Financial Management

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CIMA
Chartered Institute of Management Accountants

Seeing the light

Which companies are leading the way when it comes to true sustainability?

Q&A: The UK Treasury's Julian Kelly

Africa reaches its moment of destiny

8 innovative ways to reduce complexity

Plus:
Who's faring best on IFRS? p14
Public debt in perspective p39
How to build your career profile p51

A word from the president

'Close relationships are key to CIMA's ongoing success'

Every CIMA president would agree that you need to develop strong partnerships in order to be an effective leader. During my year as deputy president I was consistently impressed by the members and staff who provided the support, guidance and infrastructure that created a smooth path to the many events and meetings that I attended on behalf of the institute.

Now that my presidential term has begun in earnest, it seems logical to learn from my recent experience and adopt the theme of partnership. Well into its 93rd year of existence, the institute continues to go from strength to strength – and much of its success is based on the forging of strong relationships both within the organisation and externally.

CIMA's growing global reputation as a key player in the development of future business leaders can be attributed to the close bonds among the institute's council members, honorary officers, senior managers, staff and members around the world. And the institute is set to enhance this reputation by building new partnerships – from the recent joint-venture talks with the American Institute of Certified Public Accountants to the merger of the two Ireland region divisions into one unified body.

As a native of Northern Ireland, I am delighted that the Irish merger is now in place. I consider our members to be the lifeblood of the institute and CIMA has a duty to ensure that they are given first-class support wherever in the world they are based. This new partnership means that our members will benefit from a greater recognition of the CIMA brand and a broader range of services.

Northern Ireland has had more than its fair share of difficulties, both political and economic. Like many countries that have experienced civil conflict, it has learned that the key to progress is communication and partnership. Everybody stands to benefit from working together – and that is a lesson from which the whole CIMA community of 183,000 members and students in 168 countries can learn.

Moreover, every one of our members has the potential to become an essential partner in their chosen sector. CIMA will continue to promote the unique skills that our members can bring to the table as business partners. As governments and organisations work towards a sustainable future, it is now more important than ever that our members continue to move into roles where they can use their financial knowledge and insight to help drive companies towards long-term success.

CIMA's ongoing work with the think-tank Tomorrow's Company is also focused on developing stronger partnerships between organisations' boards and their executives. As we are all aware, corporate boards are operating in ever more complex and challenging business environments. In collaboration with Tomorrow's Company, the institute is championing the case for what we call "the board mandate". This exciting new concept, which sets out the essence of a company's character and distinctiveness, has been well received by a number of leading companies. We believe that such a working charter can help boards to navigate their way through increasingly choppy waters by facilitating more effective strategic engagement.

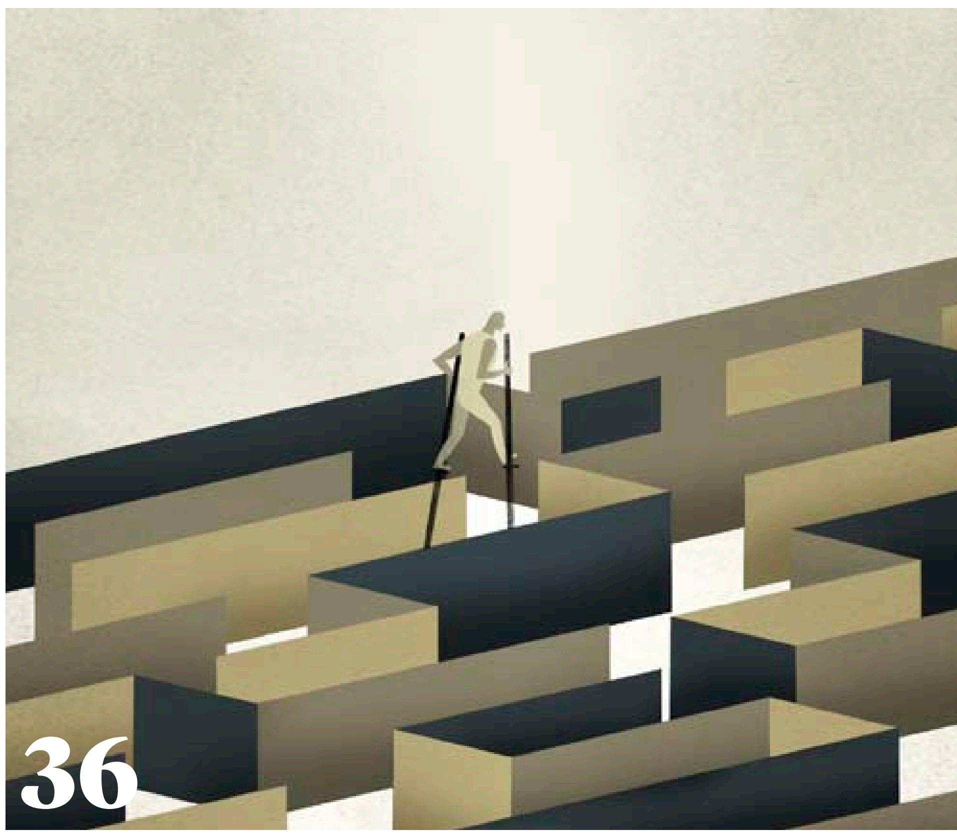
Primarily, the mandate would be between executive directors and non-executive directors to improve the effectiveness of boards. But it would have the associated benefit of improving communication externally with key stakeholders, including shareholders, other investors, governments, regulators and society at large. There are clearly many new challenges ahead, but we are all part of the CIMA partnership. This provides limitless opportunities to promote and develop the unique and essential skills offered by chartered management accountants around the world.

'CIMA's ongoing work with the think-tank Tomorrow's Company is focused on developing stronger partnerships between organisations' boards and their executives'

Harold Baird
CIMA president

Illustration: Masao Yamazaki/Dutch Uncle

At a glance



Chartered Institute of Management Accountants

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

President
Harold Baird FCMA
Deputy president
Gulzari Babber FCMA
Vice president
Malcolm Furber FCMA
Chief executive
Charles Tilley FCA

Financial Management
is published for CIMA by Seven,
3-7 Herbal Hill,
London EC1R 5EJ.
Tel: 020 7775 7775.
editor@fm-magazine.com

Editorial director
Peter Dean
Group editor
Jon Watkins
Editor
Scott Payton
Chief sub editor
Steve McCubbin

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

Editor's note

Sustainability reporting is growing up at last. In May, sports and leisure company Puma became the first major global business to quantify and publish the cost of its own and its suppliers' carbon emissions and water use (totalling €94.4m for 2010). Which other companies are pushing back the boundaries of environmental reporting and practice – and what tangible business benefits are they reaping from doing so? Turn to our feature on page 26 to find out. You'll also find a nutritious green business fact at the bottom of pages throughout this sustainability-themed edition of *FM*.

Like sustainability, cost reduction is another burning boardroom challenge that management accountants can play a key role in overcoming. And as our profile of Julian Kelly, the UK Treasury's group financial and commercial director shows, this is as true in today's debt-squeezed public sector as it is in the private.

Elsewhere in this issue, we've invited Anver Versi, editor of *African Business* magazine, to explain why countries south of the Sahara present a vast array of exciting opportunities for businesses the world over. It's sure to be a theme that will be discussed further at CIMA's World Conference in Cape Town in October.

Scott Payton

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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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Cover illustration
Noma Bar

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I worked on ... The UK's most sustainable corporate HQ

Start date 2009 **End date** Ongoing

After university, I had a clear idea that I wanted to use my accountancy degree within industry rather than practice – and CIMA seemed like the best way to allow me to do this. My CIMA qualification has given me a full understanding of business as a whole – not just the numbers. CIMA enables you to interpret data and create a clear framework for structuring your solutions appropriately.

I've been at 3D Reid for four years. I oversee the entire finance function and report all financial matters to the board. At the moment, cash flow management and issues around our overseas growth programme take up most of my time.

We're currently responsible for building the velodrome for the Commonwealth Games in Glasgow, Scotland, and the new £100m headquarters for the Co-operative Group in Manchester, England. Totalling 500,000sq ft, the headquarters will be the largest commercial office building in the city. The building has been rated "outstanding" by BREEAM, the leading rating system for green construction – officially making it one of the most environmentally friendly buildings in the UK. The building includes many measures to reduce energy consumption and carbon emissions.

Among these are the 300,000 sq ft of exposed, high quality concrete ceilings which absorb heat, thus reducing the demand on the cooling system. The form and positioning of the building maximises natural light, while at the same time filtering out solar energy. We're also working on more and more projects overseas – especially in Malaysia and Abu Dhabi. It's an exciting time.

I'm challenged every day in my role: on my first day here I was told that we were about to merge with a larger architectural practice, and I would have responsibility for the finance function of the new business. I had to hit the ground running and haven't stopped since!

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Name: Richard Beastall

Role: Finance director

Company: 3D Reid

Industry: Architecture

Location: Glasgow

CIMA qualified: 2005

Update

London retains title of city with biggest clout

London has retained its position as the city with the world's most "economic clout", despite suffering more than most developed economies during the financial crisis.

The fourth edition of PwC's annual "Cities of Opportunity" report revealed that London, Paris and New York continued to hold the top three positions – suggesting that "economic strength, earned over time, cannot be dissipated by one financial crisis, no matter how deep or debilitating".

This was supported by the fact that the top ten cities in this year's report are all long-established urban centres of political or commercial consequence – or both.

The report identified the percentage of the workforce employed in the financial and business services industry and the strength of currency as the two key factors driving London's premier position.

David Snell, partner in PwC's London practice, said: "With the number of global 500 headquarters in London continuing to grow, London continues to be a leading global financial centre."

Gallery Stock

New global standard is 'historic moment'

CIMA and the American Institute of Certified Public Accountants (AICPA) are to launch a worldwide standard of professional excellence for management accountants.

The new professional designation – Chartered Global Management Accountant (CGMA) – will help give management accountancy a higher profile in the US and promote the professional development of management accountants across the globe, combining the strength of the AICPA in North America with CIMA's presence in Europe, the Middle East, Africa, Asia and elsewhere.

CIMA president George Glass said: "We are delighted that management accountancy is to be given a strong new global impetus by this joint venture. This advances our strategic aims and will ensure management accountants, committed to strict ethical standards, will receive world-class support in a fast-globalising world."

"This is truly an historic moment for management accounting and the accounting profession worldwide," AICPA chairman Paul Stahlin added. "Our joint venture with CIMA creates long-term strategic value for our members and literally opens up the world for US CPAs in management accounting."

AICPA members will commit to a programme of developing and maintaining competency in management accounting, as well as leadership and strategy.

All CIMA members will qualify for free to use the new CGMA designatory letters in conjunction with their existing ACMA or FCMA letters, for example "ACMA CGMA".

It is proposed that the new CGMA letters will be issued to members early in 2012.

The designation will be issued by the AICPA and CIMA through a licence with the joint venture, with membership remaining with the existing organisations.

Update

Demand for UK accountants is on the up

Recruitment of UK accountancy jobs stepped up in the first quarter of 2011, according to the latest accountancy market update from recruitment specialists Robert Walters.

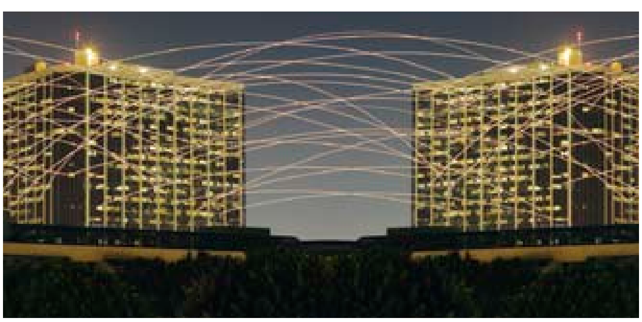
Corporate finance specialists, business analysts and second-time movers with two to three years' post-qualified experience were particularly sought after as companies look to fill gaps created by previous streamlining. Internal auditors were also recruited in increasing numbers as businesses looked to recruit professionals capable of driving growth.

"Commercial businesses are generally also more positive in the types of people they hire," said Toby Fowlston, director of commercial and professional services at Robert Walters. "We are now seeing more demand for finance professionals who can drive the company forward, generate revenue and have a positive impact on the business.

The survey appeared to support the findings of a new CIMA global report, which predicts that the finance function will grow internationally over the next five years.

The report, which is based on research by the Centre of Excellence at the University of Bath School of Management, revealed that 30 per cent of respondents expect the number of finance employees in their organisation to increase, while 84 per cent said they at least do not expect to see any reduction in the number of finance staff.

The full results are included in the report "Finance and organisational performance, shaping the future", supported by Hays Senior Finance. The report, the third in the series, is based on substantive global data, with input from more than 4,000 finance and senior managers.



App of the month

Our guide to the best online tools

Speak Chinese

China is now the largest importer and second-largest economy in the world, and this app allows you to access the 100 most important phrases needed to communicate with its Mandarin-speaking population. Whether you want to ask the way to the restroom or get directions to a business meeting, this app will help you find your way around China at the press of a button.

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Cost: £2.39
Category: Business
Updated: December 18 2010
Current version: 2.0
Size: 7.5Mb
Languages: German, English
Developer: Benjamin Holfeld
Compatible devices: iPhone, iPod touch, iPad
System requirements: iOS 3.0 or later

Many global firms lack sustainability strategies

Almost a third of businesses globally are still yet to put a strategy in place for sustainable growth, according to KPMG's annual "Corporate Sustainability Progress Report".

The global research revealed that although sustainability has moved up the corporate agenda over the past three years, 32 per cent of the 378 senior executives surveyed said their organisation is yet to put a plan in place.

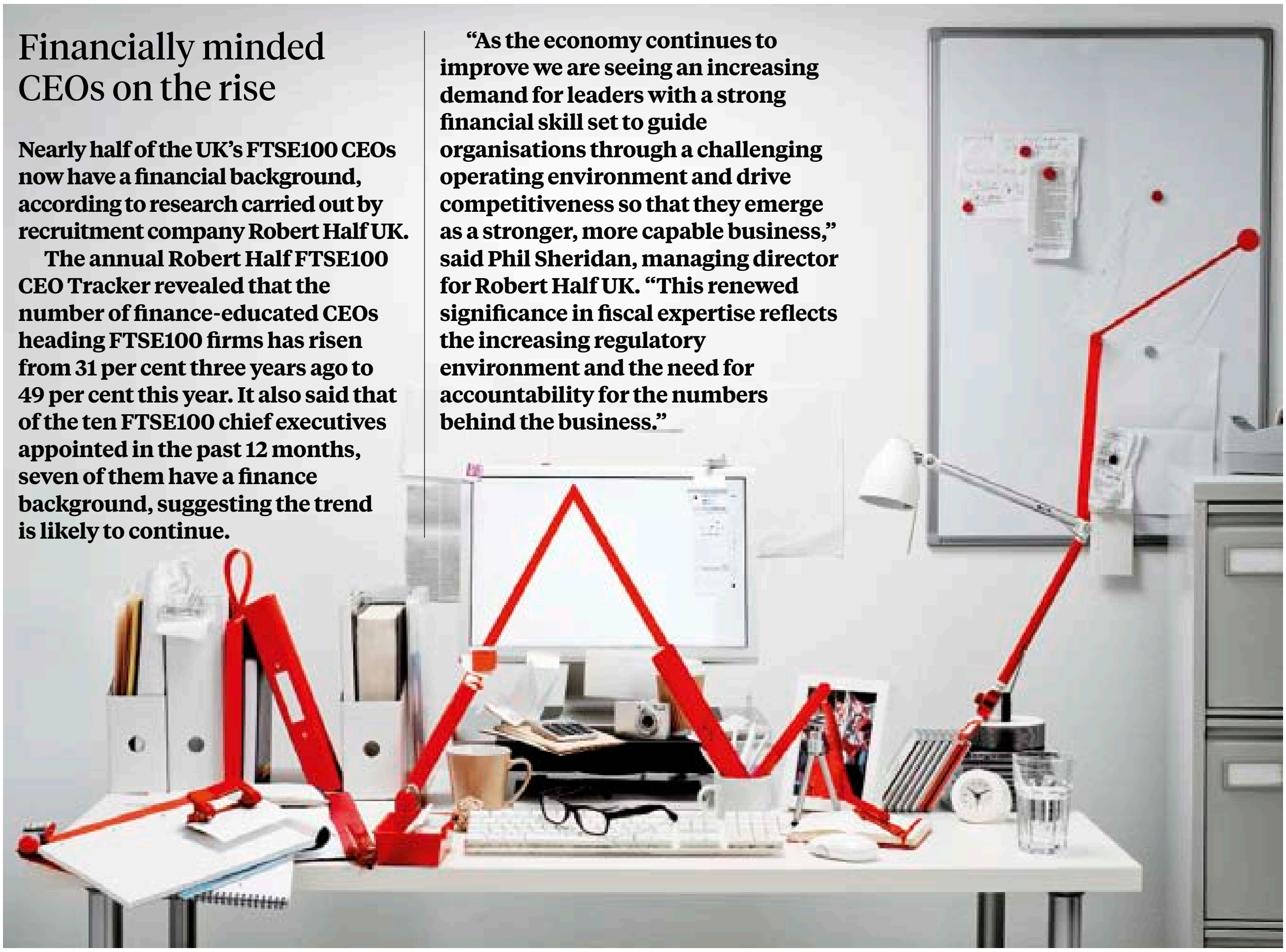
The report added that sustainability's main drivers are changing. Although regulatory requirements, brand enhancement and risk management remain key drivers of sustainability, cost reduction is also now a key rationale, while the primary focus is on the environmental side, in particular resource and energy efficiency.

Of those surveyed 44 per cent of executives agreed that sustainability is a source of innovation, while 39 per cent see it as a source of new business opportunities.

• See also: *Green giants*, pages 26-30.

Getty Images

Update

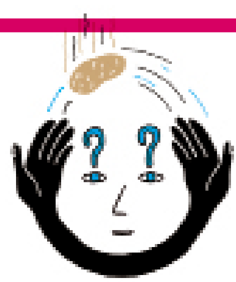


Financially minded CEOs on the rise

Nearly half of the UK's FTSE100 CEOs now have a financial background, according to research carried out by recruitment company Robert Half UK.

The annual Robert Half FTSE100 CEO Tracker revealed that the number of finance-educated CEOs heading FTSE100 firms has risen from 31 per cent three years ago to 49 per cent this year. It also said that of the ten FTSE100 chief executives appointed in the past 12 months, seven of them have a finance background, suggesting the trend is likely to continue.

"As the economy continues to improve we are seeing an increasing demand for leaders with a strong financial skill set to guide organisations through a challenging operating environment and drive competitiveness so that they emerge as a stronger, more capable business," said Phil Sheridan, managing director for Robert Half UK. "This renewed significance in fiscal expertise reflects the increasing regulatory environment and the need for accountability for the numbers behind the business."



Hot potato

This month's dilemma:

I am a CIMA member in the UK and I resigned from my last position because of my belief that there was fraudulent activity. The MD was invoicing large sums of money from another company for services that had not been provided. I also suspect that another finance manager was involved as he was signing off the invoices and arranging payment. I had questioned this, but was told not to get involved and subsequently resigned. Although I now have another position I am not sure if I should have done something more, or whether I should now.

Our response:

I can see that overall your integrity (Section 110 of the CIMA Code of Ethics) was undermined. Had you still been employed at the company concerned it would have been advisable to raise your concerns formally with management in order to be sure of facts, and to have documented any discussions in that regard.

Having secured as much information as possible you could have considered if there was any course of action to remedy the situation – perhaps escalating it higher, or externally, if there was indeed malpractice (see 100.17-100.22 of the Ethics Code). There may also be an ongoing requirement to report the matter, and as you work in the UK I suggest you contact Public Concern at Work, the whistleblowing hotline for confidential advice in order to ascertain the legal position and any next steps should your ethical responsibility to disclose (section 140.7 of the Code) be necessary. You can also use CIMA's ethical helpline for more information. See www.cimaglobal.com/helplines.

For more information, visit www.cimaglobal.com/ethics

Tanya Barman, head of ethics, CIMA

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Better, not more, reporting required

CIMA professor of accounting Wim Van der Stede has urged regulators to favour principles over rules in order to head off future economic downturns.

Prof Van der Stede argued at the 2011 Anthony Howitt Lecture at the British Museum in London on 18 May that "in terms of governance, frameworks such as 'comply or explain' are superior to rigid, mandatory compliance-based regimes".

Yet even "comply or explain" systems have limitations, he warned. "There are concerns that many organisations opt to 'comply' rather than 'explain', as this can be easier and less costly than having to explain individual approaches to governance." As such, 'comply or explain' really only meets its true intent if seen as 'explain and demonstrate'," Professor Van der Stede continued.

To eliminate "boilerplate reporting", governance codes should "provide minimal, principles-based guidance based on best practice," while companies should be required "to make a reasoned case that their governance and risk processes and actions are sensible and measured or 'safe' under plausible conditions," he asserted.

Prof Van der Stede called for not more but better reporting, arguing this would improve board and investor dialogue, which in turn would encourage better governance.

● The lecture can be viewed in full at www.cimaglobal.com/globalgovernance.

Puma issues environmental P&L

Sports firm Puma has become the world's first major corporation to publish the cost of its impact on the environment.

The company's ground-breaking environmental profit and loss account provides an economic valuation of the environmental impact

caused by greenhouse gas emissions and water consumption along its entire value chain.

It revealed the combined cost of the carbon it emitted and water it used in 2010 was €94.4m (£82.8m).

Speaking at the launch of the P&L account in London, CEO Jochen Zeitz said the move would give the organisation a better view of its environmental impact, which would in turn allow it to improve its future performance.

"Sustainability is essential to the health and future of our business," he said.

"The business implications of failing to address nature in decision-making is clear – since ecosystem services are vital to the performance of most companies, integrating the true cost for these services in the future could have significant impacts on corporate bottom lines."

Puma enlisted the help of consultancy firm PricewaterhouseCoopers and environmental research group Trucost to calculate the impact of its business on nature.

● See also: *Green giants*, pages 26-30.

Book in brief

Money and Power
by William D Cohan
Allen Lane, £25

When the dust settled on the financial crisis of 2008, only Goldman Sachs stood virtually unassailed. So how did it survive, and even flourish, when all around it collapsed, asks Wall Street veteran William D Cohan. Here is a brief synopsis of his argument:

1. For much of its storied 142-year history, Goldman Sachs has projected an image of being better than its competitors – smarter, more collegial, more ethical and far more profitable.

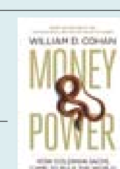
2. It prides itself on employing the best people and teaching them: "Our clients' interests always come first."

3. Another view is that this is a secretive money-making machine that has walked the line between conflict of interest and legitimate deal-making for decades.

4. Either way, it has shown a remarkable ability to weather financial crises, congressional, federal and SEC investigations and numerous lawsuits.

5. Part of the answer is the firm's assiduous cultivation of people in power.

6. Another major strand is its eagerness to deal on both sides of a transaction.



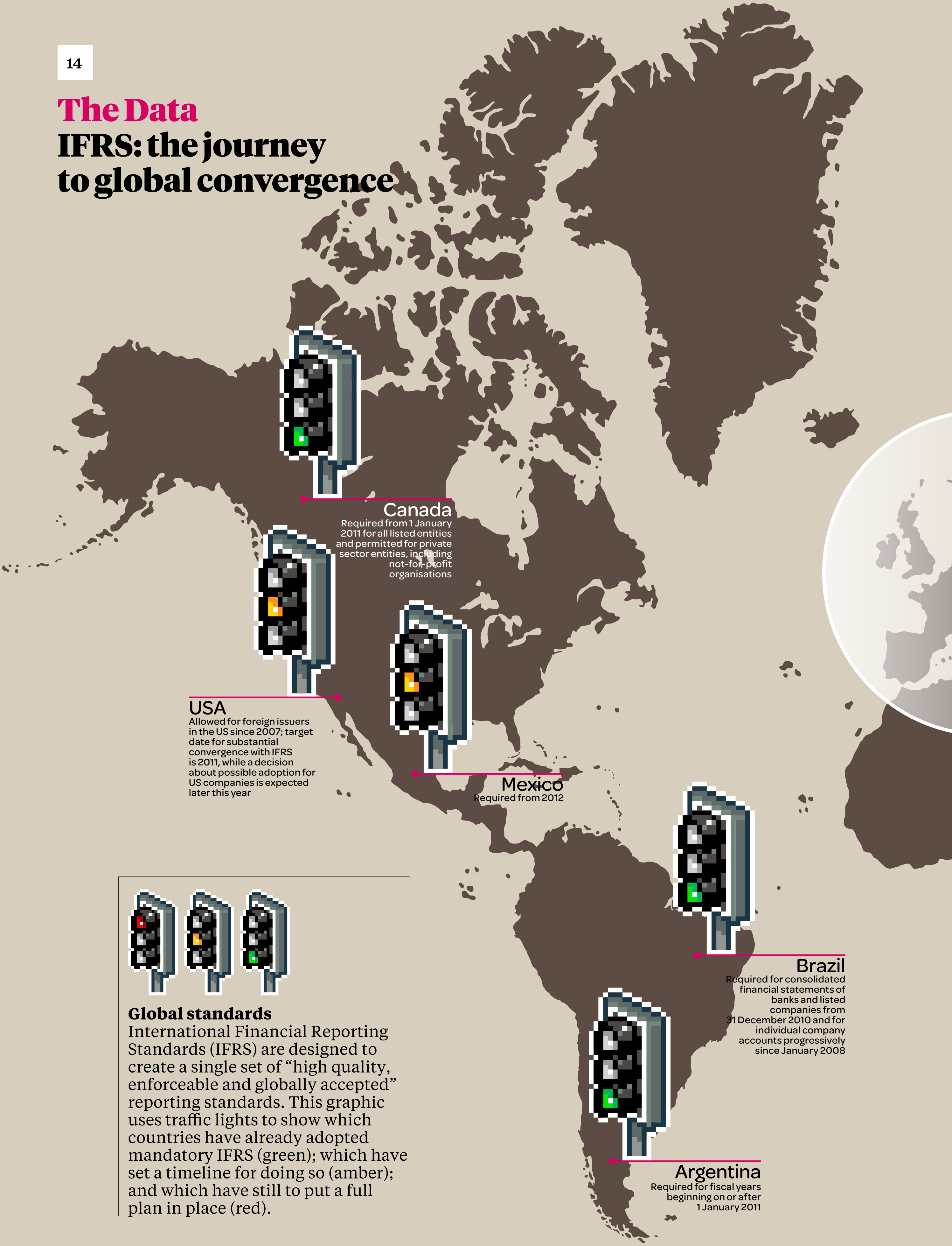
7. Goldman's success is based on ruthlessness.

Learn from...
BT's innovative energy-saving plan

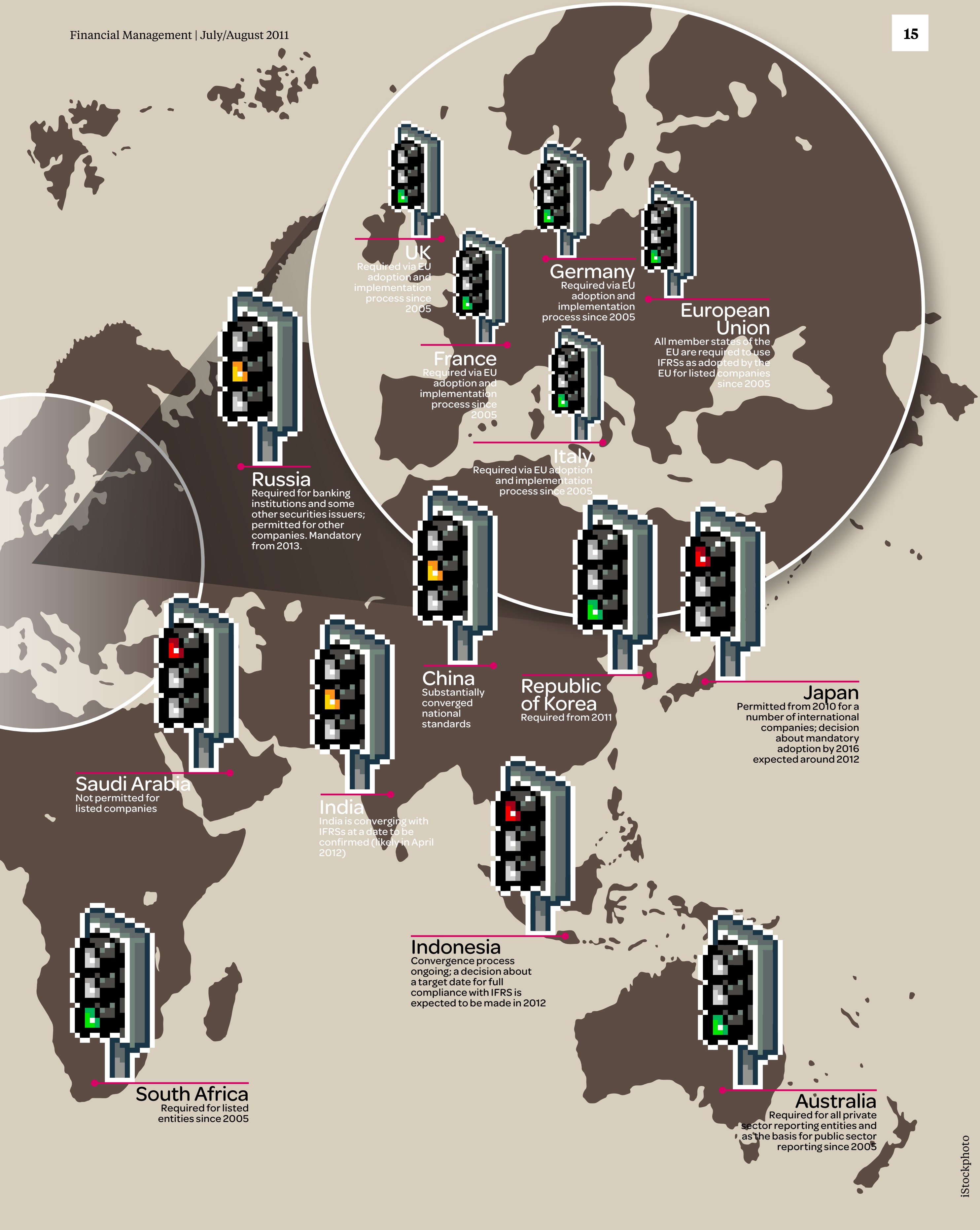
To help it achieve a proposed two per cent reduction in energy consumption in 2012, UK telecoms firm BT's 'Innovate and Design team' is attempting to reduce the energy used by broadband lines. It would see them switch to a low power mode when user traffic is low and return to full speed when traffic picks up. The potential outcome? A 30 per cent drop in broadband line energy consumption.

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

The Data
IFRS: the journey to global convergence



Global standards
International Financial Reporting Standards (IFRS) are designed to create a single set of "high quality, enforceable and globally accepted" reporting standards. This graphic uses traffic lights to show which countries have already adopted mandatory IFRS (green); which have set a timeline for doing so (amber); and which have still to put a full plan in place (red).



iStockphoto

Forum

From the blogs

Business strategies for women

Recently I had the pleasure of meeting a brilliant fund manager who has created an investment fund targeted at female-owned, high-growth businesses.

We talked about the specific issues women face in trying to attract funding and their attitude to risk, fundamentally that women are instinctively more risk averse than their male counterparts. When faced with the decision to place their family home as collateral against a loan, women are far less willing to sign on the dotted line.

However, I believe that there are strategies women can adopt to get ahead. One of my big issues with companies established to help women in business is that they talk only to women, about women. They talk about how much more co-operative and collaborative they are and the shared difficulties they face.

I believe this is a bit like getting together in a church hall and listening to the sound of our own echo – comforting, but not really preparing us for winning in business.

Business is a mixed-team event and as business people it is no good training for the all-girls rugby if you are about to go out on the field and come up against someone looking like Mike Tindall.

The world of business is not a church hall, it is a commotion, a mêlée, and, unless you prepare for the mêlée, how do you expect your voice to be heard? To be considered for promotion? To be listened to?

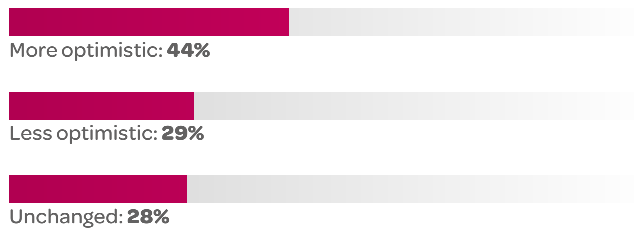
I spend a lot of time in Manhattan and if there is one thing New Yorkers do well it's polished "elevator pitches". If you get into an elevator with an American, 42 floors later you know who they are, what they do, why that matters, where they are headed and how you can get involved. We struggle to sustain interest over five floors. We must learn to grasp these opportunities.

Katie Hopkins is a former participant in UK TV show The Apprentice *and speaks on "Women in business"*

Poll of the month

We asked...

Are you more or less optimistic about the prospects for the global economy than you were this time last year?



Source: Survey on fm-magazine.com, 2011

From the mailbag

Time for progress in South Africa

With reference to an article in the April 2011 issue – "Africa's Skills Revolution" – the message I got is that South Africa is still severely hamstrung by black ideology and hung up on blame.

Business initiatives like Setas are great, but while BEE (black economic empowerment) still exists there is little hope of progress.

Businesses flourish by moving forward using all available resources and eliminating discrimination. The ANC has not learned this lesson.

Mike Bowles, Perth, Australia

(*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

You asked...

Can you explain appreciation, depreciation, strengthening and weakening of foreign currency?

If the US dollar (USD) was said to "strengthen" or "appreciate" (meaning the same thing), against the euro in the next month, this would mean one would get fewer US dollars per euro one month from now.

The purchasing power of the dollar is increasing versus that of the euro. Therefore, our euro purchases fewer items priced in dollars, yet the dollar purchases more items priced in euros. By contrast, if the US dollar was said to "depreciate" or "weaken" against the euro over the next month, this would mean one would get more US dollars per euro four weeks from now.

If a business is an exporter to the US, or if it owns subsidiaries in the US, then the weak USD is bad news, since it makes the profits earned (in USD) from US operations worth less when translated into home currency (for example, GBP). If the business is an importer from the US, then the weak USD is a good thing since it makes buying in American goods more profitable.

If the business is a subsidiary of a US company, then it means that the US parent company enjoys income from abroad that is worth more when translated into USD.

The main impact of foreign currency in the operations of a business is to do with foreign currency risk. This risk needs to be managed via hedging of one kind or another.

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

Opinion

Anver Versi

Editor, *African Business* magazine

Investors now have many reasons to put their money into Africa. But will this be another false dawn, or is this emerging market finally ready to seize the day?

After several false dawns, is the sun now really shining on Africa? The consensus, at least that expressed during May's World Economic Forum on Africa in Cape Town – and by an increasing number of private equity investors – is that Africa's time has finally come. The theme of the forum was "Translating vision into action". An impressive cast of speakers, including African heads of state, the private sector and academics, were generally agreed that a favourable confluence of external factors and internal reforms have now put Africa at a point from which it should be able to sustain an average annual growth of around six per cent for at least the next decade.

"Since 2000 we've seen a global dynamic that has spread growth and prosperity through Africa, Latin America, the Middle East and elsewhere," said Robert Lawrence, professor of trade and investment at the Harvard Kennedy School. "We are living in a changing world."

It is this changing world, with the global centre of gravity moving towards emerging markets, that has opened up opportunities for Africa to occupy a pivotal position and sling-shoot into the next stage of development: industrialisation. Africa has a population of just over one billion and will have the world's youngest workforce in the next few years. According to the African Development Bank, one in three Africans is now middle class. Africa's consumer class is growing rapidly and its urban centres are becoming increasingly attractive to investors.

"Mainstream institutional investors are very focused on Africa" says Colin Coleman, managing director of Goldman Sachs, Africa. He says the problem is that investors "are not quite sure how to play Africa", given the fact that the only functioning liquid capital market in Africa is the Johannesburg Stock Exchange which, with a market capitalisation of $740bn, is comparable with Russia. Many investors, he says, use South African companies, such as the supermarket chains Shoprite, Pick n Pay, Standard Bank and the African telecoms giant MTN, to channel their investments. Private equity funds are also looking at Africa with growing excitement. Among the latest to join the 'new scramble for Africa' is the huge, US-based Carlyle Group, which is setting up shop in Nigeria and South Africa, while Sir Bob Geldof has been raising funds for a $1bn fund aimed at increasing investment into the continent.

> **'Africa has a population of just over one billion and will have the world's youngest workforce in the next few years... Africa's consumer class is growing rapidly'**

However, it is the BRIC countries – Brazil, Russia, India and China – that are expected to be the biggest drivers of Africa's economy over the next two decades. China's huge investments in Africa and its roll-out of infrastructure has already had a massive impact on African economies – and more is on the way. Liu Guijin, China's special representative on African affairs, sees the continent not just as a virtually untapped consumer market and source of essential commodities for China's own domestic and export needs, but as possibly succeeding it as the next low-cost manufacturing base. "We are establishing six industrial zones in Africa to kick-start the continent's industrial revolution. Africa's development benefits China," he says.

Indian prime minister Manmohan Singh led a powerful delegation of business leaders at the India-Africa summit in Addis Ababa, Ethiopia, in May. "Africa is emerging as a new growth pole of the world," he said, "while India is on a path of sustained and rapid economic development."

South Africa was inducted into the BRIC elite club in April. "This means that Africa has come out of the cold and it is now very much part of the global economy," says Maite Nkoana-Mashabane, South Africa's minister for international cooperation.

Africa's moment of destiny has arrived, but will the continent take it on the flood and find fortune, or will it let it pass and remain in the shallows?

Julian Kelly ACMA

The Arab spring, budget cuts, the global financial crisis and political uncertainty: Julian Kelly, group director, financial and commercial, at HM Treasury is stepping up to confront some complex issues

Interview by Lesley Meall

Being an accountant is a far cry from your first role in central government. What happened?
I started out working on the policy side. I was head of the home, legal and communities team at HM Treasury between 2003 and 2007, and I also spent some time in the prime minister's strategy unit. Then I moved to the UK Border Agency, where I was director of finance for two years. While I was there the civil service started encouraging finance staff to train professionally and it seemed like a great opportunity.

You were offered a choice of professional finance qualifications so why CIMA, and how has it helped you in your career so far?
It was the qualification that seemed to have the most recognition in both the public and the private sector, and it can potentially open up all sorts of doors. Although I'd been doing a full-time job in finance for quite some time my training taught me a lot about accounting that I didn't already know and quite a lot about how to pass exams, which was a new experience.

Really understanding accounts has changed the way I relate to financial information and the judgments I make about risks, frameworks and processes. CIMA training forces you to think in a way you would not do otherwise. It enables you to engage with the entire accounting process properly and to really understand what the numbers are telling you. It's made me a better finance manager - and a better policy manager.

The Treasury currently has ministers who are trained accountants too. What impact does this have on the department?
The exchequer secretary to the Treasury, David Gauke, and

Photography by Liam Sharp

economic secretary to the Treasury, Justine Greening, are both accountants and it does have advantages. . Justine Greening has a particular role to champion the Government finance community. Because of her training and experience she understands and cares about how financial processes and systems work, so is better able to support, encourage and champion the changes we are trying to make in the department.

The financial world and the Treasury have changed since you previously worked there. What challenges has this created?

There is a lot less money this time around and the public sector is shrinking rather than growing. The country has been through an extraordinary financial sector crisis and the Treasury has had some enormous challenges to grapple with. A few months ago, for example, there were around 1,400 people in the finance and commercial department, yet by 2014 there should be 1,000, so I have to make sure that they are the right people and get them working in a different way. The focus on getting proper value for money means a change of culture.

I also have to reduce departmental overheads, such as the cost of the building and IT, but we know what we are going to do. At the moment the Treasury is on four floors of one building, but it is going to be concentrated on to two floors; we can cut costs by renting out two floors and making better use of the remaining space. Having the plan is the important thing because we need the right structures and processes in place to ensure people can focus more on doing the things we employ them to do.

I have to ensure that people are still able to do their jobs, just like the director of any other government department. Although we are developing and reshaping the finance and commercial functions at the Treasury, we still have to provide the support structures required by the people who are setting policy. Ministers have to work though some huge issues and it's my job to free them up so that they can focus on doing this.

The department also has to manage the public money that's been pumped into the banking sector. This must be a very different undertaking?
I sit on the board of UK Financial Investments (UKFI), which was established by the previous government to hold the public's stakes in lenders, including RBS and Lloyds Banking Group, and this gives the Treasury an operational focus that wasn't there before. In the past the department has been involved in privatisations, but we have a more direct responsibility for the public investment in these organisations and this operational side is new.

The Treasury's objective over the next four years is to find the right way to exit from, when the time is right. We have to get that public money out and return the banks to the private sector while adding value to the taxpayer, and then we can get back to being a Treasury that runs as a finance and economics ministry.

Meanwhile, my CIMA training is proving invaluable. When investment bankers talk about how to value companies, for example, I already know the strengths and weaknesses of any given model. I understand things such as tangible asset values and equity breaks because I did them in my training. Understanding what's possible and the mechanics of how these things are done, added to my policy background, gives me my own financial frame of reference so I can exercise judgment.

I can recognise if what they are saying is based on assumptions, which often happens. Being a trained accountant means that I am equipped to check and challenge the information with and to make my own informed and independent judgment about whether I agree – or disagree.

Managing other aspects of the fallout from the global economic crisis must also be challenging...
Because it's had an impact on all sorts of things it's changed the function of the department, giving us a different and more difficult role, and not just because of the involvement with UKFI. The Treasury is also responsible for policy on regulation in the financial sector, where the Government is planning a major reform of the system, and with many of the financial sector interventions sitting on the Department's balance sheet, my team and I are working on a lot of things that less-recent predecessors were not involved with.

> 'We have to get that public money out and return the banks to the private sector while adding value to the taxpayer'

Global instability in the financial services sector prompted a bigger recession and a bigger deficit so we are simultaneously trying to manage the money the country has invested in the banks, tighten public spending and adapt to changes in financial regulation, while overseeing enormous changes within the department.

All of this at a time when the global political situation is uncertain. The Treasury must understand all of the potential risks and threats, including some things that you could not possibly have anticipated, such as the Arab spring and the Tsunami in Japan. It must be flexible enough to adapt to anything that comes along. My role is all about having the right people, doing the right things, in the right place, so that they can support the people who set policy, so that they can continue to do that well in this rapidly moving environment.

What advice do you have for aspiring CIMA students looking to follow your path?
The same advice as I give to my finance people in the department. You have to be able to tell a story with the numbers you present, because a lot of the time you will be talking to people who do not understand the technicalities of finance. You need to take an interest in more than the money. Find out what the organisation is doing and what its organisational and strategic objectives are, so that you know which direction it is taking and how the finance story can help facilitate and shape this.

CAREER LADDER

1994: graduates from Cambridge with a BA in modern languages. 'I didn't think I'd end up in finance and economics.'

1995: joins HM Treasury after a year of working in and around Parliament. Works on various areas of policy, including education spending, management of the foreign exchange reserves and welfare reform.

2000: takes secondment at HSBC, working on strategy and planning for the European Treasury and Capital Markets Division.

2003: returns to Central Government. Leads the Treasury spending team for the Home Office and Criminal Justice Departments. 'I really enjoy public policy.'

2007: becomes first director of finance at the new UK Border Agency. 'I was trying to get my managers to focus on the interaction between the performance delivered and the money spent.'

2008: qualifies with CIMA under a fast-track scheme for experienced finance managers in the civil service.

2009: promoted into the role of director of finance, commercial and estates at the UK Border Agency. 'It has 25,000 employees and a £2.3 billion budget. By comparison, the Treasury is a small and simpler department.'

2011: appointed group director of finance and commercial at HM Treasury. 'The interventions in the financial institutions have made it a bigger job; turning financial management into a much smaller job will be one of my benchmarks of success.'

Beyond greenwash

Which companies are making the most progress along the road to true sustainability? And how much further do they need to travel? Neil Hodge asks those on the front line of the green business agenda

For the past decade an increasing number of companies around the world have been turning their attention towards environmental sustainability. The issue has two clear concepts – how to mitigate the negative impact of a business on the environment, and how to minimise its consumption of finite and increasingly scarce natural resources.

Following the lead of organisations such as the Global Reporting Initiative (GRI) and the Carbon Disclosure Project, which have both established environmental reporting frameworks – coupled with the "regulatory creep" of the US and Europe wanting greater disclosure on "green" and non-financial risks – many of the world's leading companies have taken a harsh look at the environmental impact of their operations and have set themselves challenging targets.

UK retail giant Marks & Spencer launched "Plan A" in January 2007, setting out 100 commitments to achieve in five years (which has since been extended to achieve 180 sustainable commitments by 2015), ranging from cutting waste and packaging to sourcing more local produce in a bid to reduce the company's carbon footprint. Unilever – as well as tackling sustainability challenges in its own operations – has its "Sustainable Living Plan", which encourages consumers to take small, everyday actions that can add up to make a big difference.

Global brewer Molson Coors, which produces Carling, Cobra and Foster's, has been monitoring its water usage for several years and has set a benchmark to reduce its consumption. Neil Tonge, head of environment, health and safety and business services at the company's UK operations, says that "as water accounts for 95 per cent of our products, we have a duty to ensure that we use it as efficiently as possible and that improved water consumption is at the heart of our operations".

On a global average the company currently uses four pints of water to produce one pint of beer, but at some of its sites this figure is being drastically reduced. For example, its plant at Alton in the UK uses only 3.1 pints of water to produce one pint of beer. Less water consumption also generates significant energy savings. Last year, the company's UK operations used 99 megajoules of energy to produce a hectolitre (100 litres) of beer: this year the overall UK figure is below 96 megajoules, with the company's Alton site using just 63 megajoules to produce a hectolitre.

Molson Coors has set itself a commitment to improve water efficiency by four per cent across all its sites by next year. In Burton-on-Trent, which is the highest volume brewery in the UK, the drive for water efficiency saved 700 million litres of water last year. The company wants to improve on that figure and has a goal of saving one billion litres of water per year by the end of 2012.

Tonge says that there is a real business case for managing water. "The European Commission has expressed its view that the price of water must be reflective of the financial, environmental and recourse cost of water. While this is being put into practice gradually, there is anticipated legislation in the medium term that could increase the cost of water. Our aim is to be ahead of any legislation or significant increase in water cost by getting our house in order now," he says.

Other major companies have tried to address their use of resources. British Telecom (BT), one of the UK's biggest consumers of electricity, using around 0.7 per cent of the UK's total consumption, is also one of the country's largest buyers of green electric-

Illustration by Noma Bar

THE SUSTAINABILITY ISSUE: IN THE UK, THE FOOD CHAIN IS RESPONSIBLE FOR 22% OF ALL ECONOMIC EMISSIONS (SOURCE: DEFRA)

SUSTAINABLE COMPANIES... THE TOP 20

Rank	Company	CO_2 productivity Sales / CO_2 emissions (tonnes)	Leadership diversity % of women board directors	% tax paid	Country
1	General Electric Company	$27,878	25%	98%	US
2	PG & E Corp.	$8,656	38%	76%	US
3	Tnt Nv	$14,575	20%	100%	Netherlands
4	H & M Hennes & Mauritz Ab	$65,236	54%	100%	Sweden
5	Nokia Corporation	$320,536	20%	100%	Finland
6	Siemens Ag	$32,741	15%	100%	Germany
7	Unilever Plc	$21,596	13%	93%	UK
8	Vodafone Group Plc	$44,047	9%	Not available	UK
9	Smiths Group Plc	$38,047	0%	100%	UK
10	Geberit	$26,028	0%	100%	Switzerland
11	Henkel Ag	$20,102	31%	97%	Germany
12	Inditex Sa	$39,934	22%	100%	Spain
13	Proctor & Gamble Company	$12,803	25%	88%	US
14	Toyota Motor Corp.	$130,187	0%	64%	Japan
15	Westpac banking Corp.	$243,299	33%	100%	Australia
16	Enbridge Inc	$3,782	15%	62%	Canada
17	Koninklijke Philips Electronics Na	$32,234	0%	100%	Netherlands
18	Diageo Plc	$21,642	30%	80%	UK
19	Nippon Yusen Kk	$1,336	5%	90%	Japan
20	Royal Dutch Shell Plc	$5,392	20%	100%	UK

Source: www.global100.org

'Companies have struggled to quantify in financial terms what their exposure is to sustainability costs and risks'

ity. In 2007 it announced plans to develop its own wind farms under its "Wind for Change" project – the UK's biggest corporate wind power project outside the energy sector. BT intends to produce 250 Megawatts (MW) of renewable electricity by 2016 (equivalent to around 25 per cent of its current needs). The company also wants to reduce the carbon intensity of its global operations by 2020 to a level 80 per cent lower than in 1997. It has already achieved a drop of more than 50 per cent.

But BT is not only examining the impact of its own operations. In 2007 BT started to focus on its supply chain and the impact it has on the environment. The company has a massive supply chain budget – in 2010 the company spent more than £12bn with around 2,000 contracted external suppliers. In February this year it launched its climate change procurement standard, which encourages – but does not force – suppliers to use energy efficiently and to reduce their carbon footprint during the production, delivery, use and disposal of products and services supplied to it.

According to Liz Cross, corporate social responsibility manager for BT's procurement division, the standard contains three minimum expectations that BT expects its supply chain to work towards: suppliers must have a policy in place to address the issue of climate change; they should be actively measuring and reporting carbon, as well as other relevant greenhouse gas emissions; and they should be setting themselves "challenging" targets to reduce emissions, as well as report on their progress. The company holds free, day-long workshops with its suppliers to help them with their carbon reduction policies.

"It is not set in stone that our suppliers must already be meeting our standards, but we do expect to see them move towards meeting them," says Cross. "We want an assurance that our supply chain is aware of the importance of environmental and sustainable business practices, that suppliers are starting to measure the environmental impact of their operations and that they have a commitment to reducing carbon. This will not happen overnight, but we believe that companies have a responsibility to compel suppliers to follow their example," she adds.

Up until now, companies have struggled to quantify in financial terms what their exposure is to sustainability costs and risks. But that may be changing, which could also give a boost to the finance function to work more closely with the supply chain and CSR functions to provide "tangible" data on the bottom line. In May this year sports clothing company Puma released the results of its first environmental profit & loss account ("E P&L"). By putting a monetary value on the environmental impacts, Puma says that it is preparing for potential future legislation, such as disclosure requirements. The analysis revealed that, including the full supply chain, the overall envi-

‘Some critics remain sceptical that companies are not acting as well as they think they are’

ronmental impact was valued at €94.4m for 2010: of that, Puma's operations accounted for 15 per cent of the overall greenhouse gas emissions analysed and 0.001 per cent of water consumption – equivalent to €7.2m of the overall valuation. The remaining greenhouse gas and water consumption valuation – €87.2m – fell upon its entire supply chain, the main proportion being attributable to "tier 4" raw materials suppliers, such as those harvesting and cultivating cotton, cattle ranching for leather and natural rubber production. The company's analysis found that the most water-intensive activity in the production of a t-shirt occurs at the initial step – the cultivation of cotton.

"The E P&L statement is a milestone in Puma's mission to become the most desirable and sustainable sport lifestyle company in the world," says company chairman and chief executive Jochen Zeitz. "It is an essential tool and a shift in how companies can and should account for and, ultimately, integrate into business models the true costs of their reliance on ecosystem services."

Puma's sustainability scorecard, which was introduced in early 2010 and sets targets such as 100 per cent sustainable packaging and 25 per cent reductions of carbon, energy and water for 2015, has already begun to address the environmental impacts at the company's operations and "tier 1" supplier levels – meaning those companies that manufacture the end products. The company also hopes that by 2015, 50 per cent of its international collections will be manufactured according to its internal sustainability standard, Puma S-Index, using more sustainable materials, such as recycled polyester, that take into account the enormous environmental impact of raw material production.

"Fundamentally, this analysis is about risk management for the environment and for business, because you cannot separate the two," says Alan McGill, partner in professional services firm PwC's sustainability and climate change practice. "This is a first for a company to measure and value the impact of its business in this way and gives Puma a unique and challenging insight into its supply chain," he adds.

But not everyone is convinced by this. Some critics remain sceptical that companies are not acting as well as they think they are. "It's very convenient for companies to push the blame for the bulk of their carbon footprint and water usage onto their supply chain," says one expert. Tim Kerr, director, finance transformation at consultancy Novo Altum, says that sustainability is a "win-win" situation for companies: "What is there not to like about being more cost efficient and driving down the costs in the supply chain by making them operate more efficiently and cheaply?" he asks.

‘What is there not to like about being more cost efficient and driving down the costs in the supply chain?’

Kerr adds that some companies are content to tackle the most obvious and simple sustainability issues affecting their operations, rather than address more deep-rooted problems. While not referring to Puma, Kerr says that "many companies employ numerous consultants to publish their work on reducing their use of water and so on, cataloguing how they have cut their water consumption and wastage in the UK by a third. But the availability of water in the UK is not really a problem; the key issue is how much water their operations in Africa are using, for example, how much of it is being wasted and what impact this is having on the local communities. In many cases this data is lumped together as a global figure with no reliable breakdown, which makes it largely meaningless."

Dr Steve Priddy, head of technical research at the London School of Business and Finance, says that there is still a considerable amount of "greenwash" around reporting sustainable business practices. "Companies have woken up to the fact that stakeholders and corporate governance regulators want more information on the social and environmental impact of their business operations," he says. Unfortunately, in many cases, there is little actual detail on how the information has been collated. Green reporting is improving, but there is still a long way to go."

Neil Hodge
is a regular contributor to Financial Management

LESSONS FROM THE GREEN PIONEERS

Some of the world's leading companies are at the cutting edge in terms of trying to make their business more sustainable:

British Telecom has launched a climate change procurement standard that encourages suppliers to use energy efficiently and to reduce their carbon footprint during the production, delivery, use and disposal of products and services supplied to it.

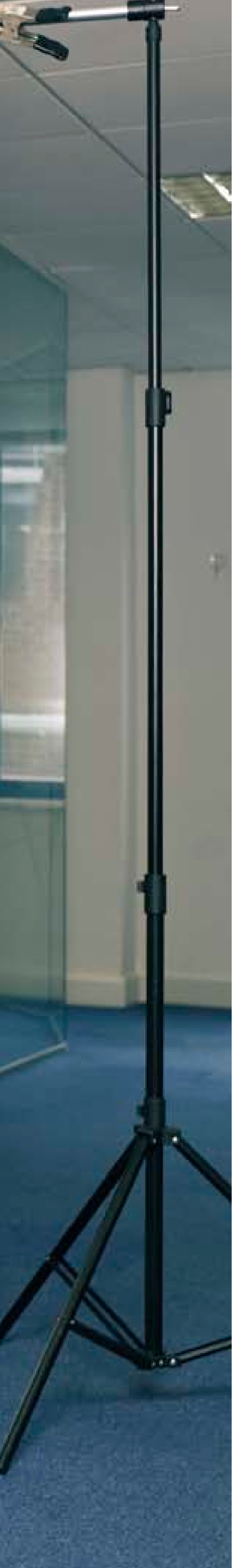
Sports clothing company **Puma** has set up an environmental "profit and loss" account so that it can measure the financial costs that its operations – and those of its suppliers – have on the environment and to the business's bottom line.

Under its "Sustainable Living Plan" which encourages consumers to take small steps to lower their carbon footprint, **Unilever** aims to halve the environmental footprint of its products and source 100 per cent of its agricultural raw materials sustainably by 2020.

UK retailer **Marks & Spencer** has made a commitment to make its sustainable business model "Plan A" profitable, and to reinvest these profits – £50m last year – back into the business to ensure that the company meets its sustainability targets.

Diageo, one of the world's biggest drinks companies, has opened a new rum distillery in St Croix on the US Virgin Islands, where water consumption will be kept to a minimum as it will recycle about 90 per cent of washwater through a closed-loop water system and harvest rainwater. The new 20-million-proof-gallon distillery also follows the Leadership in Energy and Environmental Design (LEED) certification principles, the leading environmental building benchmark in the US.

**Photography by
James Pfaff**



Meet the president

New CIMA president Harold Baird reveals his plans for the year ahead and explains why there has never been a better time to be a management accountant

Interview by Scott Payton

How has CIMA changed in recent years?
The organisation has made tremendous strides over the past decade. The expansion of our online member resources has been hugely valuable. Meanwhile, CIMA has grown phenomenally across the world: we now have 183,000 members and students in 168 countries. This growth continues at an unprecedented rate in China, India and beyond.

Why do you think that CIMA has enjoyed significantly faster growth than other accountancy-related organisations?
I think a lot of it is down to our clear focus on business and driving commercial success. We have worked hard to highlight this differentiation and emphasise the importance of targeted training for accountants within a business – or indeed within an organisation in the public or not-for-profit sectors.

CEOs and CFOs the world over recognise that their businesses need information to make decisions. They also increasingly recognise that CIMA members excel in delivering that information, adding unique value to the organisations they work for.

What's on your agenda for the year ahead?
I'm looking forward to a busy year supporting and encouraging our policy committees, council, chief executive, regional boards and staff.

Just as "relevance" was a key guiding principle for CIMA two years ago and "sustainability" is a key principle today, I believe that "partnership" will be an overarching theme for the year ahead. While our members need to work in partnership with their colleagues across the business within their professional roles, we in CIMA – as a council, senior management team and organisation as a whole – must work in partnership to ensure that we continue to grow sustainably, both in size and influence.

One of the early entries in my diary is a visit to open CIMA's new office in Moscow, which reflects our strong growth in Russia – we have welcomed some 400 new students in the country this year. I will be the first CIMA president to go on an official visit to the Russian capital, which I'm looking forward to immensely.

I also intend to continue the hard work of my predecessors to make CIMA's governance processes as effective as possible, as well as continuing to maximise our members' involvement in everything we do as an organisation.

What excites you most about CIMA's future?
Our joint venture with the American Institute of Certified Public Accountants (AICPA), confirmed in May this year, is extremely exciting. CIMA and AICPA are the world's largest bodies focused on accountants in business. Together, we will represent and support hundreds of thousands of qualified management accountants around the world. It's an incredibly powerful partnership that

THE SUSTAINABILITY ISSUE: 70% OF US FIRMS WITH ENERGY SAVING POLICIES ARE MOTIVATED BY COST (SOURCE: DELOITTE)

is set to bring enormous benefits to our members. It will give us economies of scale to extend our thought leadership programmes and further promote the advancement of the science of management accounting at large.

‘In the current global economic environment the value of management accountants is clearer than ever’

What, in your view, is the true value of management accountants to 21st-century businesses?
In the current global economic environment the value of management accountants is clearer than ever. Every business has been affected by the global downturn, but those that have had good information and a proper strategy have been able to weather the storm and ready themselves to make the most of the next cycle of growth.

Management accountants’ training gives them a real understanding of how business works. They are uniquely placed to identify and understand the key drivers of business in all their diversity and complexity, and to work in partnership with their senior colleagues to help an organisation to develop a clear strategy for future success. If a company doesn’t have the right information then their decisions are made in the dark.

The continuing professional development that our members undertake ensures that their knowledge and skills remain relevant as the global business world continues to evolve.

Indeed, technological shifts continue to create further opportunities for management accountants – companies’ information needs are becoming more sophisticated and more “real-time”. It’s no longer about presenting information three or four months after the event. It’s about knowing what’s happening today, anticipating what’s going to happen tomorrow and making practical recommendations based on this intelligence. Management accountants are perfectly placed to lead this process.

What’s your message to students who are about to embark on their CIMA studies?
There has never been a better time to be a management accountant. And there has never been a better time to study for CIMA – because you are getting a truly global qualification that is highly sought after by multinationals, smaller businesses and pubic sector organisations alike. Quite simply, it is a passport to success.

BAIRD’S JOURNEY TO THE CIMA PRESIDENCY...

When I left college in Northern Ireland, a local linen factory was looking for a trainee accountant. I applied, got the job and stayed for a few years. I then got a position at a synthetic yarn company called Qualitex, where I gained experience of factory costs and production systems across factories in the Republic of Ireland, the UK, Germany and the Netherlands.

The CIMA qualification seemed the most appropriate qualification for an accountant working in an industry environment. I completed my CIMA studies while simultaneously working towards a higher national diploma in business studies at the University of Ulster.

My time at Qualitex was followed by a role as a management accountant and executive officer at Northern Ireland Electricity.

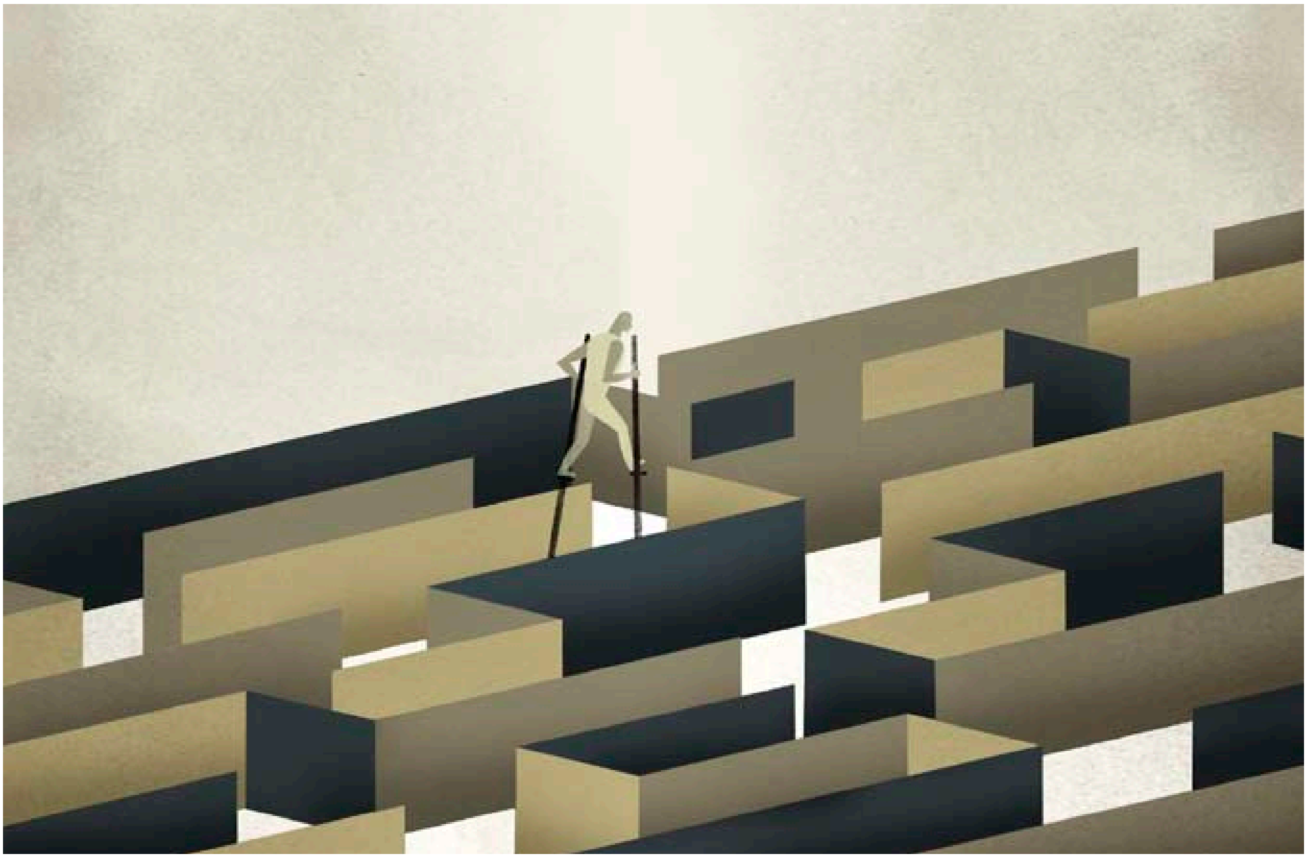
Back in 1995 I attended a few CIMA events in Belfast and was invited to join its Northern Ireland branch committee. I was events coordinator for a period before becoming a member of the branch affairs committee, representing it at meetings in London. I then became the CIMA Northern Ireland representative on Ireland’s Consultative Council of Accounting Bodies. I was also CIMA’s branch vice president in Northern Ireland for two years, then branch president. I enjoyed the buzz of CIMA.

From 1995 to 2000 I took a break from regular participation in CIMA committees to focus on my career, which at the time involved running a subsidiary of Northern Ireland Electricity – a demanding role that left little time for committee work.

In March 2000 I began working on interim management and consultancy projects, which freed up more space in my diary for CIMA. So I joined the institute’s council in June 2001, participating in the policy committee and becoming chairman of the member services committee. This suited my interests – I was and remain very keen to provide strong support and encouragement to the institute’s members and regional committees.

Then, a number of council members suggested that I put my name forward to become vice president nominate. This led to my year as vice president, my year as deputy and to where I’m sitting now as president.

The list



Illustrations
by Borja Bonaque

8 ways to...

reduce complexity

The finance function sits at the hub of a complex network of systems and processes, from financial reporting to performance management. Perhaps it's time to de-clutter, says Richard Young

1 Grasp the scale of the problem

There are two types of organisational complexity: the kind that creates value to give your firm a competitive advantage or helps solve knotty problems, or there's bad complexity.

"Most organisations start with simple path dependencies," explains Simon Collinson, professor of international business and innovation at Warwick Business School. "Then you develop internal processes to support those. Then you get layers of management – or you roll out new IT systems, or regulations change. Complexity is then embedded and self-replicating."

Prof Collinson's research among the largest 200 global companies showed they're losing an estimated 10.2 per cent of their profit (EBITBA) as a result of harmful complexity in their business. So it's well worth looking at your own finance function and across your organisation to see whether reducing complexity can help.

2 Take ownership

Finance is probably the best-placed team to address complexity. "The FD is the guardian of profit and that means the finance function must lead on removing complexity," says Melvin Jay, CEO of consultancy Simplicity. "It's often the management accountants who have the right tools for this, too."

For example, it's important to use valuation techniques to assess exactly which activities cost the most – and generate the most value.

And, Jay adds, because finance sits at the hub of so many information flows it can trace complexity: "It can be as simple as being aware of what reports the team is producing. Then you need to look at what that information is doing in the rest of the business. Is it supporting value-creating decisions or is it just being ignored?"

3 Carry out an information audit

The first task is an information audit. "For example, you can use tools to see where information is flowing and who's actually using it – and then why," says Collinson. "A typical example in a global business is finance teams offering departmental, then organisation-wide, regional, national and finally global versions of reports, all containing more or less the same data. And in many cases there's a perceived demand for information that's actually not helping anyone to add value."

He cites one company in the automotive sector which "cut right back from 200 reports to zero – then added them back as managers requested the information", says Collinson.

4 Focus on value

It's easy for each individual or department to understand how they contribute to profits in smaller organisations, but in larger organisations that visibility declines rapidly. That makes transparency and self-analysis valuable tools in eliminating complexity. "There's no reason why the principles of lean manufacturing can't be applied more generally to the processes governing the back office functions," says Paul Lee, CFO at warranty provider Domestic & General. "That means you have to identify what value every procedure generates, then focus your efforts on the ones that add it."

And there are usually quick wins. "For example, if the processes around closing out a transaction are time-consuming, you're taking salespeople away from customer-facing activities," says Jay.

5 Be clear about strategy

Framing the big picture more simply can help. "The organisation's strategy is the acid test for what actually adds value," says Collinson. "If it's clear and coherent it should offer middle management and frontline staff well-defined boundaries for their decision-making."

That's endorsed by Richard Hutton, group finance director at food retailer Greggs. "We have a statement that outlines our values and how we like to behave. That's what guides people and what comes across in our advertising. It's one and the same."

In other words, it's simple for staff to check their activities are helping to deliver on that strategy – rather than just adding complexity.

6 Get the systems right

In theory enterprise-wide IT systems ought to reduce complexity by automating processes, making it easier to disseminate the right information to people that need it. "But because technology makes it easy to do things – like run off reports, for example – it's common to see over-engineered systems," says Jay.

"Why not design the system with 20 per cent of the features or capabilities to cover 80 per cent of situations, then manage the rest by exception?"

7 Change behaviour and culture

It's one thing to talk about simplifying the business. "But it's better to show people how to be more efficient rather than telling them," says Collinson. "Equally, some complexity actually creates competitive advantage. So this isn't about an at-all-costs efficiency drive." If the finance function is addressing obvious areas of complexity rather than simply nagging about costs, the project will go much more smoothly.

"Ultimately, this is a question of leadership and behaviour," says Jay.

8 Savage pruning

If it's proving difficult to unpick the value-enhancing complexity from the mesh of interconnecting systems and processes it might be time to take a drastic approach. Outsourcing can help.

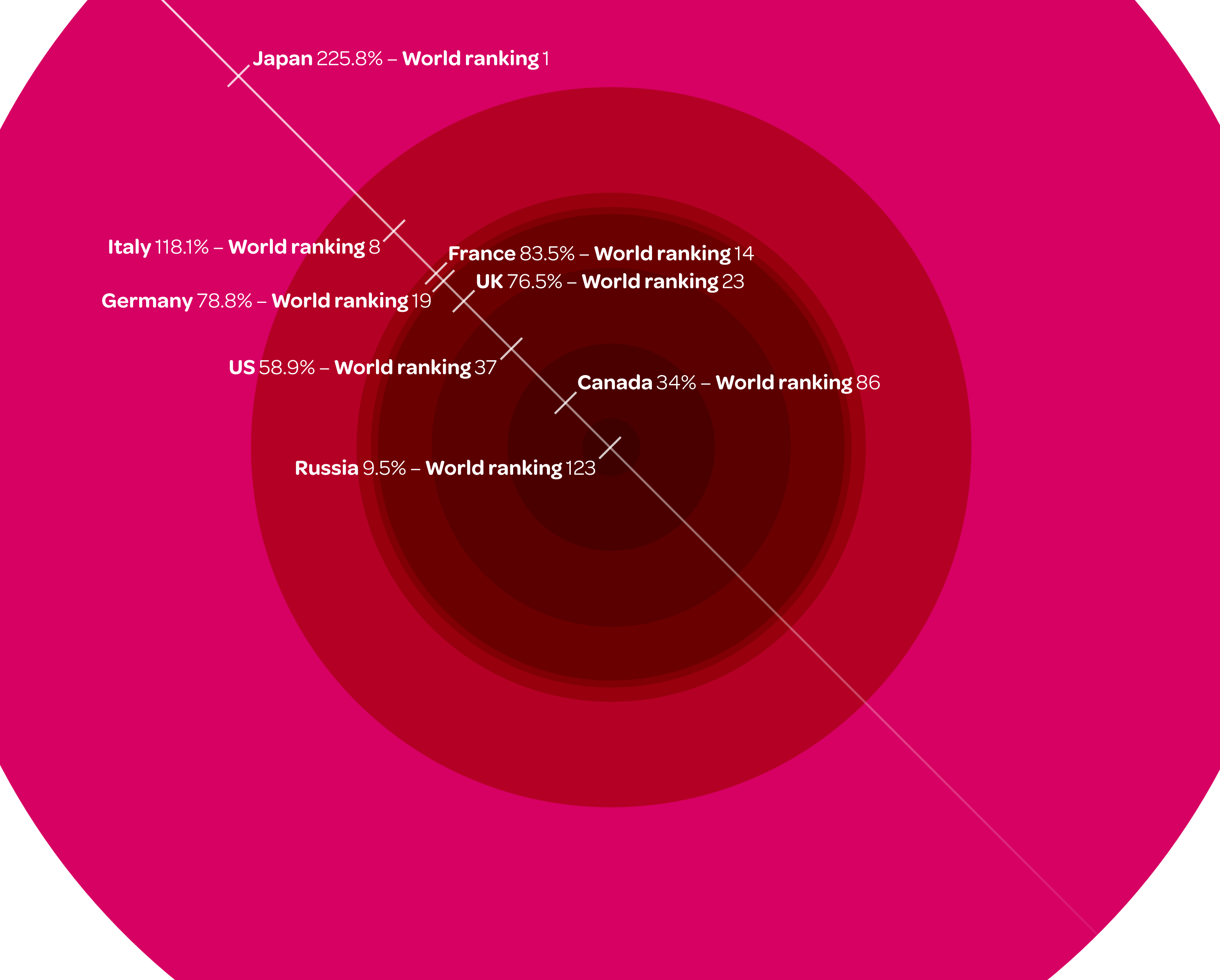
"One good method we use is 'provocation' – getting management to create a process or even a whole business from scratch," says Jay.

And don't be afraid to prune hard in your own team, too. "The key question for finance people is, 'why are we producing all these reports?'" says Lee. "You have to look at who's getting them and ask directly how they're being used."

Learn more about reducing business complexity on the CIMA Mastercourse: "Understanding and improving business processes"
www.cimamastercourses.com/UIPB

Prime number

Size of public debt (as a % of GDP) for the G8 countries



Public debt

Japan's public debt hit a record high of more than $10trn in June 2010. The debt is a legacy of massive stimulus spending during the economic "lost decade" of the 1990s and a series of pump-priming packages to tackle the recession, which began in 2008. Italy's public debt has been rising consistently and, in the wake of the euro zone debt crisis, the Government has pushed through an emergency €24.9bn austerity package.

Getty Images

UK's record high

UK public debt topped £1trn for the first time in 2010, a per-household equivalent of...

£40,000

Russia' steady rise

Russia's public debt has been rising gradually since the economic crisis of 2009, to...

4.1trn rubles

Source: CIA World Factbook, figures est 2010

Study Notes

Papers E3, F3 and P3
(Enterprise Strategy, Financial Strategy and Performance Strategy) p46

Paper P2
Performance Management

Value analysis, value engineering and functional analysis are cost-reduction techniques that are closely related to target costing. They have similar characteristics, yet differ in fundamental ways

By Norwood Whittle FCMA
CIMA course leader at the University of Northampton and lead marker for P2

As I explained in my April article, target costing is designed to reduce the life-cycle costs of a new product – while also ensuring that it satisfies quality, reliability and other consumer requirements – by examining all possible ideas for cutting costs at the planning, R&D and prototyping phases of its production. But target costing is not only a cost-reduction technique; it's also part of a comprehensive strategic profit management system. It's an important starting point, too, because it opens the door to other techniques, particularly value analysis, value engineering and functional analysis.

The target cost is calculated by deducting the target profit from a selling price based on customers' views. Value analysis, value engineering and functional analysis are used to change production methods and/or reduce expected costs so that this target is met.

The traditional approach to pricing is based on developing a product, determining its expected cost based on the expected volume and then setting a selling price that would recover all indirect costs and generate enough profit to satisfy business objectives. With target costing, on the other hand, the company develops a product and then determines the price that customers are willing to pay. The desired profit margin is deducted from the price, leaving a figure that represents the maximum total cost. The company then has to ensure that it can make the product for this amount. If it cannot achieve that figure, it won't make the product. But life is not this simple, of course, so the following factors also need to be considered:

- The effects of Kaizen costing techniques could gradually reduce the product's cost, meaning that the selling price could be reduced over time.
- Conventional cost-reduction techniques should have an effect.
- Cost reductions and efficiencies would naturally result from an increase in volumes.
- Learning-curve effects could apply.

A company may press ahead with production for such reasons, even though the target cost is below the current estimated attainable cost. In this case the firm would be confident that cost reductions would accrue as a result of the factors listed above, and it might introduce better recruitment and training methods, use lower-cost labour, buy some components rather than make them, and so on.

'Target costing is not only a cost-reduction technique; it's also part of a comprehensive strategic profit management system'

Value analysis and value engineering

Such cost reductions will not take place without a systematic approach to achieving them, one of which is value analysis. This is a technique that reviews the material composition of a product and production design so that modifications can be made that do not reduce the product's value to consumers. CIMA's official definition is that value analysis is a "systematic interdisciplinary examination of factors affecting the cost of a product or service,

Paper P2
Performance Management

in order to devise means of achieving the specified purpose most economically at the required standard of quality and reliability". So the value and quality of the product must be retained or improved at a reduced cost.

Value engineering is closely related to target costing, because it's about avoiding or reducing costs *before* the production phase. Value analysis is concerned with cost avoidance or cost reduction *during* production, but both adopt the same approach in undertaking a complete audit of the product. CIMA's official definition of value engineering is that it is the "redesign of an activity, product or service so that value to the customer is enhanced while costs are reduced (or at least increased by less than the resulting price increase)".

A value analysis exercise might involve considering a series of questions, including: could a different (cheaper) material be used that is better than the material currently in use? Could a different (cheaper) grade of labour complete the manual tasks? Could the use of material components be standardised to facilitate longer production runs if manufactured internally, or to provide bulk-buying benefits if purchased?

Four aspects of a product's or service's value can be considered in the analysis:

- Cost value: the cost of making and selling it.
- Exchange value: the price that customers are prepared to pay for it.
- Use value: the purpose it fulfils.
- Esteem value: the prestige that customers attach to it.

For example, if some customers simply need something to sit on, they will be unwilling to pay

'Any cost savings must be achieved without losing either use value or esteem value'

for a reclining leather chair, since they simply require the product's use value. But other customers will be prepared to pay a premium price for a luxury item in return for its esteem value.

Cost reductions will result if the company adopts a systematic approach after conducting the value analysis. Usually the firm will establish a value analysis team that may then go through the following seven-step process, which is adapted from BPP Professional Education's P2 study text:

- Step one: choosing the product or service to be studied. The product should be one that accounts for a high proportion of the organisation's costs, since the biggest savings should be obtained from high-cost areas. The choice should also consider the life-cycle stage of the product, since an item reaching the end of its marketable life is unlikely to offer scope for substantial savings.
- Step two: obtaining and recording information. Questions to consider here will include: what is the product or service supposed to do? Is it succeeding? Are there alternative ways of providing it? How much would these other options cost?
- Step three: analysing the information and evaluating the product. Every aspect of the product or service should be included. Any cost savings must be achieved without losing either use value or esteem value. (Or at least the savings must exceed any loss in value suffered, so customers would then have to be compensated for the loss of use or esteem value in the form of a lower price.) Questions for the analysis stage might be: are all the parts necessary? Can the parts be obtained or made at a lower cost? Can standardised parts be used? Does the value provided by each feature justify its cost?
- Step four: considering alternatives. A range of options may be devised, including ideas for eliminating unnecessary parts or standardising certain components or features.
- Step five: comparing the costs (and other aspects of value) of each option, and choosing the lowest-cost alternative.
- Step six: recommending the preferred option for management approval.
- Step seven: implementing and reviewing the changes. The value analysis team should assess how its recommendations have been implemented and,

HOW TOYOTA WORKED BACKWARDS TO GET AHEAD

When Toyota developed the Lexus to compete with BMW, Jaguar and Mercedes-Benz in the luxury car market, it applied two key techniques to its product: reverse engineering and target costing. In essence, it sought to make a car with the features of a BMW 7 series at the lower price of a BMW 5 series. Cost was the dominant design parameter that shaped the development of the Lexus – as it was later with Nissan's Infiniti.

Mercedes-Benz, one of the competitors that lost market share as a result of Toyota's strategy, responded by acknowledging that its cars were over-engineered and too expensive, and by changing its product development process to determine target product costs from competitive market prices.

Source: J Innes, B Nixon and J Rabinowitz, "Management accounting for design", *Management Accounting*, September 1997.

Illustration: Martin Nicolausson/Dutch Uncle

where appropriate, modify the new product or production method in the light of its findings.

A company using the value analysis approach should reap huge benefits, including:

- A reduction in cost, but not quality.
- An improvement in quality that may attract more customers or enable the company to increase the product's selling price.
- An increase in sales that may lead to economies of scale and either an increase in profit or a reduction in selling price.

There is no single approach to value analysis that fits all situations. Companies operate in dynamic environments and they need to be able to accommodate the emergence of new products, competitors and economic circumstances. Value analysis is simply one of the many tools available to companies seeking to balancing cost, price and profit.

'There is no single approach to value analysis that fits all situations'

Functional analysis

This approach has similarities to value engineering in that it's applied during the development stage of a product or service, but, as its name suggests, it uses the functions of the product as the basis for cost management. Functional analysis aims to increase profits by trying to reduce costs and/or by cost-effectively adding new features that are so attractive to customers that the product becomes more profitable. CIMA's official definition states that it is "an analysis of the relationship between

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Performance Management

product functions, their perceived value to the customer and their cost provision".

Consider an example of functional analysis from my time with a company at the forefront of designing, making and selling telephones. When a new phone was in development, the marketing team would conduct a pre-production target costing exercise to establish what consumers would be willing to pay for it. Working backwards, the firm could then establish a target cost. The next stage was a functional analysis that listed everything the product could do, followed by a more detailed investigation to establish the importance that consumers attached to each feature. It was pointless including functions that people didn't value, wouldn't use and weren't prepared to pay for. At the end of the exercise, its unnecessary features were removed and an overall target cost was calculated. In this way, the company was establishing a use value rather than simply catering for the few people who were ready to pay more for the phone's esteem value.

As with value analysis, functional analysis requires a systematic approach. The technique could involve the following nine steps, again adapted from the BPP study text for P2:

- Step one: choose what to analyse (product, service or overhead area). If it's not a new product, a high-volume product with a complex design and relatively large manufacturing cost is often an ideal candidate. Other selection criteria might include an apparently high cost, a low yield rate, a manufacturing problem or a need for a more compact design. The chosen product will determine the objective of the analysis exercise – eg, reduce weight by 25 per cent and reduce cost by 30 per cent while maintaining the same quality.
- Step two: assemble the functional analysis team. Six to eight members will typically be drawn from a range of departments – eg, accounting, production, purchasing, design and marketing.
- Step three: gather information. Include data from both inside the organisation – eg, design, manufacturing and marketing information – and outside it – eg, information about new technologies.
- Step four: define the product's features. Its various functions should be defined using a verb and a noun. For example, according to *Contemporary Cost Management* (Thomson Learning, 1994): "The major function of a propelling ballpoint pen can be described as 'make a mark', but supporting functions are also required, such as 'put colour', 'guide tip' and 'prevent loss'. These in turn may also require their own supporting functions." The features should be classified as basic or secondary in terms of their importance to the product.
- Step five: draw a functional family tree. The features identified in step four should be arranged in a logical order in a family-tree diagram. A table illustrating the relationship between the functions and the parts of the product, as well as relevant existing costs, should also be constructed.
- Step six: evaluate the functions. Estimate the relative value of each feature to a total target cost from the customer's point of view, either by using market research or by asking all members of the analysis team to give their values and reach a consensus for each one. This relative value provides a target cost for every function. Those functions for which the actual cost is greater than the assigned target cost should be highlighted as potential problem areas, although the absolute amount of money involved should also be taken into consideration.
- Step seven: suggest alternatives and compare these with the target cost. Options might include the use of new materials or parts; a change of production method; the introduction of new features (or even products); the modification of functions; the combination of functions; or even the elimination of certain features.
- Step eight: select manufacturing options. Assess the alternatives and choose which to implement.
- Step nine: review the results. An audit of the changes implemented should be conducted promptly and its findings reported to the management team. This should prevent any overoptimistic assessments and provide feedback to inform any future functional analysis.

'Because 90 per cent of a product's life-cycle cost is determined at the decision stage, it is essential that the tightest control is exercised at the design phase'

A functional analysis will result in a cost-effective design and ultimately increase the firm's competitive advantage. Because 90 per cent of a product's life-cycle cost is determined at the decision stage, it is essential that the tightest control is exercised at the design phase. This can be achieved by subjecting new products to value engineering and functional analysis, and existing products to value analysis.

The three most important messages for companies providing products or services are:

- Do not provide a product or service that customers do not want.
- Do not include features that are not required.
- Do not produce in the hope that people will buy.

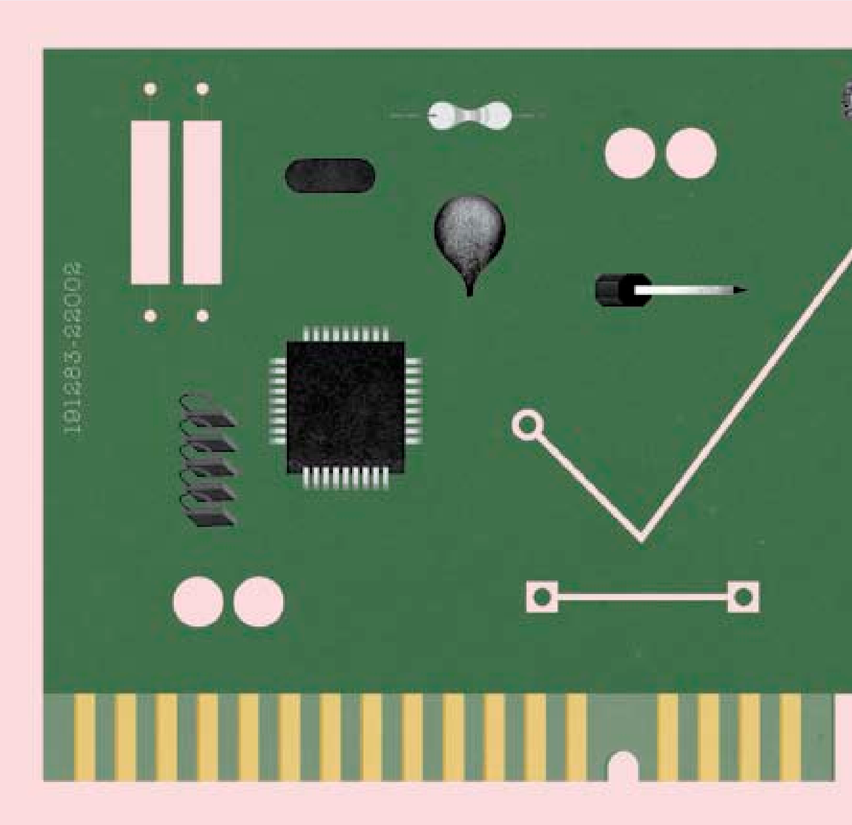
To read an unabridged version of this article, which contains further real-life case studies, visit www.cimaglobal.com/valueforP2.

Further reading J Avis, *Performance Management – CIMA Official Learning System*, CIMA Publishing, 2009.

Papers E3, P3 and F3
All strategic level exams

Information systems are a key element of the strategic level, yet candidates have consistently scored low marks when answering questions on the topic. Complacency is the prime suspect

By the examiners for the Enterprise Strategy, Financial Strategy and Performance Strategy papers



Recognising the important part that information systems (IS) play in modern life, the institute has made the subject a significant aspect of the Enterprise Strategy (E3), Performance Strategy (P3) and Financial Strategy (F3) papers. But, in the four times that the 2010 syllabus has been examined so far, candidates' performance in this area has been consistently weak. You would be well advised to take time to understand the role of IS at strategic level so that you can prepare more effectively for your exams. They constitute 15 per cent of the P3 syllabus, for instance, so they will require a considerable amount of work if you want to be sure of achieving a good mark.

Enterprise Strategy

IS are a key aspect of the E3 syllabus. They appear in section A, "Interacting with the competitive environment", under the heading "Evaluate the impact of information systems on an organisation", and also in section D, "Implementation of strategic plans and performance evaluation".

E3 students ought to have a good grounding in IS because they have already been tested on them in the Enterprise Operations paper (E1), where the subject constituted 20 per cent of the syllabus. At E1 the verbs used in the learning outcomes are at levels two and four: "identify", "discuss" and "analyse".

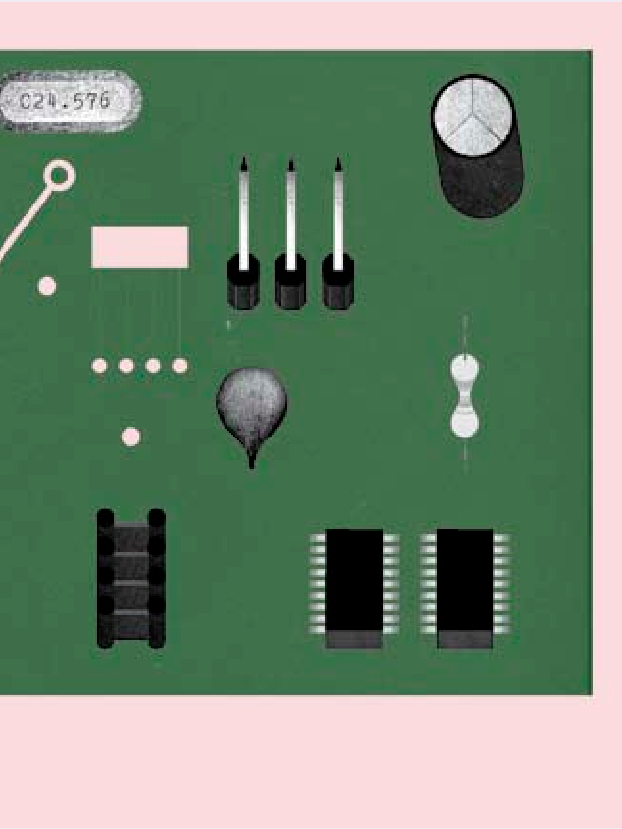
The indicative syllabus content published by CIMA for E1 provides a necessary background for what will be examined at E3, where the specified verbs are at level five: "evaluate" and "recommend". E3 focuses on the interaction between IS and organisational strategy. Its syllabus covers:

- The impact of the internet on organisations and their strategies.
- The strategic and competitive impact of IS.
- Competing through the exploitation of information rather than technology.
- The purpose and content of IS strategies.
- Changes to IS appropriate to an organisation's strategic requirements.
- The need for an IS strategy that complements corporate and individual business strategies.

'Your job probably involves the use of IS, so you should make an effort to understand their strategic implications'

The key words here are "strategy", "competitive" and "changes". These reflect the paper's level and philosophy. To earn good marks, candidates need to show their understanding of how IS can be used as the basis for successful competition. A basic knowledge of IS will not be enough for a pass.

Candidates have performed disappointingly on this topic in the four E3 exams under the current syllabus. In the November 2010 paper, for instance, the post-exam guide states: "Question 4 was the least popular question on section B and the one for which candidates obtained the lowest marks. Most demonstrated a poor level of knowledge and understanding... and failed to successfully apply their limited knowledge to the scenario. This lack of ability in the syllabus area is a recurring problem... and clearly needs to be addressed by candidates and tutors."



'I usually feel that students think they know about the IS part of the P3 syllabus and so fail to revise it in any depth'

E3 students must recognise that IS are crucial in business. Given the ubiquity of information technology, IS are prevalent in modern commerce. Many companies – eg, Amazon – conduct their activities exclusively via IS. Such enterprises, which are an important and growing part of society, would not exist without them. Your job probably involves the use of IS, so you should make an effort to understand their strategic implications. CIMA recognises the strategic importance of IS to its members and has given IS appropriate weight in the syllabus. Questions on IS will therefore appear frequently in sections A and B of the E3 paper.

Performance Strategy

The IS content of the P3 paper is significant, since it constitutes 15 per cent of the syllabus. It is therefore important that candidates can apply their knowledge of IS to the scenarios provided.

P3 candidates should be able to "evaluate the benefits and risks associated with information-related systems", according to the institute, which has broken down this lead learning outcome into the following five components:

- Advise managers on the development of information management, IS and IT strategies that support management and internal control requirements.
- Evaluate IS appropriate to an organisation's needs for operational and control information.
- Evaluate benefits and risks in the structuring and organisation of the IS/IT function and its integration with the rest of the business.
- Recommend improvements to the control of IS.
- Evaluate problems and opportunities associated with the audit and control of systems that use IT.

The most important thing to note from this list of components is that only three verbs are used, all at level five: "evaluate", "advise" and "recommend". It is therefore extremely unlikely that candidates will be asked merely to list the benefits of an expert system or explain the role of the steering committee – they will be required to apply their knowledge.

CIMA has also issued the following list of indicative syllabus content for IS-related topics in P3:

- The importance and characteristics of information for organisations and the use of cost-benefit analysis to assess its value.
- The purpose and content of information management, IS and IT strategies, and their role in performance management and internal control.
- Data collection and IT systems that deliver information to different levels in the organisation – eg, transaction processing, decision support and executive information systems.
- The potential ways of organising the IT function – eg, the use of steering committees, support centres, helpdesk facilities and end-user participation.
- The arguments for and against outsourcing.
- Methods of securing systems and data back-up in case of a systems failure or data loss.
- Minimising the risk of computer-based fraud – eg, access restriction, password protection and automatic audit-trail generation.
- Risks in IS/IT systems – eg, erroneous input, unauthorised or unlicensed usage, virus infection, software corruption and theft.
- The risks and benefits of internet and intranet use.
- The criteria for choosing outsourcing/facilities management partners and/or managing relationships, service-level agreements, changes of supplier etc.
- Controls that can be designed into an information system, particularly one that uses IT – eg, security, integrity and contingency controls.

Illustration: Martin Nicolausson/Dutch Uncle

Papers E3, P3 and F3
All strategic level exams

- The control and audit of systems development and implementation.
- Computer-assisted audit techniques – eg, audit interrogation software.

Candidates often perform extremely poorly on IS-related questions in P3. I usually feel that students think they know about this part of the syllabus and so fail to revise it in any depth. The comments in the post-exam guides for the past few sittings illustrate the problem. The guide for September 2010, for instance, states: "Part A was done quite poorly, with few candidates scoring high marks. Many failed to discuss how IS could be useful in a car-hire business. When the industry is given in the case, candidates should try to base their answer on that industry. A general answer that relates to any business will score low marks".

According to the March 2011 post-exam guide, many candidates attempting part A "did not seem to know what a post-implementation review was. This area of the syllabus could do with some revision before the next exam. Many candidates wrote about a post-completion audit, which is not the same."

In part B of the same paper, "few candidates could make sensible suggestions about whether internal audit would be suitable for this task. The role of the internal auditor will be examined fairly often, as it is a significant part of the syllabus."

And Part C "was poorly answered. This was surprising, as we have asked about how to minimise risks when changing a system in the past and candidates do discuss running the systems in parallel".

It's clear, then, that students need to revise this part of the syllabus thoroughly and be able to apply their knowledge to a scenario – otherwise, marks will remain poor. It should be a straightforward part of the syllabus for well-prepared candidates.

Financial Strategy

IS carry less weight in the F3 syllabus than they do in the other strategic level papers. There is only one sentence in the indicative syllabus content that refers specifically to IS. It comes under section C1, "Investment decisions and project control", and it covers "linking investment in IS/IT with strategic, operational and control needs (particularly where risks and benefits are difficult to quantify)". This indicates that students are expected to understand the importance of IS/IT and the use of a formal IS/IT strategy in meeting overall strategic objectives.

'IS carry less weight in the F3 syllabus than they do in the other strategic level papers'

Questions involving an IS/IT investment project may require candidates to identify and evaluate both the financial and non-financial costs and benefits. Typically, such a project will have a negative net present value when the financial cash flows are considered in isolation. It's therefore essential to evaluate the potential non-financial benefits in order to support a proposed project.

The non-financial benefits of IS/IT projects may include the following:

- Strategic – helping a business to achieve its overall objectives (eg, gain a competitive advantage).
- Operational – enhancing efficiency and effectiveness (eg, improve customer service).
- Control – providing feedback on performance, leading to better decision-making.

There is also a brief mention of IS later on in syllabus section C2 concerning "the post-merger or post-acquisition integration process (eg, management transfer and merger of systems)". It may therefore be relevant to make an appropriate reference to IS implications when answering questions on the implementation of projects, mergers or acquisitions that require some IS development or integration.

Part D of question 1 in the May 2010 exam required candidates to "advise the directors on how to achieve efficient management and control of the implementation of the proposed projects". These projects were a factory refit in a company's home country and the construction of a new factory abroad. IS were not a key issue in the scenario, but a little credit was given to candidates who referred to the use of IS in controlling the projects or the need to integrate accounting and performance measurement systems across the group.

IS issues will generally be more relevant to a question concerning business integrations. A good example of this is part B of question 1 in the September 2010 exam, which asked candidates to "discuss the potential problems and issues that could arise from the integration of NN into the SC division of Aybe".

In summary, IS issues are unlikely to constitute a large part of a question in F3, except in the context of an investment appraisal decision involving an IS project. But they may sometimes also be relevant in other questions involving the evaluation or implementation of projects, mergers and acquisitions, especially in scenarios where it may be necessary to develop or integrate systems.

Exam notice

Visit www.cimaglobal.com regularly for updates

May 2011 exam results

The results for all paper-based exams will be sent out by first-class post, airmail or email on 14 July. The deadline for registering to receive them online via your "My CIMA" account is 7 July.

The institute cannot give out results on the phone or to personal callers at any of its offices.

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.

Question papers and model answers

The May 2011 exam papers and model answers are now available for you to download free through your "My CIMA" account. Check past issues of *Velocity* (www.cimaglobal.com/velocity) for further model answers.

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 also available for all operational, management and strategic level papers. Visit www.cimaglobal.com/scriptreview for further details about these services.

Post-exam guides

Post-exam guides are available three to four months after the exams. They are essential reading for unsuccessful candidates and those taking a new subject.

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. The deadline for entries to all of these exams is 22 July.

November 2011 exams

The next exams will be held on 22, 23 and 24 November. The institute will start accepting entries from students via their "My CIMA" accounts on 2 August.

You must pay the following exam fees online when you enter:

- Operations and management levels: £75 per paper.
- Strategic level: £81 per paper.
- T4 part B: £101 on paper; £145 on PC.
- Resit pilot exams: £125 per paper.

The standard deadline for entries is 5pm (BST) on 14 September. If you enter after this date you will have to pay an additional late entry fee. The deadline for late entries is 5pm on 21 September.

CIMA does not accept cancellations and will not refund fees. To request changes to papers or exam centres, email exam.changes@cimaglobal.com. The fees for changes are as follows:

- Before 5pm on 14 September: £31.
- Between 5pm on 14 September and 5pm on 21 September: £62.
- After 21 September (in exceptional cases only): £83.

Pre-seen material for the T4 part B Case Study exams and the strategic level papers

The pre-seen material for the September and November T4 part B Case Study exams will be available from mid-July at www.cimaglobal.com/t4preseen.

The pre-seen material for the strategic level papers can be downloaded from www.cimaglobal.com/strategicpreseen six weeks before the exams.

It is your responsibility to download this material and familiarise yourself with it. A "clean" copy of the pre-seen material and further unseen material will be given to you in the exam. You cannot take any notes in with you.

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

How women can hone their networking skills

The likes of Twitter, Facebook and LinkedIn have made networking easier and more fashionable than ever. These sites are also the perfect places for women to begin building their profiles – both personal and business...

By Dorothy Dalton
International talent management strategist

The recent CIMA report "Breaking glass: strategies for tomorrow's leaders" highlighted increased visibility as a key strategy for success for its female members.

Therefore, any woman who wants to advance her career to a more senior level in the finance function, or indeed any other function, should give priority to raising her overall profile.

Mercer's recent "Women's Leadership Development Survey" revealed that only five per cent of organisational respondents provide a "robust programme" to develop female leaders. This means that there are a reduced number of visible female role models to emulate at all levels. So although there is much talk about what governments and organisations can do for women, there is so much more that we can do for ourselves.

Self-promotion

Women now make up 60 per cent of European graduates and more than 50 per cent of the workforce. They frequently wait for recognition and hope to be invited, endorsed and promoted. But they are disappointed that despite doing a good job and being patient, full credit and recognition is not always forthcoming. They therefore have to know what they are good at, be able to clearly articulate it and promote themselves. In modern jargon they have to build their "personal brand".

Personal branding, according to Dan Schawbel, the "Gen Y personal branding guru", is "the process by which we unearth what makes us special and communicate this to the right audience".

This is the time to find your "personal power". You might want to find a mentor or a coach to support you. And yes, you have incredible skills and talents, but if you don't know what they are, how do you expect anyone else to know?

'The reluctance of women to network strategically puts them at a significant disadvantage'

Networking

Individuals with strong networking skills have been identified as having a high potential for success. Political skill, which is defined as the "ability to understand others at work and to use that knowledge to influence others to act in ways that enhance one's personal and organisational agendas" (*Political Skill at Work: Impact on Work Effectiveness*, Ferris & Perriwé) is a key characteristic needed for career advancement.

This is an area in which women should excel, yet they still hold back. Women are just as good at building relationships as men. Women have traditionally tended to tap into their networks to organise babysitters, find the latest restaurant recommendations or run their home, so there is no reason to doubt that they have these skills. However, the thought of stepping up and engaging to make themselves personally visible, whether that be within their own organisations or in outside networks specifically for their own benefit – for example, being political – fills many with horror, so they look for reasons not to. But the creativity required to dream up the excuses suggests that their inner capabilities are first class.

Don't be afraid of "no"

So what prevents many women from stepping out of their comfort zone? My observation is that fear of failure and rejection play a key role. But what is the worst thing that can happen? That they could receive a negative response, perhaps?

Women have to learn not to tie professional rejection into their sense of personal self-worth. They also have to understand that "no" is merely the beginning of the dialogue, not the end as they so deeply fear. When they really understand what their key skills and achievements are, those success stories will play a powerful role in the negotiation process.

Networking within organisations

Sheryl Sandberg, COO of Facebook, suggests in her TED talk "Why we have too few women leaders" that women need to "come to the table" rather than simply sitting on the sidelines waiting for recognition. They need to step up and raise their profiles. But how can that be done? There are a few simple steps to follow:

- Participate in meetings. Speak up!

How women can hone their networking skills

- Find a mentor and a sponsor.
- Network with colleagues outside the normal sphere of activity or geographic location.
- Volunteer for high-profile assignments.
- Participate in sector or professional networking activities.
- Ask for increased responsibility.

Networking outside an organisation

There is no situation which cannot potentially be professionally useful. We all have friends, families, colleagues and business associates. There are so many avenues to connect – whether through alumni organisations, hobby and sports groups, conferences, professional associations and so on. Even random encounters can be beneficial. But when networking it is important to always set a professional goal and follow up on it, even if it's only a business card exchange or a commitment to connect on business networking site LinkedIn. I have one friend who sets out to get ten business cards from every business event she goes to.

Online

For the first time ever reluctant networkers have a great tool to support their physical networking. They can now network online. Not only do these platforms provide background information on colleagues, bosses and other contacts, which always helps to facilitate conversation and give additional insights, they also serve to raise the individual profile of everyone who participates.

There are actually more women than men using social media. Engaging online is entirely self-scheduling and can be fitted around other responsibilities, making it a perfect instrument for staying connected.

Professional profile

All women should create one or more online, comprehensive, professional profile. And then engage. LinkedIn now has 100 million members and is highly effective. This sends out a message that you take your career and professional activity seriously. Your profile must include a professional business photo. Many women are not keen on this for any number of reasons, but I have mainly found it is related to confidence issues and insecurities regarding appearance and concerns about wide internet exposure. But women should understand the power of appearance.

'All women should create at least one online, comprehensive, professional profile... and then engage'

Join CIMA's women's network where CIMA members and students can seek advice, network and share tips on advancing their careers: http://community.cimaglobal.com/groups/content/cima-womens-network

- Connect with Dorothy on LinkedIn: http://www.linkedin.com/in/dorothydalton
- Subscribe to her blog – Future Perfect Career Transition Strategies: http://dorothydalton.wordpress.com/
- Follow her on Twitter: @DorothyDalton

BARRIERS

So what are the barriers to women achieving a greater profile? There can be many:

SECURITY First of all, it is important to realise that professional platforms are not dating or "adult" friendship sites, or supermodel contests, and although I know one woman who has received any number of marriage proposals, I think that is the exception rather than the rule. It also depends on the way women conduct themselves and there are, of course, many filtering possibilities for any unwanted, inappropriate behaviour. Women today have to network with people they may not know personally. This could expose them to that general vulnerability that the internet facilitates, and for those who are really concerned I would suggest starting in an environment in which you feel comfortable. Create a separate email account specifically for networking if it's a clogged inbox that is a concern.

NO TIME Women often say they have no time to network or take on anything extra. Getting out there and participating, whether online or in "real life", is vital. The reluctance of women to network strategically puts them at a significant disadvantage. Don't forget there is no such thing as time management – it's "you" management and about the allocation of priorities. Give yourself priority. Strategically select the networks which will be most useful to you and be active.

WAITING FOR THE PERFECT MOMENT There can be a tendency with women to get caught up in "getting it right" rather than "getting it done", even in low-risk situations. This is a good moment to ask that time-honoured question we have already talked about: "What is the worst thing that could happen?" The realistic worst-case scenario is usually far removed from the anticipated catastrophe.

INVEST IN YOU Women seem reluctant to invest in personal professional development. We make up the world's greatest emerging market and although we will spend money on any number of luxuries, we tend to invest less in our careers and professions, which seems incredibly short-sighted. Who else is going to do that for us? Life coach Brian Tracey suggests that we should spend three per cent of our income on personal development.

PAY IT FORWARD Women of any age and position in their professional life, even entry level, can mentor other women. Be active in connecting and endorsing women who can support each other or have some other mutually beneficial relationship. Women seem to be distrustful of other women in the workplace and are reluctant to advocate each other. A woman is 2.5 times more likely to be bullied in the workplace by another woman than a man. So start with yourself and find someone to mentor in your own organisation and profession. But remember, until women step up in the way that men do we risk being that one pace behind.

Further reading Read CIMA's report "Breaking glass – strategies for tomorrow's leaders" and honest, insightful case studies from some of CIMA's most successful female members at www.cimaglobal.com/women

Putting business models under the microscope

Business models are now at the heart of many corporate performance business models. To test the validity of such models a research team has been monitoring one organisation's performance...

By Kenneth A. Merchant, chair of accountancy, Deloitte & Touche LLP; Tatiana Sandino, assistant professor at the University of South California; and David P. Huelsbeck, senior lecturer at the University of Melbourne

The most advanced corporate performance measurement systems, such as balanced scorecards, are now built around "business models" or "strategy maps" that incorporate a number of beliefs or assumptions about cause-and-effect relationships between and among the measures. In most companies these business models are developed intuitively and their validity is rarely, if ever, subjected to formal, empirical tests. If some of the beliefs underlying their model are wrong, managers could then focus on the wrong things. They could endeavour to improve performance factors that are not important, or possibly even harmful.

But how should managers test the validity of their business models? Is it easy to do? Our CIMA-sponsored study sought to test one company's business model to provide insights, both about how to conduct these tests and what to expect from them.

Our site was a medium-sized medical test equipment manufacturer with a single operating unit. We gained access to the entire set of data that was monitored on a quarterly basis by the company's board of directors and top management over an eight-and-a-half-year period (1Q98-2Q06). Conditions seemed favourable for conducting business model tests. The company operated in a single line of business with only one business model (or strategy), so the overall corporate performance measures were not distorted by shifts in cross-business sales mix. The company's top management, its strategy and its business model remained constant for the entire period of our study. And since the company's stock was publicly traded on the New York Stock Exchange, we were able to test whether the elements of the business model were, individually and collectively, leading indicators of both financial performance and shareholder value creation.

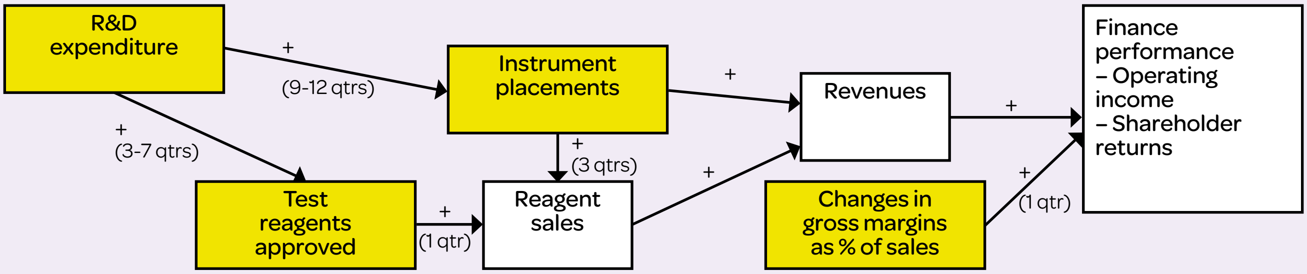
We were able to test whether the elements of the business model were leading indicators of both financial performance and shareholder value creation

The data to which we had access comprised only a "dashboard" because the managers' understandings of how the measures were linked, and which were most important, were only implicit. Company management certainly had beliefs and understandings as to what measures were important to monitor, but they had not expressed relations between and among the measures as a formal business model. Before we began our tests we conducted interviews with top management and directors to make explicit their beliefs about what elements in the dashboard described the company's business model and how those elements were related. This business model is shown in Figure 1.

This company developed, manufactured and sold equipment used for performing medical diagnostic tests. The instruments (that is the name used for the test equipment) were "closed systems", meaning that they worked only with the company's own test kits (called "reagents"); they could not use other manufacturers' reagents. The strategy the company followed is commonly referred to as a "razor/razor blade" strategy. That is, it sold the instruments at a small mark-up. It then made most of its profits selling the reagent kits needed to perform the tests.

We subjected the managers' model to formal statistical tests and generated three primary empirical results. First, while management believes that there are four important "performance drivers", or leading indicators (shown by the highlighted boxes in Figure 1), only two (R&D expenditures and instrument placements) were consistently associated with future financial performance. We found that the other two (test reagents approved and changes in gross margin percentages) provided little or no incremental information useful for predicting future financial performance. Second, we examined the specific paths by which the different leading indicators in the company's business model relate to each other in a time-dependent causal sense and found support for only one subpath (R&D expenditures – instrument placements – revenues – operating income). Finally, we found that the leading indicators in the company's business model contain little or no information about its stock returns once we take into account other predictors of stock market valuation.

Figure 1. Pictorial illustration of the major elements in the company's business model (the hypothesised four most important performance drivers are shown in highlighted boxes; hypothesised lags shown in brackets)



Based on follow-up interviews with management and our further analyses and reflections, we concluded that our generally negative results here could be typical in single operating unit situations. Analysing data from a single operating unit (rather than multiple, like units, such as in a retail chain or bank) will usually provide quantities of data too small to yield statistical significance. Even though the operating environment in the time period of our study was relatively stable, analyses of our ability to detect underlying relationships (statistical power) reveal that our tests were likely to find only quite large effects.

Even if the time-series is long and environmental noise is filtered out, the relations among the performance measures themselves can be very noisy. For example, there is considerable noise in the measure "test reagents approved" because only about one of the 30 approved reagents has a significant impact on sales. In addition, the measures' predictive abilities decrease when managers take corrective actions to make sure that some performance factors stay within acceptable bounds. For example, every time gross margin percentages dropped managers immediately made an effort to cut costs. They endeavoured to ensure that the decline in gross margin percentages would not lead to a future decrease in operating income.

Managers in the firm we studied expressed no surprise at the lack of ability to explain stock market movements. The company was a mid-cap firm. Managers noted that stock movements sometimes lagged significantly behind disclosures about material company events and they described a number of specific examples to illustrate the point.

While we were unable to continue to follow this company because of its acquisition by a larger firm, we were able to offer several pieces of advice to managers. First, all managers should consider trying to test their business models formally. We described potential pitfalls arising from reliance on an invalid model in the first paragraph of this article. Statistical analyses offer an important complement to managers' intuitions and experiences and could help to uncover false beliefs and novel insights.

Second, to increase their chances of being able to conduct successful business model tests, managers need to define measures carefully. In this case we now know that the variable "test reagents approved" was not the right variable to include in the model. Managers could make these distinctions as they had predictions of the size of the potential market for each type of reagent.

Third, the data must match the specificity of the business model. In our tests we were given total R&D expenditures by quarter. However, the R&D expenditures were made both to improve the performance of the instruments and to develop new reagent tests. If we'd had the disaggregated R&D data the results would have been stronger.

Fourth, while defining and disaggregating the measures in ways that increase the probability of finding a relation between leading indicators and financial outcomes is necessary to be able to test a business model, it is not sufficient. To produce statistically adequate tests firms should collect and analyse information at lower levels.

Finally, particularly for companies whose shares are not as actively traded, tests aimed at explaining stock returns should be conducted using longer windows of time. There is considerable noise in short-term stock returns that cannot be explained by a company's performance drivers, no matter how precise the measures are. But, of course, longer measurement windows require the availability of more data and increase the potential for noise-causing shifts in the underlying business conditions.

Those interested in testing business models empirically face many significant challenges. In some situations the hurdles are insurmountable. Yet in others the payoffs are worth the effort.

Further reading This article is based on the writers' paper "On testing business models", forthcoming in *The Accounting Review*. For a copy of that article, contact kmerchant@marshall.usc.edu. An executive summary is available at http://bit.ly/lGwihu

What you learn from the...
New CIMA Certificate in Business Accounting

Dr Noel Tagoe, who is head of research and development at CIMA and is responsible for the development of the CIMA qualifications, explains the new Certificate in Business Accounting

In March 2011 CIMA launched its new Certificate in Business Accounting. This is in line with CIMA's policy and practice of regularly reviewing and updating its qualifications to meet the needs of its key stakeholders.

The certificate comprises five papers:

- Paper C01: Fundamentals of management accounting
- Paper C02: Fundamentals of financial accounting
- Paper C03: Fundamentals of business mathematics
- Paper C04: Fundamentals of business economics
- Paper C05: Fundamentals of ethics, corporate governance and business law

The syllabus can be downloaded from: www.cimaglobal.com/Students/Entry-level-certificate-in-business-accounting.

What the syllabus aims to achieve

The syllabus was designed to be relevant to employer needs, coherent, support the CIMA professional qualification and enhance the student learning experience. New topics that reflect significant emerging issues facing the business and financial communities, such as the causes and effects of the current banking and global financial crises, were introduced to ensure that the qualification remains relevant.

The coherence of the qualification is illustrated in Figure 1. Organisations work in the wider business environment and need to understand the social and legal context, as well as the economic context. This is achieved with papers C05 and C04 respectively. Paper C02 enables students to acquire the skills to communicate the organisation's financial results to key external stakeholders. The skills needed to support the short and long-term decision-making organisations are found in Paper C01. Finally, most of other papers require numeracy skills. These are provided in Paper C04.

Changes to the syllabus

The main changes are:

- **C01: Fundamentals of management accounting**

A new section – the context of management accounting – has been introduced. This deals with the definition and purpose of management accounting and the role of management accountants. The previous topics have been rearranged under headings that have more relevant titles and in a more logical sequence.

- **C02: Fundamentals of financial accounting**

The terminology has been updated to align with international financial reporting standards (IFRSs) and some learning outcomes have been rewritten to improve precision. Finally, the order of the components has been changed to make the learning process more logical.

- **C03: Fundamentals of business mathematics**

Very few changes were made to this paper. Some learning outcomes have been rewritten more precisely. The review provided assurances that each topic in this paper was linked to key topics in the professional qualification and that the numeracy skills required by the papers in the professional qualification are covered in this paper.

- **C04: Fundamentals of business economics**

The content of the previous syllabus was broadly retained. Emerging topics that are increasingly relevant to the business community were added. These include globalisation, the circulation of funds and uses of liquidity, the global financial crisis, structural debt and international action to resolve the liquidity and debt crisis. The order of the components was also changed to reflect a more logical sequence.

- **C05: Fundamentals of ethics, corporate governance and business law**

Very few changes were made to this paper. These comprised mainly of the redrafting of learning outcomes to make them clearer.

Assessment

Each paper will be assessed by computer-based assessment lasting two hours. The pass mark will be 50 per cent. The first assessment for the new certificate will be in early October. This will run alongside the assessment for the old syllabus until June 2012 when CIMA will cease examining under the old syllabus.

Transitional arrangements for students

Registered students who have passed examinations (or been awarded exemptions from examinations) before 1 July 2012 based on the 2006 syllabus will be given credit for like subjects within the 2011 syllabus.

FIGURE 1: HOW THE DIFFERENT PAPERS HOLD TOGETHER

Each of the papers in the Certificate in Business Accounting is designed to provide a closer fit with the relevant papers in the professional qualification and thus form a strong foundation for those papers. For example, Paper C01 supports Paper P1: Performance operations and Paper P2: Performance management in the professional qualification.

Finally, the syllabus is presented in a new format that links the lead aims, learning outcomes and indicative syllabus content more directly and explicitly. This should improve the learning experience of the students and, together with other initiatives, improve their chances of success in the examinations.

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

Job of the month
Group management accountant

Jonathan Kitterhing, a manager at recruitment consultancy Robert Walters, talks about a role that offers considerable interaction with the rest of the business and excellent career progression opportunities

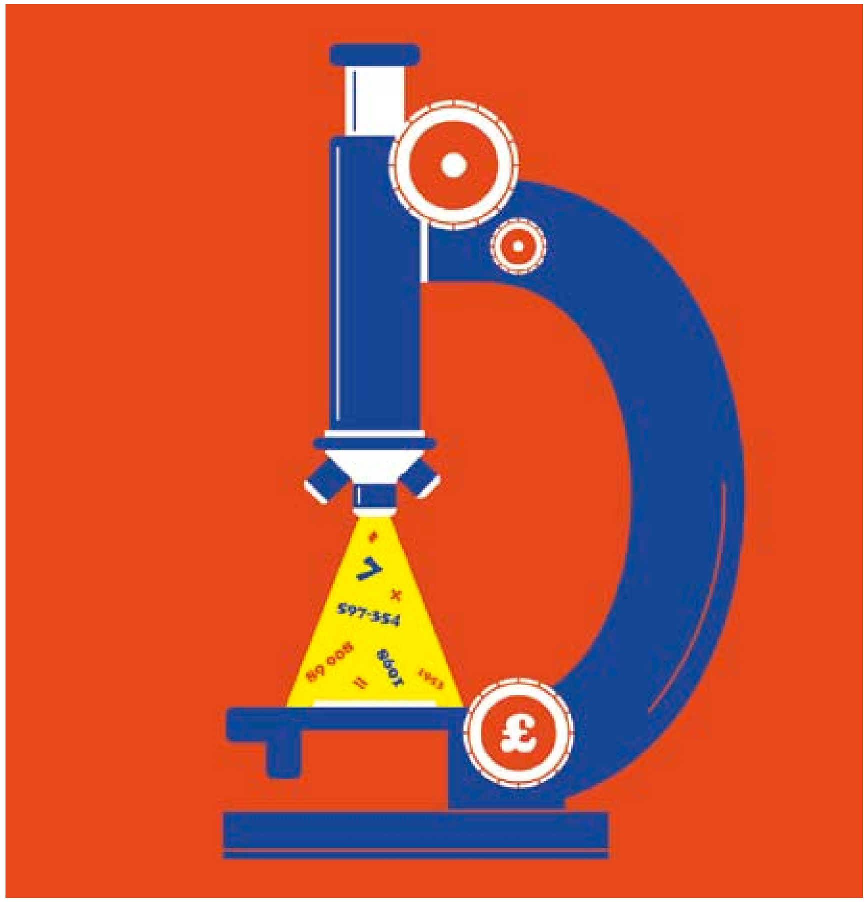


Illustration: Denis Carrier/Dutch Uncle

The role of group management accountant is hugely popular, primarily because it involves a lot of analysis. People in these positions are typically required to offer insights to the board and it is this aspect of the job that really drives appeal. We see interest in this role from CIMA, ACCA and ACA-qualified accountants, so competition is intense.

The good news is that employers are currently hiring a lot of people in these roles. There is a strong focus on "the Group" at the moment, with businesses evaluating their current position and exploring areas where they can grow. They are therefore keen to recruit people who can help senior executives drive top-level strategy.

Group management accountants look at a business's accounts overall, drawing on figures from the various regions and divisions across the organisation. They are heavily involved in the month-end consolidation process, which usually takes between five to ten days. The rest of the time they'll be dealing with various ad hoc enquiries from all over the business.

To be successful in the role you'll need to be a good communicator – this is because it involves a lot of relationship management. You'll be dealing with people from both the internal finance function and other divisions within the business, such as internal sales and marketing. Ideally, you'll have experience of working closely with senior management.

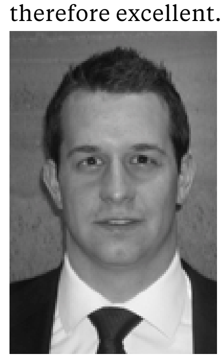
You'll also be able to look at a set of financial figures, spot trends and proactively suggest changes that will have a positive impact on the business. Employers are looking for someone who can look at a spreadsheet and see more than just the figures on the page.

In addition to these analytical skills, you'll also be technically strong. You will have good consolidation and P&L sheet understanding, while also being familiar with how the entire business operates.

The good news for CIMA-qualified accountants is that they are at a definite advantage when applying for these roles. This is primarily because of the commercial nature of their training, which provides them with both the practical and theoretical experience that employers are looking for.

Another aspect of the role that makes it popular is what it can lead to. Most group management accountants generally develop into more commercial positions, which makes the role extremely attractive to newly qualified accountants who are fresh out of practice and looking to take their careers in this direction.

Many develop into group roles within financial planning or a position within a specific division of the same organisation. It is also an excellent stepping-stone to an FP&A and then a commercial analyst role. Future prospects are therefore excellent.



If you are interested in becoming a group management accountant or are looking for any other accountancy role, contact Jonathan on 020 7509 8755, at jonathan.kitterhing@robertwalters.com, or by visiting www.robertwalters.co.uk

CIMA global events

Past events

The Anthony Howitt Lecture 2011

More than 130 senior CIMA members attended the Anthony Howitt Lecture in London on 18 May to hear CIMA's professor of accounting and financial management at the London School of Economics, Professor Wim A. Van der Stede, discuss issues around global governance. The lecture was thought-provoking and discussed how, with a major corporate crisis, comes a new wave of regulatory reform, yet firms are seemingly incapable of preventing the next one. The lectures were established through a trust fund set up by past president Anthony Howitt in 1985 to help CIMA develop the science of management accounting. An on demand webcast of this event is now available www.cimaglobal.com/globalgovernance.

Tackling financial crime

15 April, Zambia

Strategies on how to curb financial crime are on the political and business agenda globally right now, and professional accountants in business have a key role to play in devising models that will help prevent or mitigate the effects of financial crime. With this in mind, CIMA in Zambia held this one-day training programme entitled Financial Crime: Detection Prevention Response. The event attracted 125 delegates from a cross-section of employers in Zambia.

CIMA Global Business Challenge reaches Sri Lanka

7 May, Sri Lanka

The 2011 local final saw four teams from across Sri Lanka compete for the trophy. Despite all teams showing different strengths, the eventual winners were Apex from Colombo University, one of the premier institutions in Sri Lanka, which offers a bachelor degree in business administration. The event attracted an 85-strong audience, including participants who did not make it to the regional final, along with their mentors. Many CIMA students and members also attended the event and have expressed interest in attending such events in the future.

Ethics, challenges and opportunities

26 April, Malaysia

Issues ranging from business ethics to sustainability and how management accountants could play key roles in relation to these were discussed at this breakfast seminar attended by Tanya Barman, CIMA's head of ethics; Mohd Nizam bin Mohd Ali, director for private sector, Malaysian Institute of Integrity; and Margaret Chin, managing director of Tricor Roots (governance, risk and compliance) Group. Moderating the event was Chandra Mohan Balasubramaniam FCMA, divisional immediate past president.

The breakfast briefing took place at the One World Hotel, Petaling Jaya

The strategic role of finance professionals

30 March, South Africa

Aubrey Joachim FCMA, immediate past president, CIMA, gave a talk on the strategic role of finance professionals on 30 March to an audience of 30. He explained how the role of today's finance professional is changing fast and is becoming more strategic. As a result the role of the finance professional needs to expand to include strategy.

Coming events

Malaysia

Face-to-face membership assessment
27 August, 9am to 5pm
This session is open to all exam-completed students from Malaysia and Singapore. Students who have completed the strategic level and who have at least three years of working experience can also submit their career profile for assessment.
Contact Saritha on 03-77 230 286 or email saritha.subramaniam@cimaglobal.com

Singapore

Reputation – why it matters and how you can manage it
14 July, 6.30pm to 9pm
FTMSGlobal Academy, 20 Cecil Street, Equity Plaza
Cost: Complimentary for CIMA students and members
From banking to oil, technology to automobiles, industry reputations have been taking a pounding in recent years. At the heart of these events are internal management decisions – both in the lead-up and the response to the crisis. This event will cover the importance of an organisation's reputation and how it can be managed in an era of 24-hour rolling news and increased social networking. It will also address the difference between brand and reputation and how to integrate reputation in to your strategy.
Contact Shavonne Sim +65 6535 6822

China

The 2011 CIMA Global Business Challenge – global final
23 to 24 July
Chengdu
The global final promises to be a thrilling event, with 17 teams competing on an international stage for the title of 'Global Champions'. Teams will be flown to the global final and, once there, will present a business case to an audience of CIMA delegates and a judging panel of prestigious experts. Chengdu is the capital of the Sichuan province in southwest China and is one of the most important economic centres in western China.

UK

Commercial law issues for finance professionals
20 July, 9am to 5pm
Manchester
Cost: £599+VAT (£539+VAT for CIMA members)
This Mastercourse will provide practical insights into commercial law issues using an approach based on transactions, events and situations.
www.cimaglobal.com/mastercourses/COLA

Investment appraisal – introduction
29 July, 9am to 5pm
London
Cost: £599+VAT (£539+VAT for CIMA members)
This Mastercourse will take delegates through the basic investment appraisal techniques, including discounted cash flows.
www.cimaglobal.com/mastercourses/IAPI

UK GAAP – keeping up to date
5 August, 9am to 12.30pm
Manchester
Cost: £299+VAT (£269+VAT for CIMA members)
This Mastercourse will provide a comprehensive review of all recent developments in UK GAAP.
www.cimaglobal.com/mastercourses/UGKU

VAT refresher and update
23 August, 9.30am to 12.30pm
London
Cost: £599+VAT (£539+VAT for CIMA members)
This Mastercourse will provide delegates with a sound understanding of the fundamentals of VAT and updates to recent important changes to VAT legislation.
www.cimaglobal.com/mastercourses/VRAU

Pricing strategies and value
5 September, 9am to 5pm
London
Cost: £599+VAT (£539+VAT for CIMA members)
www.cimaglobal.com/mastercourses/PRST

CPD Autumn Academy
8 to 9 September, 9am to 5pm
CIMA, 26 Chapter Street, London, SW1P 4NP
Cost: £749 +VAT (Early booker rate of £649 + VAT on all bookings placed on or before 22 September 2011)
This two-day event will cover a wide variety of topics. It also incorporates a case study and time for networking.
www.cimaglobal.com/autumn

Driving down costs
9 September, 9am to 5pm
London
A toolkit of key ideas and cost management strategies
Cost: £599+VAT (£539+VAT for CIMA members)
www.cimaglobal.com/mastercourses/DDCO

Management accounting update – adding value beyond the numbers
16 September, 9am to 5pm
London
This Mastercourse is designed to introduce delegates to current hot topics in the management accounting field.
Cost: £599+VAT (£539+VAT for CIMA members)
www.cimaglobal.com/mastercourses/MAUA

Twenty major mistakes made by accountants – and how to avoid them
22 September, 9am to 5pm
London
Cost: £599+VAT (£539+VAT for CIMA members)
www.cimaglobal.com/mastercourses/TTMI

Strategic management accounting
29 September, 9am to 5pm
Manchester
Cost: £599+VAT (£539+VAT for CIMA members)
www.cimaglobal.com/mastercourses/STMA

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

Updating CIMA's governance

Members' control of the Institute is exercised through the governance processes. Since CIMA was established these governance processes have been constantly amended to ensure CIMA can successfully tackle its responsibilities in a changing world. The one constant is the CIMA Council, and as a result of a review of its governance processes over the past three years the following changes have been made:

- A new Code of Conduct has been introduced to support best practice in governance across CIMA.
- A document on the roles and responsibilities of members involved in governance has been approved to offer support and guidance to them.
- Guidance notes on the role of a member of council have been updated to clarify members' duties.
- The council has introduced an annual self-evaluation of its work.
- Mandatory training for all council members and committee chairmen has been introduced to support them in discharging their responsibilities.
- In order to ensure the council's control on strategic matters, a new schedule of matters reserved for the council, and those matters which it delegates to others, has been put in place.
- The council has provided new "terms of reference" to all the committees that work for it to ensure clarity on their responsibilities and powers. The Marketing Committee has been stood down and the relevant policy committees have taken responsibility for ensuring that the marketing issues required by them are addressed. It is expected that the consequent empowerment of committees and the de-cluttering of agendas will enable CIMA's governance machine to respond rapidly to the competitive environment in which it exists.

Illustration: Dmitry Litvin/Dutch Uncle

- CIMA's current divisional structure has been reinvigorated by the establishment of boards for all our regions, including the UK. The objective of those boards, with their relationship to the Global Markets Committee and the Member Services' Committee, has been clearly articulated to ensure a meaningful strategic drive in their work.
- The varying nomenclatures used in CIMA had given rise to a plethora of councils, presidents and other bodies with similar titles, which led to confusion. New simplified nomenclatures have been introduced to create only one council and one president of CIMA. It also ensured that the council is served by a number of policy committees, boards and other entities, all of which have a chairman.
- Terms of office for council members have been restricted to nine years in total to ensure an appropriate retention of experience on the council while allowing for a turnover to bring in new experience.

These changes will be reviewed on an ongoing basis and a formal review will take place in three years.

PRESIDENTIAL ENGAGEMENTS

19-27 July Hong Kong/China trip
21-23 September Russia office opening

New member elected

Stuart Wayment has been elected for Area 11 (Central Southern England), with his first term as a member of council to serve from the close of the Annual General Meeting in June 2011 until the close of the Annual General Meeting in 2014.

Reporting crossroads

The future of corporate reporting is at a critical point – and its ability to evolve and meet the changing needs of business and society will be essential if the threat of future systemic risk is to be minimised.

These are the conclusions of a new report from CIMA, PwC and think tank Tomorrow's Company.

"Tomorrow's corporate reporting: a critical system at risk" says that unless corporate reporting evolves "financial capital will be misallocated, business decisions will be sub-optimal and society will struggle to understand the critical contribution business has to play in meeting the challenges of the 21st century".

In response to these findings the research report sets out a "road map for consensus building and change". Central to this is a series of critical questions that the report says need to be addressed by those who oversee the reporting agenda, particularly its health, relevance and ability to explain business performance in a world constrained not just by financial capital, but also by human, social and physical capital.

CIMA chief executive Charles Tilley said in response to the report: "We need to create a reporting framework that is responsive to the changing business environment and which adequately accounts for long-term value creation. If not, the system may be left behind as the commercial world takes its next evolutionary turn."

To continue the debate around the findings of the report, CIMA has created a CIMASphere discussion group. To join in visit http://community.cimaglobal.com/groups/content/tomorrows-corporate-reporting.

CIMA CEO column

‘Governments rely too heavily on auditing’

I had the great pleasure of addressing a number of finance professionals at Shell’s headquarters in The Hague recently. The event, which had the theme of “new challenges and opportunities for business”, featured a wide-ranging discussion. It concluded that, given the diverse demands on the profession, there has never been a more exciting time to work in finance.

I wholeheartedly agree with this conclusion – our profession is more about creating sustainable value than about simply cranking out the numbers. It’s vital both to produce external reports that present a true and fair view of an organisation’s financial performance and to deliver accurate, timely and insightful internal management information, but these tasks should be seen in the context of the overarching requirement to help create a “well-managed organisation”.

There should be a high degree of alignment between the information reported to boards and that reported to shareholders and other stakeholders. External reports should contain the top slice of information that’s included regularly in board reports. They should be presented in an engaging way and provide enough forward-looking information for users to take an informed view about the long-term value proposition implicit in the organisation’s strategy and business model. The content should cover all material issues in an integrated way, reflecting the interactions between strategy and external factors, including relevant environmental considerations.

The finance function must also be adroit at providing appropriate information to allow effective internal decision-making. As well as being relevant to the production of meaningful external reports, management accounting skills are essential here too. Understanding and analysing the issues involved, and providing insights on a range of alternative scenarios and their associated risks and opportunities, is the stock-in-trade of the management accountant – an essential member of the finance team in a well-managed organisation.

External auditors challenge companies to provide external reports that make all the necessary disclosures, but the growing complexity of the reporting requirements has led to the proliferation of reports that are hard to understand. This limits their value to users seeking to rate the effectiveness of the management teams concerned.

Governments and regulators have a role to play in creating the conditions that allow well-managed organisations to emerge, as well as in establishing frameworks that expose those with poor management structures, policies and practices. But too often these frameworks seem to be based on the assumption that auditing is the panacea and that the professionally sceptical independent auditor will provide sufficient control. This is not the case because the role of audit is too narrow – auditing may “do what it says on the tin”, but this is insufficient. I believe that an extension is necessary to include some form of assurance on the processes that organisations use to produce information for internal decision-making. It may not be possible to determine, without the benefit of hindsight, whether board decisions are optimal, but it should be possible to determine whether the information relied upon by decision-makers is relevant, complete and reliable.

The creation of sustainable value requires well-managed organisations. Well-managed organisations need top-class management information and, consequently, access to excellent management accounting skills. I believe that regulators rely too much on auditors to avert business failures – they should place more emphasis on the supply of information for effective decision-making. This would help to promote better-managed organisations, which would in turn create greater long-term value for the benefit of society.

‘Too often regulatory frameworks seem to be based on the assumption that auditing is the panacea and that the professionally sceptical independent auditor will provide sufficient control’

Charles Tilley
Chief executive, CIMA

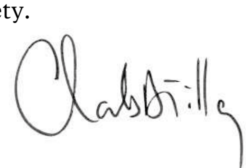


Illustration: Masao Yamazaki/Dutch Uncle

CIMA and an entrepreneur answer your questions

This month...

‘Our customer service is terrible. The boss has told me to come up with ideas on how to transform our performance. What should I suggest?’

CIMA versus Alex Cheatle

A. CIMA

Excellent customer service is about improving the experience that customers have with your firm. It often improves customer satisfaction, increases loyalty and enhances sales revenue. Improving customer service can be expensive so you must be careful that the cost of implementing it does not exceed the extra revenue.

You need to understand your customers and what they value about your firm. In general, at least three areas are of immense interest to customers. First, the product must be accessible. This means that a product should be available when the customer wants it and information about its use and the terms of sale must be clear, straightforward and understandable. The second is speed of service. This is stated in the service level promises that firms give. Different products require different times for completion.

The most crucial thing is to reduce queues and waiting times to the bare minimum. The final area is customer engagement. Customers expect to be treated with courtesy and respect. To do this your staff should be trustworthy, honest, friendly, respectful and patient. Where possible they should pay personal attention to the customers. This is even more important when customers need a resolution to their problems and complaints. When these are handled well customers not only tend to stay, but increase their commitment to the firm.

If you want to improve your processes related to customer service, sign up for the CIMA Mastercourse “Achieving process excellence” (details on our website).

I can also recommend using customer surveys and looking at what others in your industry are doing to learn what works and what doesn’t. Getting information directly can be costly and might only be suitable for larger firms. Smaller firms can talk directly to their customers as they come into contact with them and supplement the information with what can be found from trade journals.

Remember that the rewards for getting it right can be very high.

Noel Tagoe is CIMA’s head of research and development.

Illustration: Dmitry Litvin/Dutch Uncle

A. Alex

At Ten Lifestyle Concierge our members can ask our lifestyle managers to organise anything they don’t have the time, contacts or expertise to arrange themselves, such as booking entertainment, restaurants or flights. We know that we have to get things right – first time, every time – so they can see the value in coming back. Customer service has to be part of our business DNA.

If your customer service is terrible it can almost certainly be improved quickly, but only made excellent through long-term commitment.

My first tip is to make it measurable. Make this someone’s priority and reward your team on results.

We use a monthly review and cash-bonus system to incentivise our lifestyle managers to deliver outstanding customer service. We know how people are performing by reviewing member feedback and by listening to and rating more than 1,000 calls a month.

Ask your customer-facing staff to give their opinions. As a rule people don’t like giving bad service and will know what does and doesn’t work. A high proportion of our service improvements come from our lifestyle managers.

Do not tolerate the tyranny of being asked to choose between efficiency and outstanding service. They are not mutually exclusive, but people who want to fight change will argue that they are.

Finally, to ensure that we’re always thinking of our customers at every meeting we appoint “member chairs” to represent the interests of our members. They sit in and play devil’s advocate. If we are about to make a decision which will affect our members, a member chair can voice their concerns and veto the decision, if necessary. This way we can always be sure that we are putting the interests of our members first.

Alex Cheatle is the founder and chief executive of Ten Group. He set up his first business at 13 and has established several others since then.

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