A brand should communicate with customers, so make sure it makes sense to them. Get it right from the start and limit your spending to the essentials.

- **Funds**
Be realistic about what you need to launch the business and survive until income streams have built up. If it's not earned, it can't be spent. Put robust financial plans in place, have a budget and stick to it.

- **Networking**
Get the word out there – online or in person. Work out where your potential customers are and make sure you're there too. A great networking resource is www.joinedupnetworking.com.

- **Family**
You will need support, so make sure your family knows how the way you work will change and what support they can give. You might have to explain that working from home doesn't mean you're there to do family things all day.

- **Professional image**
In the early days you are the brand, so you need to look and be professional. Decide what type of customer experience you are trying to create. The first encounter with you will define how people feel about your company.

- **Enjoy it**
Starting up a business is hard work, but it's also rewarding – so don't forget to enjoy it.

Further reading To read more about CIMA female members in business visit www.cimaglobal.com/women-casestudies

Elephant in the room

Efforts to improve corporate reporting tend to focus on fine-tuning content, while the larger issue of how to reform the overall reporting system is ignored. Until this changes, progress will be piecemeal

By Nick Topazio
Head of reporting at CIMA

It's not often that you will find a parable in a paper on corporate reporting, but you will if you read the "Tomorrow's Corporate Reporting: a critical system at risk" report based on research by CIMA, PricewaterhouseCoopers and Tomorrow's Company.

It tells the story of the blind men and the elephant (see box), which highlights the point that many participants in a system only see the piece that is right in front of them and fail to recognise that this is only part of a much greater whole.

This is particularly relevant to research for "Tomorrow's Corporate Reporting", which addresses the systemic issues hampering the effective development of corporate reporting rather than the content of an "ideal" corporate report.

The research is based on interviews or discussions with 145 individuals at the main stakeholder groups that have an interest in corporate reporting. This included representatives from 118 organisations in 22 countries across five continents. Here are the main findings.

'The corporate reporting system has to be able to anticipate and adapt to these changes'

THE PARABLE OF THE BLIND MEN AND THE ELEPHANT

"Once upon a time there was a certain raja who called to his servant and said: "Come, good fellow, go and gather together in one place all the men of Savatthi who were born blind... and show them an elephant." "Very good, sire," replied the servant and he did as he was told. He said to the blind men assembled there: "Here is an elephant," and to one man he presented the head of the elephant, allowing him to touch it, to another its ears, to another a tusk, to another the trunk, the foot, back, tail, and tuft of the tail, saying to each one that that was the elephant.

When the blind men had felt the elephant, the raja went to each of them and said to each: "Well, blind man, tell me, what sort of thing is an elephant?"

Thereupon the man who was presented with the head answered, "Sire, an elephant is like a pot." And the man who had observed the ear replied: "An elephant is like a winnowing basket." The man who had been presented with a tusk said it was a ploughshare. He who knew only the trunk said it was a plough; another said the body was a granary; the foot, a pillar; the back, a mortar; the tail, a pestle, the tuft of the tail, a brush.

Then they began to quarrel, shouting: "Yes it is!" "No, it is not!" "An elephant is not that!" "Yes, it's like that!" and so on, till they came to blows over the matter.

Jainism and Buddhism. Udana 68-69: From the parable of the Blind Men and the Elephant

- **A jigsaw in pieces** Like the blind men in the parable, no single participant is fully active in, controls, or may even see the entire corporate reporting system. Companies, auditors, investors, shareholders, standard-setters, regulators and others tend to stick to their familiar focus on the content of reports; others do not believe that a "system" exists at all.

- **Data without context** The corporate reporting system comprises people, institutions and professions with distinct mindsets, agendas, traditions, histories and ways of behaving. Yet it is often simply treated as an information system for processing data.

- **Conflicting views** What is the purpose of corporate reporting? Is it for shareholders and investors, or is it for a wider "public interest". The views advocated by different participants tend to reflect their positions and agendas within the current system.

- **Systems within a system** The corporate reporting system is characterised by a number of parallel reporting systems, including analyst briefings, shareholder meetings and investor days. Sometimes these alternative systems are aligned and consistent, but often they are not. Frequently, they are ways of dealing with perceived shortcomings in the scope and timeliness of information provided by the core reporting system.

- **Quantity, not quality** The financial reporting model has developed piecemeal, with new requirements being bolted on all the time. The sheer volume of, often immaterial, disclosure increasingly serves only to obfuscate, though not necessarily intentionally, the true picture.

- **Limited understanding** Many market participants have little incentive to support change or innovation that might expose gaps in their understanding of complex corporate reporting.

- **Looking back, not forward** The systems for assessing corporate behaviour in economic, social and environmental terms are constantly evolving. The corporate reporting system has to be able to anticipate and adapt to these changes.

All these factors must be understood and addressed in order to create a reporting system that is responsive to the changing business environment and can provide an adequate account of long-term value creation.

The aim of this research is to create a debate about how the overall reporting system operates. Some people do not see any need for change and their views are aired in the report, but many people do. The report is essential reading for anyone who supports the need for change and wants to influence the form that it takes.

‘The report is essential reading for anyone who supports the need for change and wants to influence the form that it takes’

Another area of focus at CIMA is the financial reporting supply chain. This builds on two reports on the subject by the International Federation of Accountants (IFAC) in recent years. CIMA chief executive Charles Tilley has led a further phase of study and has just published recommendations based on interviews with 25 global business leaders.

The recommendations relate to governance, financial reporting, financial auditing and steps towards more integrated business reporting. Here are some of the most significant issues raised.

Governance

One of the key governance messages in the report is that “the primary responsibility of directors is performance, not compliance”. In other words, everyone involved in management should be promoting long-term sustainable success, and the structure of organisations should support this aim. Regulation should not be the driver of this. The most successful businesses don’t regard good governance as a box-ticking exercise, nor as a panacea that protects against business failure.

Financial reporting

A number of interviewees pointed to the problem of increased complexity within financial reports and concluded that “it is critical that financial reporting becomes more relevant and understandable”. Globalisation and ever more intricate financial instruments are two factors driving increasingly complex business transactions, which can make financial reports difficult to understand. However, this is not inevitable: a strategy and business model may equally be too complicated if it cannot be described in a straightforward way.

Financial audit

Another message was that “auditor communication should be improved”. Audit reports should provide more of the information used by the auditors to reach their opinion, such as assessments of risk, materiality and the application of professional judgment.

Integrated reporting

The final conclusion was that “a new integrated business reporting model should be developed” that provides useful information to a diverse group of stakeholders. This should integrate the strategic, financial, social, environmental and governance aspects of the business into a single interconnected explanation. South Africa has taken the lead by making integrated reporting a mandatory requirement. Global efforts are being led by the International Integrated Reporting Committee, which is expected to publish a consultation paper shortly.

The IFAC’s report and the Tomorrow’s Corporate Reporting project both address the “elephant in the room” – namely, that the corporate reporting system is at risk. These reports will be influential in the future development of corporate reporting so it would be unwise to ignore them.

Illustration: Dmitry Litvin/Dutch Uncle

Further reading Tomorrow’s Corporate Reporting is available to download from www.cimaglobal.com/tcrcfe
The IFAC Business Reporting Recommendations are available to download from www.ifac.org/frsc
Nick Topazio is head of reporting at CIMA; see his regular blog on reporting issues at www.cimaglobal.com/cimasphere

What you learn on the... tax-related CIMA Mastercourses

Susan Cattell, head of tax professional development at BPP Professional Education, and course speaker on the corporation tax refresher and update

Our comprehensive array of tax courses range from the highly specialist to refreshers and updates aimed at people working in companies or accountancy practices who need to brush up their more general knowledge and expertise.

Here is a summary of some of our most popular tax courses...

Corporation tax refresher and update

I get a lot of people coming on this course who qualified as an accountant a number of years ago and now need a refresher because their role within an organisation has changed. Other delegates take this course simply to ensure that their existing knowledge is up to speed.

The course starts with the basics: a recap of how to complete a corporation tax computation. We also consider in detail the new capital allowance regime, the UK Treasury's reduced corporation tax rate following the recent Budget and other major recent changes. Additional topics covered include self-assessment, trading profits, loan relationships, capital allowances, loss relief, intangible fixed assets, group chargeable gains and liquidations.

Essential annual tax update

This course is aimed at accountants either in practice or industry who want to bring their knowledge up to date. We cover all the main relevant areas within corporation tax and beyond – business taxation, including capital allowances, and employee taxation, PAYE and NIC. We also look at significant changes in VAT and personal taxation.

UK taxation of groups

This course looks in detail at group relief, consortium relief, reorganisations, buying a subsidiary, demergers, asset disposals and other major issues relating to the tax treatment of groups in the UK. It's designed for people who advise, plan and manage group-related transactions. Specific topics covered include: group relief, group chargeable gains and losses, group tax payments, consortium arrangements, transfers of assets within a group and transfers of trades within a group.

VAT refresher and update and... International VAT – goods and services

VAT has always been a particularly complex tax, but the recent rate rise in the UK has rendered it an even bigger issue. Making a VAT-related mistake is more expensive than ever – particularly if you are partially exempt.

The VAT refresher and update course is designed to give delegates an overview of the fundamentals of the tax, as well as an update on all the key changes in recent VAT legislation. Specific areas covered include recent cases on the deductibility of input tax, and advice on how to minimise exposure to the new regime of penalties for errors.

The international VAT – goods and services course is also highly relevant at the moment because January 2010 and January 2011 brought major changes to the rules in this area. Delegates will benefit from a full update on these changes, as well as an overview of the structure of VAT under European law, an understanding of how the tax impacts on international supplies of both goods and services, an in-depth examination of the rules relating to the various types of overseas services and insight into ways of planning to minimise VAT costs.

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

A delegate's view

Martin Finn, commercial director, Planners Services and Sundries Ltd

I'm a qualified accountant with experience in practice and in banking, and I'm now commercial director at a flooring materials business in London. I'm never going to be a tax expert but I have to keep my general awareness up about any new or emerging changes that might affect the company.

I try to go on one tax course a year and this year it was CIMA's annual tax update. A couple of years ago I went on the specialist VAT course, but it was too in-depth for the knowledge that I had. What I love about the annual updates is they cover a little of a lot. If there is anything that is relevant, you are pointed in the right direction to go and find out more information, or you can stay behind at the end and ask a few more questions. I get pretty good updates from our accountants and auditors but it is nice to go into meetings forearmed with knowledge so that I can do a bit of digging.

This time one of the relevant areas was the changes to group structures. Since the course, I have able to pester our tax advisers to find out whether we might be affected by the changes as we are an associated group. They think that we shouldn't be caught by it but it was nice to have some knowledge to know what to ask.

The focus on leased vehicles was also helpful. We have historically bought all of our cars but we have been looking at ways of making savings. We've worked out that it is about the same cost to lease or buy our vehicles, so we've decided to keep buying them. Again, going on the tax course helped me to ensure that I'd looked at all the relevant information before making that decision.

Job of the month
Assistant management accountant

Jason Brown, manager at recruitment consultancy Robert Walters, talks about a role that offers varied experience and is a great springboard for future success

Illustration: Denis Carrier/Dutch Uncle

Assistant management accountant roles are always in demand – it's the next step up from being a junior accountant and a stepping stone to becoming qualified. The great thing about the job is that, although specifics may vary depending on the employer, it generally offers a lot of diversity in terms of the work involved. At this juncture in a career, it's a perfect time to be getting a taste of different aspects of accounting before specialising further down the line.

The good news is that the market is buoyant and there are more of these jobs available than there have been for the past three years. Another good thing about the job is that, unlike when businesses are recruiting for roles higher up the ladder, they don't generally look for specific sector experience. So if you're a part-qualified accountant reading this and are thinking about working for a completely different type of company, then this position offers the chance to make that transition.

The role itself is typically transactional in nature. On a day-to-day basis it may involve financial analysis and month-end reporting on budgetary and cash-flow forecasting, as well as ad hoc project work. With this variety comes exposure to people working in different roles across the business, such as credit controllers, financial accountants and accounts payable managers. You are also likely to be required to work closely with key business heads. So it is the sort of role that will get you exposure right across the company and provide a good platform to build a career within the company.

But how do you get one of these sought-after roles? Although there is massive competition for the best jobs, there are certain things that will make the best people stand out. As the role is forecasting-based and forward-looking in nature, businesses primarily look for CIMA qualifications when recruiting for these roles. Employers also always look for double-entry bookkeeping, budgets and cash-flow experience as well as year-end reporting experience.

Beyond that, the skills and qualities in demand will vary according to the business that is recruiting. Some will look for excellent academics, while others will focus more on attitude. For example, a client recruiting for this role that I recently spoke to said that they wanted someone who, when faced with a brick wall, would work out a way to get around it rather than give up. Although this is clearly a bit of a cliché, it certainly gives a good idea of how some hiring managers are thinking at the moment. They also want someone who understands the relevance and importance of accounting to the rest of the business and is able to demonstrate this at the interview.

Perhaps most importantly, and this is true of the majority of accounting roles, they want people who are articulate communicators capable of speaking about financial information to key stakeholders within the business in a way they can understand. The only slight negative is that, as it's a part-qualified position and companies are still watching their bottom line, most businesses are now tying salary increases to passing exams and fully qualifying.

For people who land an assistant management accountant role, the potential possibilities are huge. It enables CIMA graduates to qualify in an environment where they will gain hugely varied experience, allowing them to progress quickly into a number of different specialist roles of their choosing – from planning and analyst positions to management accounting or financial management roles.

If you are interested in becoming an assistant management accountant or are looking for any other accountancy role, contact Jason on 020 7509 8816 or jason.brown@robertwalters.com

CIMA global events

Past events

CIMA Global Business Challenge

Seven teams from across southern India competed in the regional final of the 2011 CIMA Global Business Challenge at Chennai in March. "Team cogitators" from Stella Maris College triumphed and Team Samukh from Christ University came second. The national champions from 17 countries will compete in the grand final in Chengdu, China on 25 and 26 July. The competition is designed to bring out the best in the business leaders of tomorrow. The teams must analyse, write and present a report on a CIMA case study.

KPIs that matter – how to choose the best

11 March, Hong Kong

Francis Rowlands FCMA, chairman of CIMA's international development committee, analysed the differences between various key performance indicators and discussed which are most useful in driving a business. This was a joint seminar with CPA Australia and the University of Hong Kong.

Tomorrow's balance sheet – sustainability and reporting

17 March, Hong Kong

Integrating strategies for corporate responsibility and evaluating their social and environmental impact is becoming increasingly critical to business. At a seminar Robert Jelly, CIMA's executive director for education, explained how companies have been putting such strategies into practice.

He summarised the main points arising from a recent round-table debate, involving senior business decision-makers and experts in sustainability, which was organised by the institute and the Tomorrow's Company research group.

Gauteng annual graduation event

17 March, Johannesburg

There were 190 attendees at CIMA's graduation ceremony for its Gauteng branch. Seventy-six people received certificates in business accounting, diplomas in management accounting, advanced diplomas in management accounting or ACMA status.

Chris Quainoo ACMA, Gauteng branch's chairman, congratulates Yolande van Wyk on becoming a member of the institute.

Western Cape student cruise

30 March, Western Cape, South Africa

The Western Cape branch committee held a networking cruise, which was attended by 16 students. They used the opportunity to set up study groups, share exam tips and find out about the CIMA courses on offer.

Business game

5 April, Puncak Perdana, Malaysia

Fifty students taking the fast-track diploma in accounting participated in a CIMA business game. The Pearl team was victorious and Mohamad Aiman Bin Abdul Manag from the Nano Corp team was named best speaker.

Coming events

MALAYSIA

The CIMA 2011 Global Business Challenge – Malaysia final
11 June (time and venue tba)
The winning team will go on to the global final in China.
Contact Karen Yeap on 03 77 230 255

CIMA green sustainability conference Asia 2011
12-13 July,
InterContinental Kuala Lumpur, 165 Jalan Ampang, Kuala Lumpur 50450
More than 300 senior decision-makers from across Asia will discuss how to profit from sustainability. CIMA members can use 200 credit points to offset the fee.
Cost: tba.
Contact Saras or Saritha on 03 77 230 337/286.

UK

Women in leadership: what's stopping you?
8 June, Bristol; 9 June, London; 15 June, Leeds; 16 June, Birmingham (times and venues tba)
Speakers will include Rachel Bridge, *Sunday Times* enterprise editor; Katie Hopkins, former contestant on *The Apprentice*; and Penny Mallory, rally driver.
kathryn.stubley@cimaglobal.com

Retired members' lunch
15 June, 10.30am
Stoneleigh Abbey, Kenilworth, Warwickshire CV8 2LF
Cost: £20 (includes lunch and a tour of the abbey).
region.four@cimaglobal.com

IFRS – introduction
15 June, 9am to 5pm
Manchester (venue tba)
Cost: £599 plus VAT (£539 plus VAT for CIMA members).
www.cimaglobal.com/mastercourses/ifin

Unleash your potential – a case study in leadership
22 June, 6.30pm for 7pm
Roman Way Hotel, Watling Street, Cannock, Staffs WS11 1SH
Andy Evans, MD of EDS Couriers, will explain how he quadrupled his company's turnover and boosted profits in 18 months with the help of Martin Boland, MD of Recreate Success Coaching.
region.four@cimaglobal.com

Carbon reporting and carbon footprinting
22 June, 9am to 5pm
Glasgow (venue tba)
A guide to the implications of the Climate Change Act 2008.
Cost: £599 plus VAT (£539 plus VAT for CIMA members).
www.cimaglobal.com/mastercourses/craf

Members in practice conference 2011
24-25 June, (time tba)
Heythrop Park, Enstone, Oxfordshire OX7 5UF
Speakers will include Gerald Ratner and Jimmy Greaves.
Cost: £320 plus VAT for two-day conference, dinner and accommodation (day tickets are available).
hayley.dove@cimaglobal.com

Central London and north Thames student conference
25 June, 9am to 5pm
Chelsea Football Club, London SW6 1HS
An event offering networking and guidance on how to pass November's exams.
Cost: £20 (£15 if paid before 13 June).
www.cimaglobal.com/centrallondonandnorththames

Financing and investment strategy
29 June, 9am to 5pm,
London (venue tba)
A focus on the sources of finance available and advice on how to get an appropriate mix of equity and debt.
Cost: £599 plus VAT (£539 plus VAT for CIMA members).
www.cimaglobal.com/mastercourses/fais

Taming your tigers and working the room
30 June, 6.30pm for 7pm
Room HUO.08, Hugh Aston Building, De Montfort University, Leicester LE2 7BQ
Lessons from a motivational guru and an expert networker.
Cost: £10 (all proceeds go to CIMA's benevolent fund).
www.cimaglobal.com/eastmidlandsandeastanglia

What gets in the way of networking?
5 July, 6.30pm for 7pm
The Studio, 7 Cannon Street, Birmingham B2 5EP
region.four@cimaglobal.com

Management accounting and reporting best practice
5 July, 9am to 5pm
London (venue tba)
Cost: £599 plus VAT (£539 plus VAT for CIMA members).
www.cimaglobal.com/mastercourses/maar

New members' celebration
5 July, (time tba)
Royal Courts of Justice, Strand, London WC2A 2LL
nmc2011@cimaglobal.com

Spreadsheet skills for forecasting, planning and budgeting
11 July, 9am to 5pm
Milton Keynes (venue tba)
This Mastercourse will outline a variety of approaches to forecasting, planning and budgeting, including the ability to develop these management tools by using spreadsheets on a PC.
Cost: £599 plus VAT (£539 plus VAT for CIMA members).
www.cimaglobal.com/mastercourses/sfpb

CPD summer academy
11-12 July, 9am to 5pm
St James Buildings, 79 Oxford Street, Manchester M1 6FQ
Cost: £749 plus VAT (£649 plus VAT on all bookings made before 21 June).
www.cimaglobal.com/summer

The legal and regulatory framework
19 July, 9am to 5pm
Manchester (venue tba)
This Mastercourse will provide an overview of the UK legal and regulatory framework, an update on recent developments and an insight into how laws, regulations and standards interact in key areas.
Cost: £599 plus VAT (£539 plus VAT for CIMA members).
www.cimaglobal.com/mastercourses/lrfr

Visit www.cimaglobal.com/events for updates and a full list of events, which are free unless otherwise stated.
CIMA Mastercourses – your catalyst for business change: visit www.cimamastercourses.com or call 0845 026 4722.
To submit an event for this page, email michaela.lambert-beresford@cimaglobal.com

The Institute

Disciplinary committee

The disciplinary committee found registered student Godfred Bonse guilty of misconduct. In June 2008, in support of an exemption from the Organisation Management and Information Systems paper, he recklessly submitted a degree certificate and transcripts that were not authentic, and a letter stating that he held an MBA in finance when he did not have such a qualification.

The committee was not satisfied on the balance of probabilities that Bonse knew that the documents were not authentic or that he did not hold the qualification, but was satisfied that he was aware there was a risk. It found that Bonse had failed to act with the required integrity (CIMA's code of ethics includes an obligation to be straightforward in professional and business relationships) and also that he had acted in a manner that may bring discredit to the profession. (CIMA's 2007 code of ethics includes an obligation to avoid action that a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affects the good reputation of the profession. The committee viewed Bonse's reckless submission discreditable in this sense, in that reasonable and informed third parties would expect a registered student to take careful steps to ensure the reliability of documentation presented to the institute.)

The committee was sympathetic to the points made in mitigation and accepted that Bonse was in a particularly difficult and unfortunate situation. It imposed a reprimand and a fine of £500 and required him to pay a contribution towards costs of £750.

PRESIDENTIAL ENGAGEMENTS

8 June ICAS Aileen Beattie memorial lecture.
17 June Global Business Challenge, UK heat.
24 to 28 June CIMA Mayor's Trophy 2011.
5 July New members' celebration event.
14 July LionHeart Challenge, final and dinner.
19 to 27 July Hong Kong/China trip.

Appearing before the disciplinary committee, Narinder Thandi ACMA admitted misconduct. He had failed to exercise professional competence and due care in: (i) failing to submit on time to HM Revenue & Customs three personal tax returns for one of two clients; (ii) failing to submit on time five of the clients' company tax returns for one of their companies (the first company); (iii) failing to submit on time to Companies House two years of company accounts for that company and one year's company accounts for a second and a third company; and (iv) failing to submit on time to Companies House two years' company annual returns in respect of the first company and the third company – all where he had been instructed to do so.

Thandi had also failed to exercise professional competence and due care, acting in an unprofessional manner in: (v) failing to forward to his clients legal or other notices received at his office in respect of the three companies, or to inform them of the notices when he was obliged to do so; (vi) failing to respond to certain communications from his clients adequately or at all; and (vii) failing to ensure that all documents belonging to his clients were available for collection on the date agreed and were delivered to them when he had agreed to do so. He had also failed to act with the required integrity and had acted in an unprofessional manner, as (viii) he had told one of the clients on three occasions between August 2007 and April 2009 that he had prepared and submitted all returns and accounts for the three companies when he had not done so.

Thandi's misconduct in dealing with his clients' affairs had extended over a significant period between 2003 and 2009 and the committee considered that his view of his obligations as a professional accountant had been far too narrow. The committee imposed a severe reprimand and a fine of £1,500. It also required Thandi to pay a contribution of £3,000 towards costs.

Elections to council 2011

The following have been re-elected to serve for another term on council, from the close of the annual general meeting on 4 June 2011 until the close of the annual general meeting in 2014:

- R Clutterham: electoral constituency 1, Central London and North Thames.
- R H Tidd: EC3, East Midlands and East Anglia.
- J D Weston: EC5, North East England.
- K Newbury: EC6, North West England and North Wales.
- M E Hill: EC12, South East England.

The following have been elected for their first term as members of council, to serve from the close of the annual general meeting on 4 June 2011 until the close of the annual general meeting in 2014:

- E M Richardson: EC2, South West England and South Wales.
- J Green: EC4, West Midlands.
- A G Taylor: EC7, Scotland.
- A Boffey: EC6, North West England and North Wales.

Institute team up for conference award

The project group responsible for organising the 2010 CIMA annual awards has been shortlisted in the best awards team category of the 2011 Conference Awards. The winners will be announced in London on 17 June at a ceremony hosted by broadcaster and former MP, Michael Portillo.

Illustration: Dmitry Litvin/Dutch Uncle

CIMA CEO column

‘Cost leadership is essential for survival’

When I meet with senior finance executives, such as Dawn Earp, financial director of Implats (Impala Platinum) or Hanif Lalani, the former CFO of BT, they consistently tell me that cost leadership is a key role for finance.

CIMA was originally known as the Institute of Cost and Works Accountants and pioneered a new form of accounting to meet the changing needs of business after World War I. So, from the outset, the focus of management accountants has been on providing information to support the management of the business.

At its most basic level cost control is about ensuring that budgetary controls are applied and that costs are only incurred if they are within the budget. When necessary cost can be reduced crudely but effectively by reducing budgets, or even imposing an embargo on certain costs, such as recruitment or capital expenditure. The discretionary costs that are often the easiest to avoid are those that bring longer-term benefits; in other words, sometimes only false economies are affordable.

However, as Andrew Shilston, the finance director of Rolls-Royce, told the audience at the Management Accounting Research Group’s (MARG) annual conference recently, this form of cost reduction is like compressing a spring – they could bounce back to above their former level when conditions allow.

But cost control is not the only thing that is required. The finance function must provide cost management and cost leadership across the business. Cost management is a more sophisticated approach. Over the past two decades many leading companies have already halved the cost of their finance function relative to turnover.

Cost management is increasingly about applying disciplines such as Enterprise Resource Planning (ERP), off-shoring and Six Sigma across the business. This approach recognises that costs must be considered relative to the revenue they generate. Sir Richard Lapthorne, chairman of Cable & Wireless, tells me that, much as he would like to, he cannot sit alongside every business manager. For many leading organisations the solution is to deploy finance professionals to partner business managers as a means of improving the filtering of information for decision-makers and cascading the FD’s influence throughout the business. A key part of this role is to provide insight into how costs can be saved and identify opportunities to innovate or create more value.

Professor Zhang Xinmin of the University of International Business and Economics in Beijing told the audience at the MARG event that cost management is at its most effective when aligned with fundamental changes in how the firm is managed. These changes can include supply chain relationships or remuneration models, but there has to be a culture where cost management is understood as a business priority.

Cost leadership is essential to long-term survival. This is because managers must view costs relative to the value they contribute to the business or its stakeholders in the short and long term. So cutting costs to improve operating efficiency must be balanced by investment in developing the company’s competitive position. The firm’s services or products must be continuously developed to meet customers’ needs so that the success of the business is sustainable.

This balancing of short- and long-term objectives requires the engagement of management accountants, who have a keen understanding of the drivers of cost, risk and value across the organisation’s value chain. CIMA members have never been more relevant in ensuring sustainable success in a business world, where there is uncertainty around every corner.

‘Cutting costs to improve operating efficiency must be balanced by investment in developing the company’s competitive position’

Charles Tilley
Chief executive, CIMA

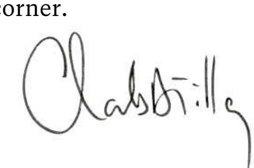


Illustration: Masao Yamazaki/Dutch Uncle

CIMA and an entrepreneur answer your questions

This month...

‘Cash flow at our firm is getting tighter and tighter. My boss wants to extend our payment terms from 30 to 90 days. He says blue-chips like Dell pay suppliers at 65 days, while brewer Molson Coors pays at 90, so we can push our terms too. Is this a legitimate tactic?’

CIMA versus Pat Nabhan

A. CIMA

There are several elements to building a successful long-term business operation, not least of which is securing a sustainable supply chain. This involves identifying suppliers that can deliver on time, at the right price and to the required quality, but also those that will be in business for the long term.

There are costs associated with finding and vetting new suppliers, as well as the potential for delays to your operations as the new supplier gears up to your delivery schedule and quality requirements. These costs can be avoided by nurturing rather than causing concern to your supplier base.

There is also a reputational risk for your company and senior management – a number of websites publish a payment “Hall of Shame”. Does your boss want to risk your company name being exposed? Today, the role of the business enterprise in society is under question and in many circles the term “corporate behaviour” has become synonymous with greed, self-interest and detachment from the real world. In this environment businesses have to act responsibly. Extending the payment terms for suppliers in this way does not seem reasonable, especially as many suppliers will not be able to refuse, yet will face considerable hardship as a result. To find out what you ought to be doing why not attend the CIMA Masterclass: “The nuts and bolts of cash management”, bookable on our website.

Also, consider the legal ramifications. Legislation gives businesses a statutory right to claim interest for the late payment of commercial debt. Additionally, small and medium-sized enterprises can ask a representative body to challenge grossly unfair contract terms used by their customers.

So what might appear to be an easy way to solve cash-flow problems comes at a price, which you need to be aware of.

Nick Topazio is CIMA’s technical expert.

Illustration: Dmitry Litvin/Dutch Uncle

A. Pat

Extending your payment terms is no solution to the cash-flow problem as you will probably just be taking on more risk by having your money exposed for a longer period.

My firm, QiComm, is a medium-sized telecoms business offering a carrier service to small, mid-sized and large businesses. We have different payment terms, depending on the size of the business and the relationship we have with it.

For smaller companies we demand prepayments or offer short payment terms.

The larger companies that we supply phone call minutes to are offered 30- or 60-day payment terms, but it’s been better to establish bilateral agreements with them. We buy telecoms services from them and they buy similar services from us so we are able to barter away the difference.

Also, as we’re both doing business with each other we’re able to negotiate better payment terms, so we get 60 days instead of the standard 15. As a result we’ve increased turnover, but with lower margins so we can better manage cash flow.

With the medium-sized companies we have to evaluate credit terms on a case by case basis. If a company asks for longer credit terms I would have to question why. You can also run an up-to-date credit check as extending credit terms mean a greater risk to your business.

In short, it’s better to work with larger companies as your money is safer. Alternatively, you can place your money at risk by extending terms or keep them steady and take a longer-term view of low risk. It’s your decision.

Pat Nabhan is the founder and chief executive of Middlesex-based QiComm, a telco which has a turnover of £93m. He is currently setting up VizzMobile, a new mobile phone network.

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