Financial Management

CIMA
Chartered Institute of Management Accountants

www.fm-magazine.com • July/August 2012

Plus:
p32 **Why M&A is still a hot topic, despite the economic climate**
p18 **Brian Caplen of *The Banker* on restructuring banks**

A word from the president

Illustration: Masao Yamazaki/Dutch Uncle

‘We must achieve growth and an enhanced profile’

As a CIMA member in practice, I have seen organisations rise to great heights of success while others have fallen by the wayside. One of the most common reasons for failure is an inability to adapt to change. This is particularly relevant in today’s increasingly challenging economic environment. Organisations in both the public and private sectors must be both financially fit and strategically flexible and agile if they are to thrive in the long term.

I am taking the mantle of president of CIMA at an exciting time. We are committed to a rolling programme of change to drive home the benefits of the new CGMA designation to the business community. At the same time, we are establishing new offices and forging new relationships with respected academic bodies around the world to broaden CIMA’s global presence.

CIMA is currently on an interesting learning curve, following our recent joint venture with the American Institute of Certified Public Accountants. As two of the world’s largest accountancy bodies, there is a good synergy. But we must work hard to ensure that we achieve the student growth and enhanced global profile that we have set out to attain over the next decade through this new alliance.

I have been a CIMA member since 1984 and am enormously proud of CIMA’s achievements. I am confident that the Institute will continue to go from strength to strength. For this reason, my aim over the next 12 months is to underline CIMA’s past successes and to support the Institute as we build on these foundations to create a dynamic global community that enshrines business excellence.

As with all organisations, it is essential that CIMA maximises the value from its investment in change. With this in mind, I was extremely heartened by the work of CIMA Ireland’s immediate past chairman, Patrick Barr, who is busy promoting the concept of “benefits management”.

Patrick is promoting something that CIMA members have known for a long time.

Effective change requires strong project management, which in turn requires robust financial management. Managing projects is no longer simply about delivering capacity or capability; it is about delivering the intended, objective-aligned benefits to underpin sustainable success in the long term.

While successful project delivery is still essential, the job does not end there – it is the ongoing management and realisation of benefits that will ensure change projects achieve the desired results. Thanks to Patrick, CIMA has a growing relationship with the UK-based Association for Project Management (APM).

The combination of the skills and expertise of CIMA and the APM, and their members, working in tandem, will ultimately increase the chances of project success in both the public and private sectors. It is enormously encouraging to see that this approach is now being embraced as a “must have” rather than a “nice to have”. After all, it must make sense to have the infrastructure in place for a project to deliver what it was supposed to.

When I joined CIMA, membership was around the 20,000 mark. Today it is nearer 90,000. Moreover, the CIMA qualification is now the preferred choice of CEOs all over the world.

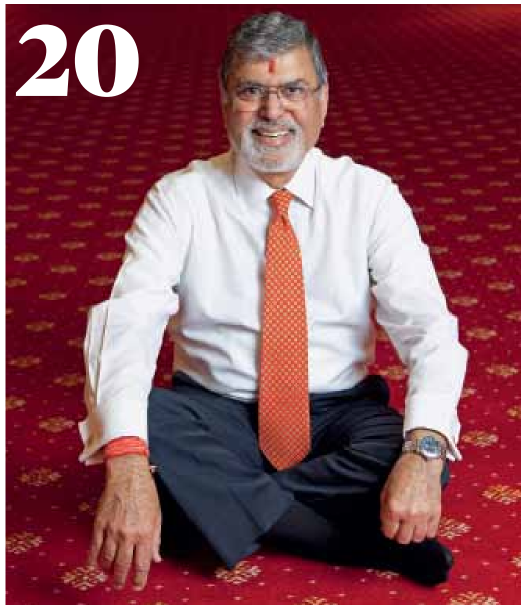
These are just a few of the many changes I have seen – and I look forward to a year when I will see quite a few more that are equally as exciting.

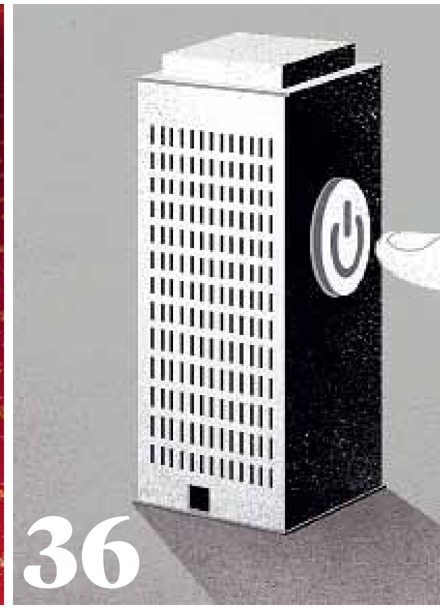
The CIMA / APM report, “Delivering the Prize: a joint all-Ireland study of change leadership and benefits realisation”, is sponsored by Deloitte and can be found on the CIMA Ireland website at www.cimaglobal.com/benefitsreport

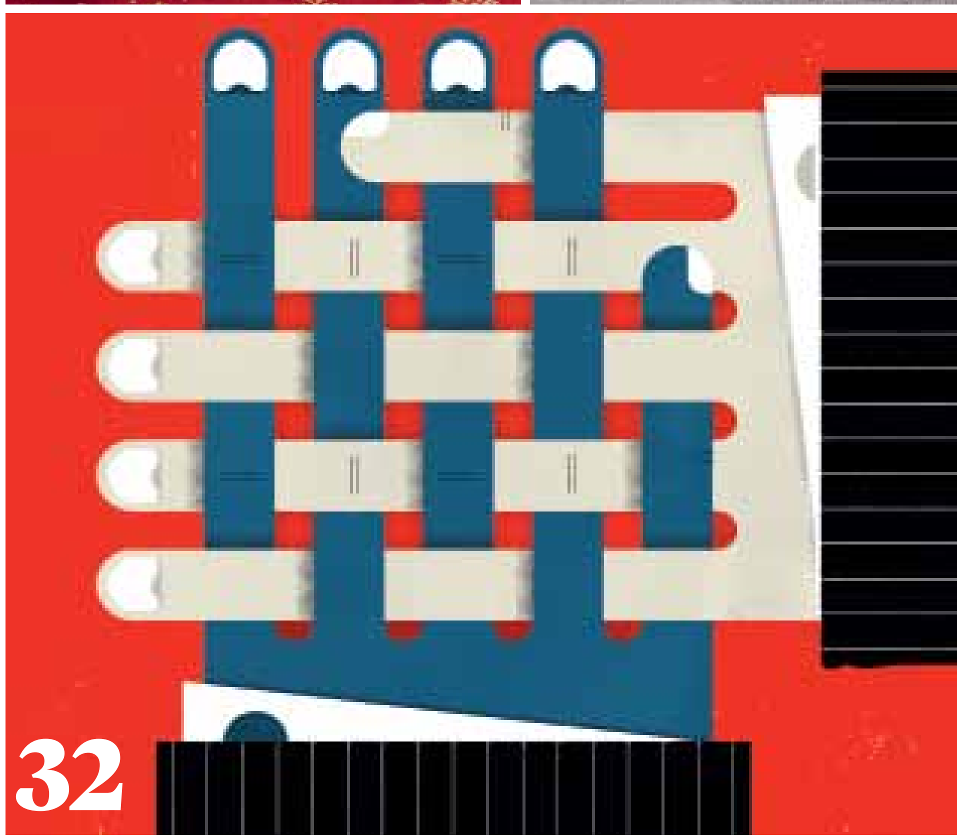
Gulzari Babber, FCMA, CGMA
CIMA president

Gulzari Babber

At a glance







CIMA
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
Gulzari Babber FCMA, CGMA
Deputy president
Malcolm Fuber FCMA, CGMA
Vice president
Keith Luck FCMA, CGMA
Chief executive
Charles Tilley FCMA, CGMA

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

Group editor
Jon Watkins
Editor
Lawrie Holmes
Group art director
Simon Campbell
Junior designer
Josh Farley

Creative director
Michael Booth
Editorial director
Peter Dean
Chief sub editor
Steve McCubbin
Senior sub editor
Graeme Allen

Editor's note

Many CIMA members either work in the financial services industry, or for companies that have a vital relationship with it. Yet the debate usually dwells on banking.

New CIMA president Gulzari Babber spent many years in the insurance industry before moving into private practice. In our interview, he talks about the strengths of that industry. In addition, the cover story on how corporates are managing their pension responsibilities when it comes to de-risking reveals the innovative approach of the industry to problems.

Brian Caplen, editor of *The Banker* magazine, has a positive message that the banking sector is in the dramatic process of rebuilding, while we also hear from CIMA member David Spier at Ulster Bank, owned by the Royal Bank of Scotland (RBS), who is involved in the parent's biggest ever transformation programme that is set to save it billions of pounds.

But perhaps the most intriguing commentary on the global banking sector comes in the form of an infographic showing which banks were considered safest before the crash compared to now, with Asian and Middle Eastern banks taking the place of leading UK and European banks.

Lawrie Holmes

Please send your comments and ideas to editor@fm-magazine.com or join the *FM* feedback group on CIMAsphere at www.cimasphere.com/groups

Head of pictures
Martha Gittens
Picture editor
Nicola Duffy
Senior picture researcher
Alex Kelly
Production manager
Michael Doukanaris

Group publishing director
Rachael Stillwell
Commercial account director Hilton Young
Advertising manager
Andrew Walker
Email: Andrew.Walker@seven.co.uk

Tel: 020 7775 5717
Managing director
Jessica Gibson
Chief executive Sean King
Chairman Tim Trotter
© Seven
Cover illustration
Jon Gray

The contents of this publication are subject to worldwide copyright protection and reproduction in whole or in part, whether mechanical or electronic, is expressly forbidden without the prior written consent of CIMA/Seven.
All rights reserved.

Origination by Rhapsody.
Printed in the UK by Wyndeham Press Group.

Subscriptions:
subscribe@fm-magazine.com
Tel: 01580 883841
£45 (UK), £54 (Europe), £72 (rest of world). Back issues: £7.50 (UK) £10.00 (rest of world) including postage, subject to availability. All payments should be in sterling drawn on a UK bank.

www.cimaglobal.com

I worked on ... RBS's biggest transformation project

Start date Summer 2011 **End date** 2013 (may be extended)

I began working towards the CIMA qualification after arriving at Ulster Bank (part of the Royal Bank of Scotland), having worked for the US bank State Street since 2002. I found that Ulster Bank, where I started in the financial planning and analysis department, was the ideal place to undertake the CIMA training as it gave me the necessary study leave and funding.

The CIMA qualification put me in an ideal place to work on the Ulster Bank's part of the finance transformation programme – which I believe is the largest integration project ever undertaken by the parent RBS. The main focus is to integrate financial systems across the bank to establish a "golden source" of information.

For such a big bank it's a very difficult process, because of technical issues such as the possibility of systems not working and softer issues such as people believing the system will render their role obsolete. I'm concentrating on the area of budgeting and forecasting. The CIMA qualification gave me a good grounding as it gave me a technical mindset and made me familiar with processes.

The vendor chosen to work with the bank was Oracle, as it allowed for a considerable degree of customising compared with the alternatives. This is necessary as the process can be hugely complex in a large multinational bank. A lot of parts needed to be analysed: we had to figure out what the process does, what the end product is, how it gets information out best and how it could be streamlined and future-proofed.

I report to the financial planning and analysis department in Ulster Bank and to a project group responsible for the transformation project within RBS.

Results will be measured by key performance indicators in a number of areas, such as how rapidly areas of the bank will be able to retrieve group financial information and the breadth of the modelling capabilities that will be available on completion.

i

Name: **David Spier**

Role: **Project coordinator**

Organisation: Ulster Bank (part of RBS)

Location: Republic of Ireland

CIMA qualified: 2011

Getty Images

Update

Leadership under the microscope amidst elephants and treasure

Gozooma/Gallery Stock

A groundbreaking report outlining a leadership model for the 21st century has been published.

"The Invisible Elephant and the Pyramid Treasure: Tomorrow's Leadership – the transpersonal journey", by John Knights, charts the journey towards becoming a "transpersonal leader".

Transpersonal leadership is the development of a leader beyond their personal ego in order to fully consider and act on the needs of all stakeholders. This type of leadership is a better fit for the future, and has been developed from 13 years of experience of working with senior leaders.

An unprecedented change in the demands of leadership and the recent "shareholder spring" has highlighted a need for leaders who prioritise the true stakeholders of their organisations – customers, employees, suppliers, the community, the planet, and the shareholders – rather than putting personal reward first.

Knights, who is the chairman of LeaderShape, said: "Leaders usually ponder how to change strategies, structures, processes, opinion and other people... but if we are going to cope with a changing world, we must first change ourselves."

The report, published by Tomorrow's Company in partnership with CIMA, PwC UK, Tata and Korn Ferry Whitehead Mann, is available at www.tomorrowsgloballeaders.com.

Firms highlight reporting benefits of Sarbanes-Oxley

Corporations' internal control over financial reporting has "significantly or moderately improved" in the ten years since the Sarbanes-Oxley Act became law, according to a majority of executives surveyed by consulting firm Protiviti.

"Sarbanes-Oxley has had its share of controversy in the past, but nearly 70 per cent of respondents reported that the internal control over financial reporting structure in their organisations has improved since compliance with Sarbanes-Oxley Section 404 became a requirement," said Brian Christensen, Protiviti's executive vice president, global internal audit. "Companies are still learning and working to improve continuously the quality of their internal controls as well as the effectiveness and efficiency of their compliance processes, even ten years later."

The majority of the 600 executives surveyed – all of whom have been involved in implementing Sarbanes-Oxley – said they are now focusing on automation of their companies' internal controls to realise the full benefit of the legislation. Only 17 per cent of respondents said they have no plans for further automation.

"Automating key controls likely represents the 'final frontier' in terms of significant Sarbanes-Oxley process improvement and cost savings," said Jim DeLoach, Protiviti's senior SOX practice leader.

The survey also identified the top benefit of SOX as "enhanced understanding of control design and control operating effectiveness" (44 per cent), followed closely by "internal audit's ability to perform more traditional audits" (43 per cent).

Update

Now on CGMA.org

For CGMAs, the following content is now available online:

Big-data analytics – where next?

The future success of many organisations may depend on their ability to capture, analyse and gain insights from data. But most businesses are still struggling with collecting, analysing and interpreting it – the basics needed to gain competitive advantages.
Visit http://tiny.cc/zrbwfw

What your company needs to know about BYOD

Most US enterprises with 1,000 or more employees have bring-your-own-device (BYOD) policies, which allow employees to use their own smartphones and other mobile devices to access corporate computer networks, new research indicates. But such policies can pose security risks. What should your company be doing to prepare for BYOD?
Visit http://tiny.cc/jsbwfw

How to avoid enterprise-risk surprises

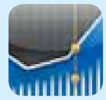
Researchers at North Carolina State University and speakers at the AICPA's CFO conference share best practices on how to prepare for the kinds of risks that could cost you your business.
Visit http://tiny.cc/gtbwfw

Bridging the ethical divide

Finance employees say they're under increasing pressure to act unethically. Find out where the pressure is the strongest, and why.
Visit http://tiny.cc/0tbwfw

App of the month

Our guide to the best online tools

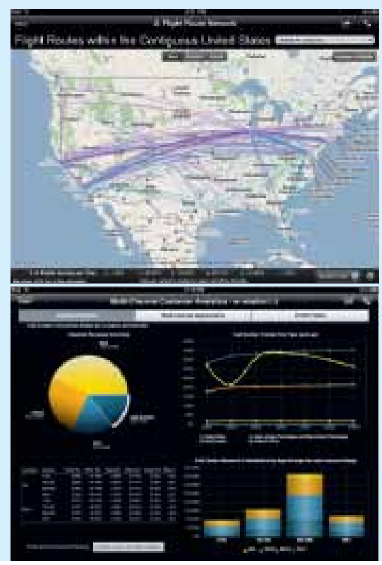


MicroStrategy Mobile

MicroStrategy allows you to put business reports, presentations, documents, and dashboards in the hands of employees on the move, so they can make the most informed and effective decisions based on the most up-to-date information from your business.

i

Cost: Free
Category: Business
Updated: 14 May 2012
Current version: 9.2.1.2.7
Size: 30.2 MB
Languages: English
Developer: MicroStrategy Incorporated
Compatible devices: iPad
System requirements: iOS 4.2 or later



CERTAX

Would you like to operate your own Accountancy Practice?

The Certax Qualified Accountants Package

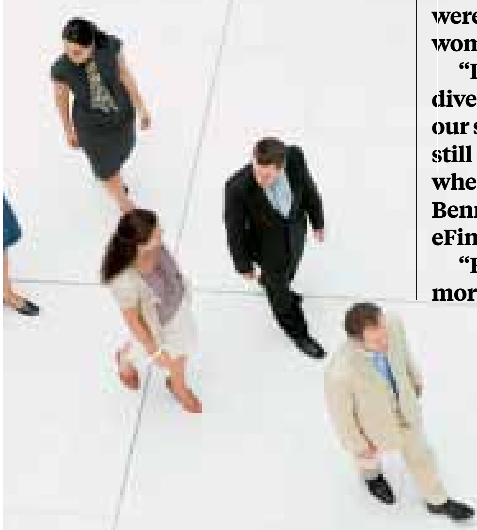
The Certax Full Accountants Package

Update

Women still trail men in UK finance services pay

Women working in the financial services industry in the UK earn some 20 per cent less, on average, than men.

That's according to the latest "Salary & Bonus Survey Report" from eFinancialCareers.



Despite taking into account years of experience, education levels and specific occupations, women finance professionals' base salary still emerged as being, on average, £14,500 less than that of their male counterparts' in 2011. When bonuses were factored in, men out-earned women by more than £30,000.

"Despite an increased focus on diversity in the financial sector, our survey shows that women still struggle to get a fair deal when it comes to pay," said James Bennett, managing director of eFinancialCareers.

"Financial services need to do more to narrow the gap, not only to promote equality in pay, but also to ensure they remain attractive to the best talent, men or women."

The survey, which quizzed more than 1,700 finance professionals, also found that while bonuses are down this year, base salaries have remained stable or increased for the majority of respondents.

Half of finance professionals responding to the survey said they had received a salary increase this year, a small decrease on the 60 per cent who said they had received a pay rise in 2010.

Hot potato

This month's dilemma:

I am the FD for a privately owned company in the fashion industry. The shareholders are now selling the business and I have concerns about the stock valuation that has been established. This has been judged by the MD on the basis of year-end accounts, in respect of which I have been asked not to include information about slow-moving stock that is more than nine months old. The MD, who is the primary shareholder, feels that it is not necessary to log this, despite me raising this in writing. I am now considering contacting the auditors.

Our response:

You are under pressure to act in a way that is threatening your compliance with the fundamental principles of integrity (Section 110) and objectivity (Section 120). Having already raised the issue with the MD you are right to discuss the matter with the auditors, and perhaps jointly meet again with the MD to further discuss the matter.

Section 310 outlines potential conflicts and highlights your responsibilities to the auditors. Misleading includes remaining silent.

You also should refer to your obligations in regard to preparation and reporting of information (Section 320).

For the code and other online ethics resources, visit www.cimaglobal/ethics

Tanya Barman, head of ethics, CIMA

Disclaimer

CIMA does not provide legal, investment, professional or career advice. No responsibility or liability whatsoever is accepted for any error, omission or - (whether or not arising out of negligence) or for any loss or damage sustained as a result of reliance on information supplied or comments made.

Report calls for reporting clarity

A lack of strategic planning when it comes to investing in financial reporting systems means many firms are lacking quality financial data, according to a new report.

"Challenges of Corporate Financial Reporting" looks at the impact poor data quality is having on corporate finance teams across the world, including increased costs, ineffectual financial reporting, missed deadlines and the negative impact on stress and work-life balance.

It has revealed that the majority of companies worldwide have made substantial investments in financial reporting systems. However, these investments have been made ad hoc, leaving businesses with ineffective solutions and a lack of visibility, quality and confidence in financial data.

The report, which has been published by Oracle and Accenture, says:

- Despite investments, 68 per cent of respondents admitted that they have inadequate visibility of reporting processes, while 84 per cent

of finance managers reported that they find it difficult to control the quality of financial data across the course of their reporting.
- 71 per cent of finance managers feel their effectiveness is limited in some way by data analysis-related issues.
- 15 per cent of global businesses have missed external reporting deadlines or statutory filings, putting them at risk of financial penalties and potentially impacting share value.
- 92 per cent say improved software tools and management processes would improve their work-life balance.

CIMA honour for Lord Sainsbury

Lord Sainsbury of Turville has been presented with an honorary CIMA Fellowship for his outstanding contribution to the science of management accounting.

He was presented with the Fellowship by outgoing CIMA president Harold Baird and CIMA CEO Charles Tilley.

Harold Baird highlighted how Lord Sainsbury has been a powerful and persuasive advocate of the discipline over many decades, helping businesses deliver sustainable success while promoting management accounting in areas including government and education.

Book in brief

Taking People With You
By David Novak
Viking, £20

Building a team of inspired and productive people is a challenge that David Novak, the former CEO of Yum! Brands, has risen to. After working his way up through Pepsico he then led one of the world's largest restaurant companies, with 1.4 million employees, when YUM!, comprising KFC and Pizza Hut, was spun out of Pepsico. In this book he delivers guidance on leadership and how to steer a company in the right direction. Here is a brief synopsis:

1. It is only by understanding what drives and motivates others that you can really get the most from them.

2. Those on your team need to enjoy their work and feel self-satisfaction.

3. Any company must please consumers in order to earn their business and make a profit. The best companies earn the buy-in of their team members to make this happen.

4. You can't lead a great organisation of any size without getting your people aligned, enthusiastic, and focused relentlessly on the mission.

5. As well as celebrating big achievements, it is also vital to celebrate smaller victories.

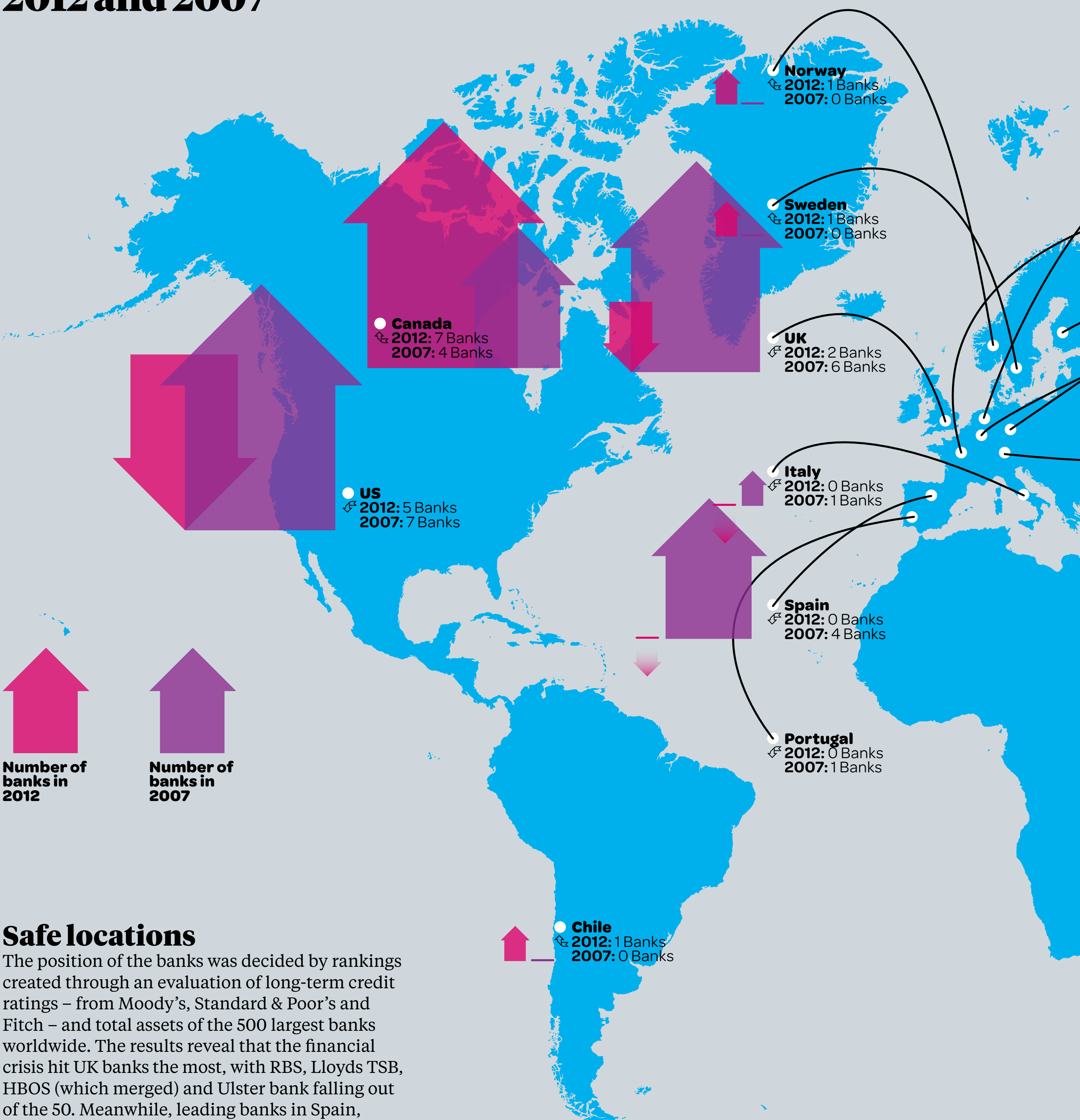
6. In leadership of big corporations a critical mix of delegation and participation is applied in proportion with responsibility and geographical integration strategy.

Learn from... Jaguar Land Rover

Demand for innovative sustainable products is being driven by changes in consumer preferences, increasing legislation and the cost of resources. Jaguar Land Rover has proved that meeting this demand can provide access to new markets too. Its Range Rover Evoque is its most sustainable vehicle to date. It has 16kg of recycled plastics and 21kg of natural materials, resulting in 66 per cent less energy and a 54 per cent lower carbon footprint during production. As a result, it has attracted a new, environmentally aware customer base – with some 85 per cent of Evoque buyers not previously owning a Land Rover.

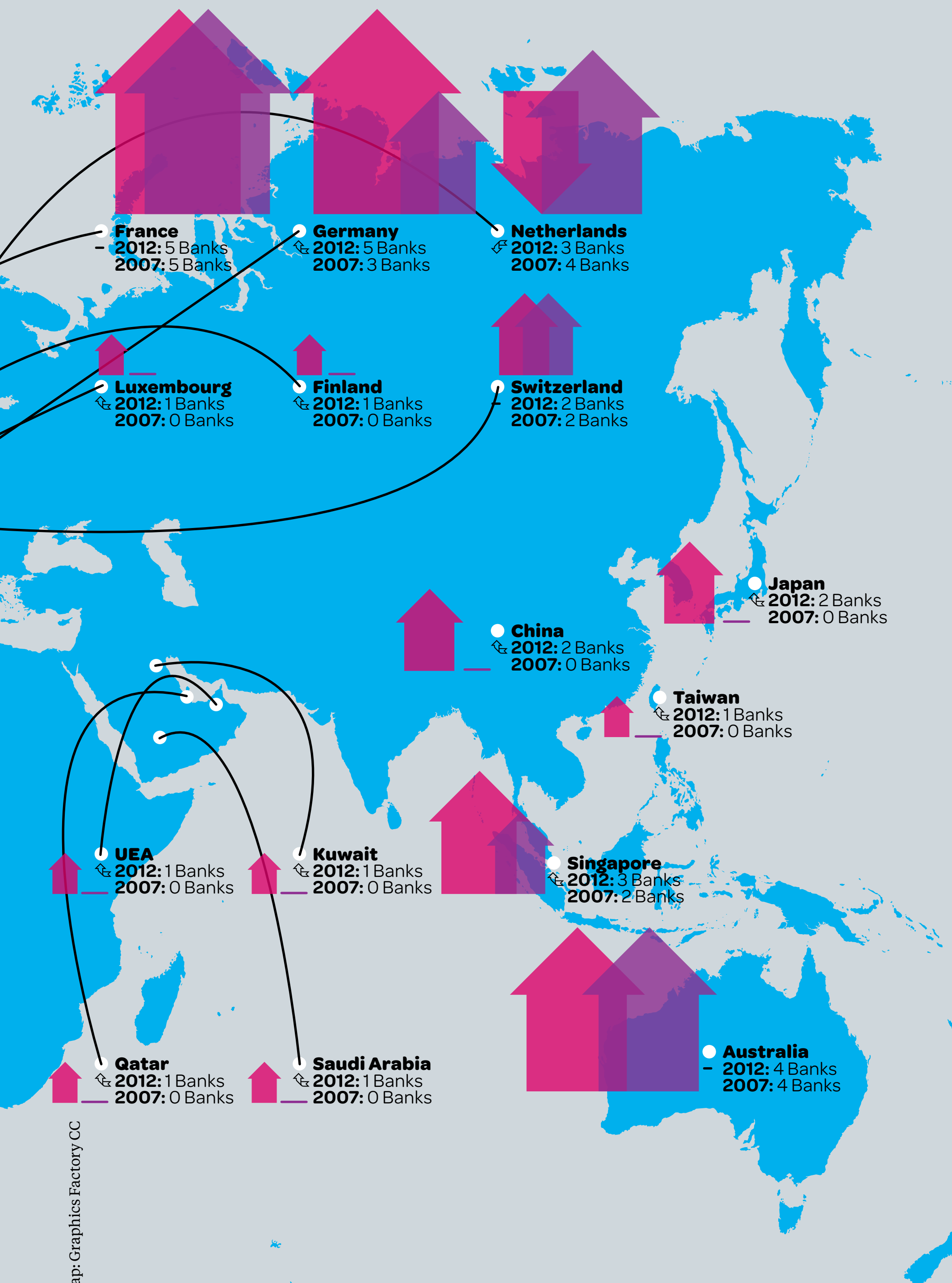
Illustration: Denis Carrier/Dutch Uncle, Lucas Varela/Dutch Uncle. Photography: Capital Pictures, Getty Images

The Data
Locations of the world's 50 safest banks in 2012 and 2007



Safe locations

The position of the banks was decided by rankings created through an evaluation of long-term credit ratings – from Moody's, Standard & Poor's and Fitch – and total assets of the 500 largest banks worldwide. The results reveal that the financial crisis hit UK banks the most, with RBS, Lloyds TSB, HBOS (which merged) and Ulster bank falling out of the 50. Meanwhile, leading banks in Spain, Portugal, Belgium and Italy also crashed out. Asian and Middle Eastern banks took their places.



World map: Graphics Factory CC

Top 10 in 2012

1 **KfW** (Germany)
2 **Bank Nederlandse Gemeenten** (BNG) (Netherlands)
3 **Zürcher Kantonalbank** (Switzerland)
4 **Landwirtschaftliche Rentenbank** (Germany)
5 **Caisse des Dépôts et Consignations** (CDC) (France)
6* **Landeskreditbank Baden-Württemberg Förderbank** (L-Bank) (Germany)
6* **Nederlandse Waterschapsbank** (Netherlands) *Tie
7 **Banque et Caisse d'Épargne de l'État** (Luxembourg)
8 **Rabobank Group** (Netherlands)
9 **NRW.Bank** (Germany)
10 **Royal Bank of Canada** (RBC) (Canada)

Top 10 in 2007

1 **Caisse des Dépôts et Consignations** (CDC) (France)
2 **Bank Nederlandse Gemeenten** (BNG) (Netherlands)
3 **Landwirtschaftliche Rentenbank** (Germany)
4 **Rabobank Group** (Netherlands)
5 **Landeskreditbank Baden-Württemberg Förderbank** (L-Bank) (Germany)
6 **UBS** (Switzerland)
7 **Lloyds TSB** (UK)
8 **Wells Fargo** (US)
9 **Barclays Bank** (UK)
10 **BNP Paribas** (France)

Source: Global Finance magazine

Forum

From the mailbag

Time for finance to go paperless

As the cost of UK postage soars to a record 60p for first class and 50p for second class, businesses need to be thinking carefully about how much post the finance department is mailing out.

Too many organisations are still reliant on print, photocopy, post and manual filing of paper documents. Yet with Britain now officially in a double-dip recession, businesses need to realise that a paperless strategy in the finance department can deliver significant savings.

Electronic creation, delivery, authorisation, storage, management and processing of financial documents will not only significantly reduce business postage costs, but it will also eliminate manually intensive admin tasks while freeing up filing cabinet space and supporting environmental policies.

The reduction in manual intervention and streamlined authorisation will enable businesses to focus attention on exceptions, minimising time spent answering queries, searching for invoices and tracking authorisation across the organisation. By tightly integrating document management technologies with financial systems, organisations have the ability to reduce their postage costs, transform business effectiveness, impose far greater control and, typically, achieve return on investment within six months.

Gary Waylett
CEO, Eclipse Group

From the blogs

Ethics is about valuing others

In the week we launched the CGMA ethics theme I attended a lecture at St Paul's Cathedral given by the eminent professor of government at Harvard University, Michael Sandel, on the moral limits of the market.

Later, at dinner, I got into conversation with our French waiter. He was shortly returning to France and was looking forward to adopting his true identity as a lawyer. So how had he found his time serving the financial movers and shakers? Sadly, you may not be surprised that at times he was rudely treated, looked down on and barked at by customers in this wealthiest of spaces. He had, nonetheless, felt always supported by his management. We discussed what he would draw from these lessons as he progressed through his career in law. A lesson in leadership. And humility.

The value we place on others can have a larger effect on society. It also relates to issues raised at St Paul's. How ethical practice is not a limited commodity but a muscle that can grow and strengthen for the common good.

The growth in recognising the value of the non-financial aspects of business is accelerating. How businesses operate, in a fair and transparent way and by valuing people, will hopefully, in some enlightened cases, arrest the now increasingly negative effects of the markets.

Our report highlights the need for a change in behaviours and for the culture of companies to reflect their stated values. Professor Sandel positioned this: behaviours change ideas, they change how things are done.

And for me the starting point is your professional Code of Ethics: act with integrity, act professionally and objectively whilst creating long-term value for your company.

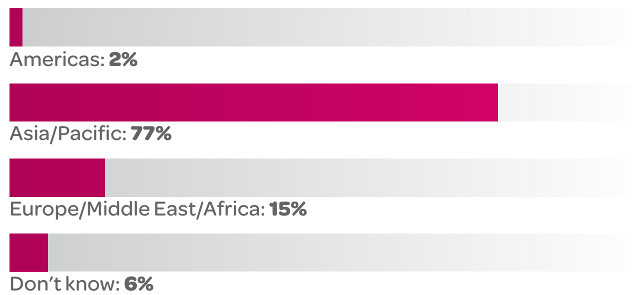
Tanya Barman,
head of ethics at CIMA.
A full version of this blog can be found at http://community.cimaglobal.com/blogs

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

Poll of the month

We asked...

Where will future growth of the world economy come from?



Source: Survey on fm-magazine.com, 2012

You asked...

Can you explain more about the finance lease and its appearance in statements?

A finance lease is capitalised at cost (the present value of future minimum lease payments) in the books of the lessee, and a liability recognised to the extent of this amount. The capital due for settlement over the next 12 months is classified as a current liability and the balance as a non-current liability. The lease is effectively a loan from the lessor, cutting out the middleman (the bank). A company may be required to pay the lease amount either in advance, or in arrears. If in advance, then the current liability is equal to the lease instalments in the current financial year, and the rest of the amount goes into non-current liabilities. If the payments are made in arrears, then the current liability is the next period's lease instalment, less the amount of interest cost in that instalment, and the non-current liability is the interest cost plus the remaining amount of the liability.

Send in your own queries to questions@fm-magazine.com. We will ask a specialist or tutor to provide a response

Opinion

Brian Caplen

Editor of *The Banker* magazine

‘The global banking industry is in the midst of a once in a lifetime restructuring, with new rules and new markets’

The current state of the world’s banks very much reflects their geography. In Europe, the environment remains dire, with banks struggling to meet European Authority Banking capital requirements. The funding situation has improved, but only thanks to the huge injection of liquidity from the European Central Bank’s long-term refinancing operations (LTRO).

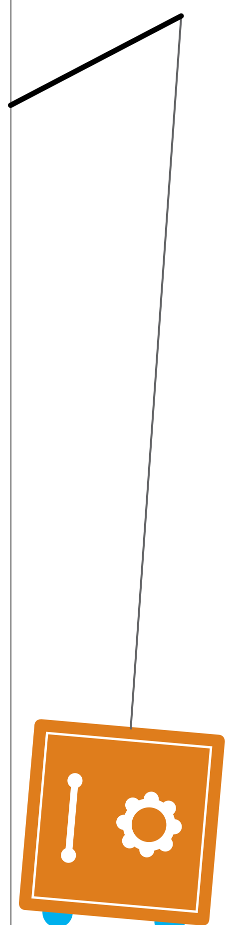
In the US, by contrast, where there are signs of economic recovery, the banks are also showing some improvement. In Asia and Latin America, local players are taking advantage of the weaker position of the international banks by becoming the lead advisers and underwriters on the biggest deals, rather than playing the secondary role they once used to. With strong balance sheets, banks such as Brazilian leader Itaú Unibanco have strengthened their regional presence through cross-border acquisitions and organic growth.

The same is true of Chinese banks, although there are concerns about the rapid expansion of their balance sheets and their exposure to China’s overheated property market. Yet because of their massive deposit bases only a few pessimists think that there is a significant danger of a banking crash.

But the real worry is European banks, and their difficulties are having knock-on effects as they retreat from overseas markets to focus on their domestic situation. This is impacting on wholesale markets where they were once dominant, such as shipping and project finance, and amounts to a reversal of the globalisation push that took place before the crisis. With regulators concerned about being on the hook for banks’ cross-border operations, and politicians stressing the need for financing for domestic companies, the pressure is on them to focus more on their home market. This may involve them selling overseas assets.

Even banks that came through the crisis relatively unscathed – such as the UK’s HSBC and Spain’s Santander – are looking at their operations to see how best to reconstruct themselves for leaner times ahead.

HSBC, for example, is selling off operations where it doesn’t have sufficient scale, such as in Central America and Chile. Santander has sold out in Colombia, where it only had a 2.7 per cent market share, and reduced its ownership in its listed Brazilian and Chilean banks, using the proceeds to shore up capital in Spain. The buyers of these banks have been Latin American – HSBC’s Central American operations going to Colombia’s Banco Davivienda and its Chilean retail unit going to Itaú Unibanco. Santander’s Colombian assets went to Chile’s Grupo Saieh.



‘In Europe, the banking environment remains dire’

Banks that were bailed out, such as the UK’s Royal Bank of Scotland, Holland’s ING and Germany’s Commerzbank, are required by the EU to sell assets as a penalty for receiving state aid.

European banks face a daunting combination of write-downs on their holdings of Greek sovereign debt and other bad loans, poor growth prospects, narrow margins and a mass of regulation that hugely increases the amount of capital they are required to hold.

The research company CreditSights has compiled a composite balance sheet made up of 22 of Europe’s biggest banks and found that they had a return on equity of just 2.8 per cent. This doesn’t even cover the cost of capital and is not sustainable in the long run.

Companies are expected to look increasingly to the capital markets, or to non-banks such as fund managers and insurance firms for their funding needs as long as this situation continues. For the time being, however, a mass sell-off of assets in an attempt to reduce leverage has not taken place, possibly due to the soothing effects of the LTRO. The worry is what happens at the end of the three-year programme if both sovereigns and banks have not been able to restructure.

Meanwhile, first quarter results from the US are worthy of some cause for optimism. JP Morgan Chase’s return on equity at the investment bank was back in double digits at 17 per cent, while Wells Fargo saw a 13 per cent rise in its net income.

Overall, the global banking industry is in the midst of a once in a lifetime restructuring, with new rules, new markets and new players all making their presence felt. At the end of the process the 2008/2009 structure that went into the crisis will look distinctly antique.

Dan Harwood-Stamper

Gulzari Babber, FCMA, CGMA, has stepped up to the role of CIMA president following a year as vice president. He has been a CIMA Council member since 1997 and runs an accountancy practice in Harrow, west London

Interview by Lawrie Holmes

Through a career that has seen him switch from being a management accountant to entering into private practice, Gulzari Babber has gained a unique insight into how CIMA members can add value at every stage of their career. As a tireless worker in the organisation, he has spent nearly four decades heading numerous boards, while at the same time serving his local community as general secretary of the Vishwa Hindu Temple in Southall, London. Here, he shares his views on CIMA, business and values.

How have you seen CIMA develop?
CIMA is the largest and most renowned management accountancy institute in the world. It has come a long way from its early days, when members were employed in factories as cost accountants. It is now a much more widely regarded institute, whose members share responsibility and partnership in the management of their organisations. The dramatic change in the development of CIMA reflects the rise in significance of management accountants around the world.

My own experience reflects that exciting journey. I started with the Institute of Cost and Works Accountants (ICWA) back in 1967, excited by the fact that I would be able to assist management in deciding which product lines to retain and which ones to discontinue. And I was delighted to work in a factory environment that meant I could see the different processes that led to the manufacture of a product. Contrast that with the CIMA of today, in which its members are playing a key role in ensuring their organisations remain sustainable in the current challenging economic conditions.

To reflect the rise of the management accountant to a key role in the organisation, CIMA has updated its syllabus to meet the requirements of the modern business environment. It has sought recognition for its members and has developed a new breed of self-employed members in practice. In doing so, its training has helped to develop its members to become both CEOs and CFOs of some of the world's leading organisations – a real statement of how far CIMA and its members have come.

What's on your agenda for the year ahead?
CIMA members occupy some of the highest positions in the organisations they work for. I would like to see this spread throughout all industries in the private sector. I would like to further raise our members' profile and ensure that the CIMA Council and CIMA staff deliver our strategy. A sound establishment of CIMA's joint venture with the American Institute of Certified Public Accountants (AICPA) and the creation of a worldwide, sought-after CGMA designation must be given our full backing, and I would like to see more CGMAs as a result of the joint venture.

I will listen to what members, students and

Photography by Gemma Day

Gulzari Babber at the Vishwa Hindu Temple in Southall, London, where he is the general secretary. Babber says that his spirituality has helped him to overcome hurdles in his career

'There is the potential for growth, to become an institute that is the envy of others'

employers have to say and lead the council to tailor our thinking to the needs of what our stakeholders require of us. I would tell those who are thinking of studying for the CIMA qualification, but do not have a university degree, not to worry. University qualifications help, but are not essential. Many of our members have scaled the corporate ladder of some of the world's most powerful organisations armed with a CIMA qualification, but no degree. I fall into that category. I found it hard getting on the first rung, but through hard work I have been rewarded with success and am proof that you can achieve all your aims through sheer weight of effort.

In what promises to be an exciting year ahead, I am looking for a strong intake of students, membership growth and retention, and delivering on an agreed strategy.

How do you see CIMA growing?

There is the potential for further growth, to become an institute that is the envy of others. Globally, we have in excess of 90,000 members, and with the joint venture our profile around the world will grow further. The growth of any organisation has to be carefully planned. We need more students who are willing to go all the way to acquiring membership. We need to expand around the world by opening more offices and give our members the recognition that they demand and deserve.

We also need to enter into more alliances, though I would like to develop our joint venture with the AICPA first. CIMA is a strong global brand and, allied with the AICPA in the CGMA designation, it can only grow stronger. In order to build the profile of CIMA, we must ensure we deliver a service that business and governments around the world want.

In that respect, CIMA's syllabus is refined every five years to ensure it addresses the needs of business. Our students must show agility to respond to the new syllabus, giving confidence to organisations of our members' ability to help lead them to sustainable success.

Having worked in the insurance world for some years, how do you feel about finance as an area for CIMA members to work in, given the events of recent years?

The finance industry remains an exciting, rewarding area in which to work, despite the global crisis that has engulfed it in the past few years. A large number of members have carved out successful careers in some of the world's most important financial institutions in London, New York and other centres around the world.

What's often forgotten is that many of the entities that they work in have flourished throughout the period of the crisis. Insurance, an industry I started out in 48 years ago, is one of those. My first job was in the accounts department of an insurance company, but I also worked as an underwriter, which was an interesting departure for a while.

With that experience in financial services I can see that it's an industry crying out for the skill set of CIMA members, who are fully trained and are able to take on any role within the industry, and are not limited to the accounts department. They have the acumen and training to become CFOs and CEOs of organisations of any size bank or insurer. Events of recent years have shown that those organisations that were affected by the economic downturn may have benefited from the services of CIMA members at the highest level, sharing responsibility in their strategic and sustainable development.

There's a strong argument that our members, who possess a full knowledge of financial

'I can see that insurance is an industry that's crying out for the skill set of CIMA members'

accounts, would have been extremely well placed to sound the alarm on areas of concern before the crash. Now that the industry is being forced to take risk much more seriously I am expecting to see far more management accountants moving into key positions to manage risk effectively and ensure that financial services companies are set up for a sustainable future.

You moved into the travel industry, how different was that?

My experience in the travel industry started when I working for McKenzie Dalgety, a Kenya-based agent for P&O. It gave me the opportunity to travel and I was sent to open a new office in the Seychelles, which proved to be a hugely rewarding experience. I then worked for holiday and tour operators after I moved to London in 1972.

Looking back, I think it's fair to say that the difficulties of many travel firms, many of which have collapsed in recent years, may have been minimised if management accountants had had more say in what internal controls were put in place.

Where do you think the role of management accountant is now and how is it likely to develop?

The role of the CIMA member has changed over the years, from producing routine monthly management accounts and variance analysis to producing strategic reports to help management to run their organisations. CIMA members not only report on financial performance, but also manage business opportunities. They add value to an organisation. Today, a CIMA member supports and drives decision-making. He or she is very confident with the business and its finance.

A CIMA member works within a defined code of ethics and possesses skills in communication, project appraisal and control and performance. How the role is likely to develop depends on the needs of organisations and governments. In general, the role of a CIMA member is likely to develop significantly at the strategic level and in the "C suite".

CIMA members will increasingly be seen as a powerful tool and I believe they will soon be able to share more boardroom responsibilities and decision-making than ever before. As a result, our members are more likely to be key figures in delivering sustainable success across organisations.

What would be your advice to CIMA students thinking about their career ahead?

A student thinking of studying for the CIMA qualification should be prepared to commit to going all the way to CIMA membership as the rewards are far greater than the hard work one has to put in for studying. After working hard, I was rewarded with first my CIMA membership, and now the presidency of CIMA.

All through my career I have worked hard but passing exams paid off and my career progressed. In 1965, I decided to take the Institute of Book-Keepers qualification and in 1967 the Cost and Works qualification, but having passed my Part 1, the CIMA qualification had to wait while I was posted to the Seychelles. When I returned to the UK in 1972, progress was hampered by family commitments but I was able to take evening classes at London's Regent Street Polytechnic, now the University of Westminster.

I was finally able to pass following a period in which I was getting up at 3.30am each day to study until 7am before starting work. When I hear students complain about family constraints and no time to study, I describe my study regime while bringing up a family of three small children. My story is testament to what you can gain by putting in hard work. The achievement of gaining the CIMA qualification is just the starting point for a rewarding career, with no boundaries.

'CIMA members will soon be able to share more boardroom responsibilities and decision-making'

CAREER LADDER

1962: Begins work as an assistant accountant.

1967: Becomes a CIMA student.

1969: Takes up an appointment as accountant with P&O's McKenzie Dalgety to open a new office in the Seychelles.

1972: Moves to London and begins working for holiday and tour operators.

1976: Appointed financial accountant of The Rawlplug Company.

1980: Joins Picker International as a cost accountant.

1984: Admitted as an Associate.

1985: Starts his own accountancy and taxation practice in Harrow, West London.


HOW CAN FDs navigate THE GROWING GLOBAL PENSIONS CRISIS?
THE DRAMATIC REDUCTION in BOND yields
TIME-CONSUMING and
REGULATORY
THE
THE

Illustration by Jon Gray

A multitude of challenges, from increased workforce longevity to falling investment returns, have produced a potentially catastrophic mix for companies sponsoring pensions, leading to fund deficits in many cases. But there are plenty of innovative solutions for reducing the company's burden, says Tim Cooper

In 2010, drinks giant Diageo reached a landmark deal with its UK pension scheme to help plug an £862m deficit by giving the scheme rights to the income from its maturing whisky spirit. The use of this so-called contingent asset was part of a sophisticated programme of measures to reduce the deficit and was hailed as an indication of the increasingly innovative approach that companies are taking to deal with pensions liabilities. Many high-profile companies, including broadcaster ITV, have since implemented similar de-risking programmes that have included the use of contingent assets and other innovative solutions.

According to research published in February, regulation and stock-market volatility have prompted finance directors (FDs) to become much more involved in pensions decision-making at all levels, especially in larger companies.

The study, conducted by research firm Spence Johnson and supported by the UK's National Association of Pension Funds (NAPF), spoke to FDs and other relevant professionals at 43 (mostly large) firms in the UK. It found that FDs are effectively leading the decision on defined benefit scheme contribution levels and on de-risking schemes. According to the report, human resources (HR), once seen as leading on pensions matters, is now increasingly handing over pensions to finance colleagues.

Corporate pension schemes around the world have been battered by improvements in longevity, poor investment returns and time-consuming and costly regulatory environments. This has been compounded by the dramatic reduction in bond yields – which are used to measure scheme funding levels – resulting from the global economic slowdown, the eurozone crisis and, in some countries, quantitative easing (QE). QE tends to raise the price of bonds and so reduce their yields.

Regulation and stock-market volatility have prompted FDs to become much more involved in pensions decision-making

In the UK, for example, falls in government bond yields have pushed final salary funds £90bn deeper into deficit since the UK government started its second wave of QE last October, according to the National Association of Pension Funds (NAPF). This will force businesses to divert money away from jobs and investment and into filling pension fund deficits, it says.

FDs are getting more involved in discussions and deals with trustees to protect their companies' finance

In defined benefit (DB) schemes, the employer promises the scheme member the level of the pension benefit that they will receive according to a defined formula – often based on a percentage of final salary or career average earnings. This means the employer has an open-ended liability to pay those benefits, and it bears the investment risk. In contrast, defined contribution (DC) schemes set the contribution level and pensioners receive only what is in their investment "pot" when they retire.

In the UK, DB plans are set up in trusts, with the trustees being responsible for investment strategy and contribution level of the sponsoring company.

FDs are getting more involved in discussions and deals with trustees to protect their companies' finances. One FD interviewed for the Spence Johnson research said: "We did this scary graph projecting over 20 years, even with longevity rates as they are. The pension scheme contributions threatened to engulf the profitability of the business – we wouldn't even be able to afford basic running costs."

According to Spence Johnson, FDs are not only deeply involved in big decisions on pensions strategy but also informing policy on how and when to pay off deficits, and even in the scheme's day-to-day investment strategy.

However, there may be several factors affecting risk appetite in a DB scheme, including the strength of covenant (the ability of an employer to fund its pension scheme and underwrite investment risk), size of deficit, proportion of active members and sector. High covenant companies can still take a low-risk approach and vice versa. But typically, in low or medium covenant companies, trustees support a low-risk investment strategy, whereas the FDs want more risk and they are tending to get their way, says the report. Over the long term, higher risk investments should perform better, resulting in a lower company contribution.

Finance teams around the world are using a wide range of tools to de-risk their pension schemes and new, innovative methods are appearing constantly. The need to do this is particularly acute in the UK as it has a comparatively high number of DB schemes, but many other areas, including North America and Europe, are also affected. Many DB schemes have closed to new members and new accruals from existing members. According to the NAPF, only 19 per cent of UK private sector schemes are now open to new joiners, compared with 88 per cent ten years ago.

Closing a defined benefit scheme reduces the escalation of risk, but it doesn't eliminate it and firms must go further

Closing a DB scheme reduces the escalation of risk, but it doesn't eliminate risk and many firms need to go further.

Many see annuity buyout deals – where the trustees buy an annuity from an insurer that guarantees the payment of pensions to members – as a potential long-term solution. But this option is currently too expensive for most.

Some high-profile companies, such as car makers BMW and Rolls-Royce, and ITV, have used so-called longevity swaps to hedge against future rises in life expectancy. However, such deals can increase the level of the deficit. In the case of ITV, the firm used a contingency asset

Case study one

James Chisholm, CFO of trade association The British Glass Manufacturers' Confederation (British Glass) and chairman of trustees for the British Glass Pension Scheme, agrees that finance will play an increasingly important role in pensions management. He says: "Pensions are such a big liability on companies' balance sheets that more and more finance departments will get involved to try to de-risk. The main risks to our scheme are that the deficit continues to grow and the company is unable to afford repayments. The scheme and the company are integrally linked. If one fails, then the other will follow, and none of the stakeholders want that."

The British Glass pension scheme faces many typical challenges. The scheme has been closed to accruals since 2009. It has 81 members and a deficit of around £1.3m, which amounts to about 40 per cent of assets.

Chisholm says: "The scheme fell into deficit after a statutory change to the way funding was measured in 2005. Then the global economic downturn hit and longevity increased to the extent that the last members are expected to live to 100 and not leave the scheme until 2080. At the same time, British Glass made a loss of £500,000 in 2008/2009, though with extraordinary measures and the support of staff it subsequently returned to profit.

"As a company and a trustee body, we are changing from a passive to a much more active approach to investment and to de-risking the scheme. That means pro-actively reviewing our investment portfolio, looking to reduce volatility risk with hedges against inflation and interest rates; and reviewing the potential to offer members the opportunity to transfer out of the scheme through enhanced transfers.

"We are also looking to put in trigger points to make sure we can respond quickly and effectively to changes in the economy that will impact the scheme. It could be easy to agree a recovery plan with the regulator, pay the monies agreed [to meet the regulator's required funding level], sit back for three years and hope things get better. In my view, they generally won't and now more than ever is the time to be getting more involved with managing the liability on a daily basis."

– the revenues of a subsidiary company – to offset this increase.

A contingent asset is one that will produce cash for a pension scheme if, for example, the employer becomes insolvent or the scheme fails to achieve a specified funding level. Keith Jecks, senior investment consultant at Towers Watson, says that they can be an attractive way for all parties to help offset deficits.

Jecks says: “Companies are offering contingent assets in lieu of contributions. Or, in exchange for a higher risk investment policy, they’ll put some contingent assets aside in case things go wrong.”

Increasingly, employers are reducing liabilities by offering scheme members incentives to transfer out to alternative pension arrangements. The incentive could be in the form of a direct cash payment, an enhanced transfer value (ETV), or both. However, these often come with a warning that the overall transfer sum might be less compared to staying in the pension so companies need to make sure employees get appropriate advice.

Another de-risking option is the use of triggers that aim to lock in investment gains when a scheme reaches defined funding-level targets. This is part of a wider approach called liability driven investment (LDI), which aims to match a scheme’s assets with its liabilities and hedge against inflation and interest rate rises.

Increasingly, employers are reducing liabilities by offering scheme members incentives to transfer out to alternative pension arrangements

According to the Spence Johnson research: “FDs had not often formed views on longevity swaps. ETVs are attractive to some, as are the use of triggers. Several FDs talked favourably of their LDI programmes.”

Paul McGlone, principal and actuary at consultant Aon Hewitt, says that contingent assets are a popular way to offset deficits as corporate cash flows become squeezed. “Corporate bond yields and gilt yields are at record lows,” he says. “Trustees want security, but companies don’t want to pile cash into the scheme. What else can they offer? Some businesses, such as John Lewis and Sainsbury’s, have put assets into vehicles that the pension scheme has certain rights over.”

“There is also lots of interest in LDI. Then you have ETVs – the UK regulator is concerned about these, but some are well thought out and reasonable in that they are well communicated and transparent.”

Corporate bond yields are at record lows. Trustees want security, but companies don’t want to pile cash into the scheme

Jecks says: “Falling asset values and bond and gilt yields create a horrendous situation. FDs will look at all the risks and think, ‘Which ones can I make money out of and which are just risk?’

“They want to hedge out the latter, but given market conditions many say that the instruments you need to do that are too expensive. Some, who have good employer covenants, know it will increase volatility in the scheme [to stay in higher risk investments] and it could be years before the bet comes off, but they are willing to run with that. If you can improve investment returns, you will massively save costs and it’s hard to see bond yields being as low as they are now ten years from now. That’s why finance is getting more involved, as they want that risk on.”

Tim Cooper
is a regular contributor to Financial Management

Case study two

As well as getting more involved in DB schemes, FDs are also likely to have a greater role in managing defined contribution (DC) pensions in future, according to the Spence Johnson report. While DC schemes don’t have the same funding problems as defined benefits, they still face challenges around governance and regulation.

Integrated Processing Solutions (IPS) is a cheque processing utility formed in 2004 as a joint venture between the two largest banks in South Africa, Absa Bank and Standard Bank South Africa. The IPS pension scheme has 747 members with R300 million (£22.6m) invested.

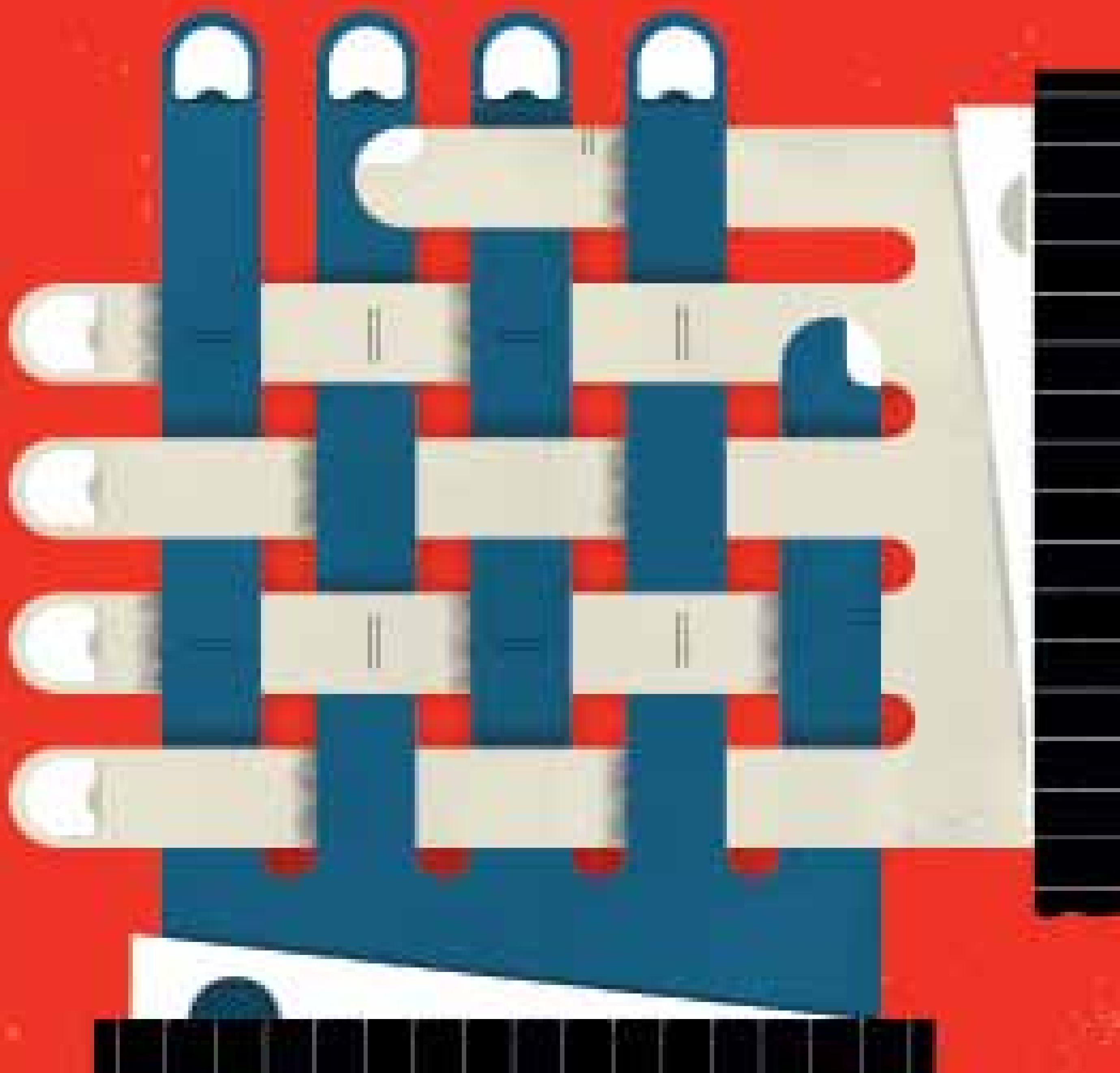
The scheme is DC, so the company has no open-ended liability. But, Jaco Joubert, IPS group finance manager, and trustee of the IPS Pension Scheme, says it still needs careful management to meet the challenges posed by regulation and increases in longevity.

Joubert says: “Typically, IPS fund members choose the default lifestyling portfolio which shifts them into appropriate investments as they near retirement. During 2011, the trustees decided to shift the age tiers in the lifestyling portfolio, in line with the rise of the fund’s average member-age. This optimises the replacement values at retirement, but still on a conservative basis. The change increased the age level up to which funds are invested in ‘wealth creation’ (equity portfolios), before a more conservative ‘wealth preservation’ (balanced and absolute return portfolios) and finally ‘capital preservation’ (guaranteed portfolios).”

The scheme also faces a number of regulatory challenges, says Joubert. “The Pension Funds Act and the new Code for Responsible Investments in South Africa require that the trustees consider environmental, social and governance factors when investing assets,” he says. “Since 1 January 2012, trustees have also had to consider BEE (Black Economic Empowerment) factors when appointing service providers, including asset managers.”

Return of the deal

With the economic background making it increasingly difficult to launch mergers, you'd have assumed that there would be little appetite for companies to do deals. Yet a number of compelling reasons, and the weight of history, may be on the side of the optimists, says Lawrie Holmes



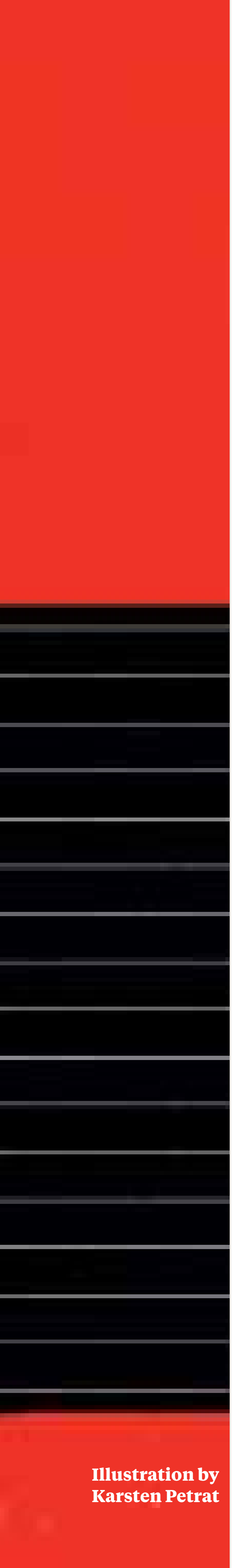


Illustration by Karsten Petrat

By 2008, the financial crisis had become a grim reality across the globe and the spiralling volume of mergers and acquisitions, which saw a bumper $4.7trn-worth of deals the previous year, according to Dealogic, quickly fell away. Roll on four years and there is still fear, most acutely felt in the eurozone, about another potential collapse in world markets. Yet at the same time companies have hoarded vast amounts of cash – £754bn in the UK according to the ITEM Club economic think tank, $1.8trn in the coffers of US corporates, according to investment bank Credit Suisse, and up to £2bn across eurozone companies.

So is it likely that we could see a new surge in M&A as cash-rich companies seek to capture relatively undervalued peers? Or is the fear of another global economic crisis weighing down on management teams, especially as the eurozone teeters close to a break-up?

The headline numbers make for interesting reading. According to FT Mergermarket, global M&A volume dropped from around 16,000 deals in 2007 to around 10,000 in 2009. This recovered by about half at the end of 2011. However, the deal rate has slowed through the latter half of 2011 due to increasing uncertainty about eurozone sovereign debt and political upheaval, not to mention the situation in the Middle East. The result has been that the first quarter of 2012 is the lowest quarter in terms of deal volume globally for seven years.

In April, Ernst & Young's global Capital Confidence Barometer Survey said: "While most of the ingredients necessary for a deal recovery are now in place – plentiful cash reserves, adequate credit availability and rising economic confidence – the M&A market continues to be restrained by conservatism. Only 31 per cent of respondents stated that they plan to pursue acquisitions in the next 12 months, compared with 41 per cent in October 2011."

Fear in the markets

Stephen Morrissette, adjunct associate professor of strategy at University of Chicago Booth School of Business, says that although corporates have excess cash and access to low-cost capital to fund acquisitions, the actions of their boards are often irrational.

He says: "Animal instinct is the primary factor determining strategy and will often reflect the optimism of acquirers that economic opportunity is increasing, which leads to perceptions of higher profits and cash flows and less risk. Abundant cash and low-cost capital cannot overcome a lack of economic optimism and uncertainty regarding tax and regulatory policy."

The result, according to Ali Aneizi, an M&A and private equity partner at Baker Tilly, is that "many companies may be conserving cash as a capital buffer against external shocks, such as the eurozone crisis, France's downgrade, Greece and the increased uncertainty that may bring."

Sir David Walker, an investment banker at Morgan Stanley, adds to that, saying: "Corporates will be very careful about their cash until present strains in liquid debt markets ease, which could be quite a time."

A UK-based investment banker, who declined to be named, says the impact of what's going on in the eurozone is being felt around the world. He said: "This increased volatility makes it difficult to have visibility of cash flow and earnings forecasts, so there is a certain degree of paralysis." He says the reticence to do deals is as much a result of how the eurozone crisis is affecting global banks that have struggled to rebuild since 2007.

"There's a lot of cash in corporates and private equity, but not in the banks," he says. "Private equity can't leverage up to do big deals because of this. Most big private equity houses aren't doing the deals they would like to do as a result, so there aren't that many deals taking place with a value of more than £1bn, unless they're involving companies with an exceptional cash-flow stream."

But why deals are not getting done is also down to a number of factors, aside from macro-economics, such as shareholder activism, according to FT dealReporter Europe editor Lucinda Guthrie. She cites Roche's recent failed $6.2bn bid for Illumina as an example where the Swiss pharma giant's shareholders refused to back a higher offer when the board of the US genetic analysis services provider refused to budge.

Another is Anglo-Danish security company G4S's failed takeover of Danish cleaning group ISS last year, when shareholders decided they wouldn't put up more cash in the form of a rights issue. "Many deals are being pulled over fears of overpaying of the kind that took place in 2006 and 2007, especially as shareholders of acquirers and target companies are far more vociferous now," she says.

Guthrie says that a further block to deals being done are regulatory and political hurdles: "An example of a regulatory roadblock came in February when Deutsche Boerse failed to acquire US-based rival NYSE Euronext for $9.3bn after it was blocked by the European Commission. Shell's efforts to acquire Cove Energy for £1.1bn has been slowed down by the Mozambique government's decision to impose a capital gains tax on the deal, a sign of increasing political risk in such deals. If you're paying advisers large fees, you want to be sure you are going to close the deal."

Urge to merge

Despite the headwinds, there are plenty of compelling reasons for deals getting done, says Dr Ruth Bender, a lecturer in corporate financial strategy at the Cranfield University School of Management.

She says that a large build-up of profits by American companies outside the US incentivises them to consider M&A. "If they try to bring it back into the US they will have to pay tax on it, so they would rather spend the cash on an acquisition. Companies like Apple and Google are good examples of big US companies that have large assets outside the US that they may want to deploy in this way."

US companies are also keen to build up market share overseas once their domestic market is saturated, and UK companies often fit the bill as they may have a strong global presence.

'We have seen that trade bidders have been prepared to invest in businesses that are strategic to them'

Michael McDonagh, an adviser at KPMG, says: "Examples of corporates that have acquired strategic assets we have sold in the UK include Caterpillar and Amazon. My view is that large corporates are well capitalised and have, by and large, done much of the internal work required to position themselves for the post-financial crisis world.

"As a result, over the past 12 months we have seen that trade bidders have been prepared to invest in assessing and buying businesses that are strategic for them. In such cases the corporates have paid excellent valuations to secure the deals."

For Asian companies looking to take advantage of their relatively strong position there are plenty of opportunities in the West, but success has been varied.

'We are seeing increased interest from Asian buyers'

"Chinese companies have tended to be outbid in a lot of situations, while Indian companies have been looking at opportunities. Tata is one that has been very opportunistic buying UK companies," says Cranfield's Dr Bender, referring to the company's acquisition of Jaguar Land Rover and the former steel company Corus.

John Fordham, chairman of Baird International, the UK-based investment banking arm of the US bank, says: "We are seeing increased interest from Asian buyers, particularly where outbound M&A accounts for nearly 40 per cent of all M&A activity.

"There are also signs that Asian buyers are stepping up to the plate in Western-style auctions for attractive assets and are prepared to go toe to toe with US and European corporates – this is a significant change from previous times."

Writing on the wall

Raymond Fagan, a banker at mid-market specialist Cavendish Corporate Finance, says that buyers from Asia and other emerging markets have a variety of motivations for seeking targets in the UK. "Often, overseas firms will pay higher multiples, as they are prepared to pay a premium to secure a base in an EU economy, with strong contract law and a robust business framework," he says.

Many boards will take the view that the tough macro-economic environment, and its dampening effect on available sources of funding, will prevent any upturn in deal-making.

But Professor Richard Schoenberg, senior lecturer in strategic management at Cranfield University School of Management, has amassed data on deals in recent years and believes there will be another boom.

"In 13 years, 56 per cent of acquisitions had been divested, with the average period of divestment being nine years.

"Given that the last major wave was in 2007, we would expect there to be another uplift in M&A activity nine years from then simply because, on average, more than half of divestments take place within nine years. You'll inevitably see a pick-up by then."

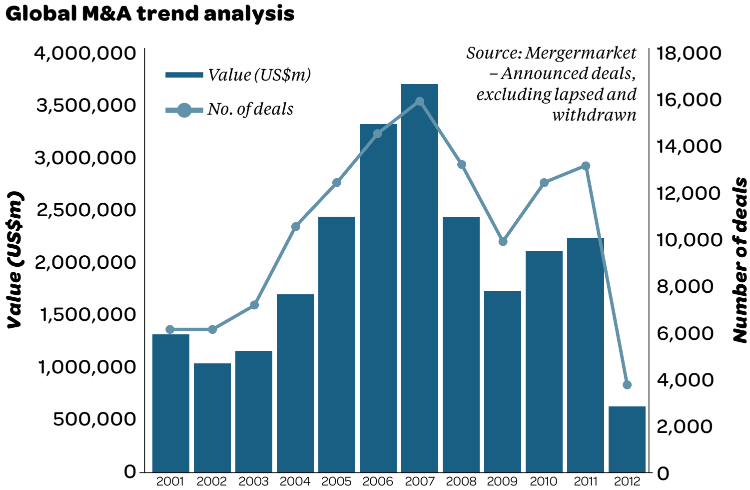
Schoenberg acknowledges that a lack of acquisition finance has made conditions more difficult for private equity-led deals that contributed a significant proportion of transactions in the last M&A boom, but insists the writing is on the wall.

"The M&A peak year of 2007 saw global transactions worth \$4.7trn," he says. "The previous peak of 2000 saw deals worth \$3.5trn, according to Thomson Financial."

If Schoenberg's models are right, a boom could be on the way, but the likelihood of that happening may well depend on the degree of fear stalking boardrooms right now.

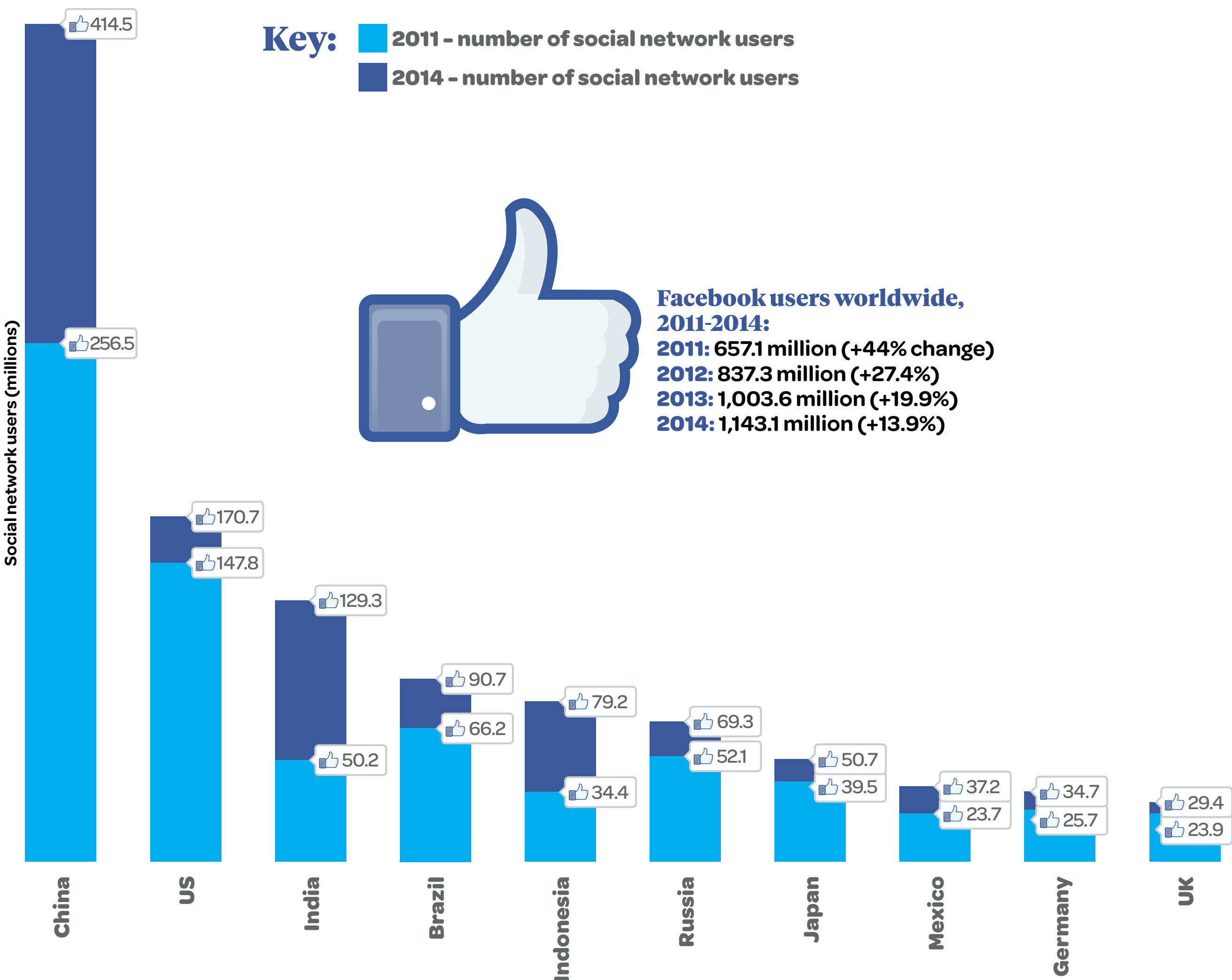
Lawrie Holmes
is editor of Financial Management

Global M&A trend analysis



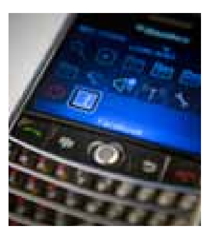
Prime number

Social network users worldwide by country, 2011-2014



The social network

The fastest growth in social networking this year will come from India (where usage will increase by 51.7 per cent), Indonesia (51.6 per cent) and, lagging distantly, China (19.9 per cent). Much of this growth is due to the ever-increasing popularity of Facebook, though notably not in China, where the site is banned. eMarketer estimates that the social networking giant will pass the billion-user mark by the end of 2013.



The figures reveal that the percentage rise of social network users in the UK is relatively low, rising from 23.9% to

29.4%

Amid rumours of political uncertainty, China closed many social networks in March, including...

meizhou.net

Getty Images

Source: eMarketer, February 2012

8 ways to...

Illustrations by Borja Bonaque
Words by Peter Bartram

...cut the cost of energy

Rising energy bills mean that companies need to consider all the ways in which they can save money on the likes of IT, heating and lighting, etc. Here, experts highlight some simple measures that can be taken to reduce bills, from turning down the thermostat to being savvy about signing up to new suppliers

1 Develop an energy-saving strategy

Nearly half of all companies (47 per cent) are missing out on opportunities to reduce their energy bills, according to a poll of 1,000 businesses by British Gas.

"Companies need to go back to basics when setting out to reduce energy bills and environmental footprints," says Gary Davis, operations director of Ecometrica, an environmental accounting software developer. "Start with a survey of existing levels of insulation and draught proofing. Establish whether glazing can be improved and review opportunities to upgrade to more energy-efficient lighting and appliances."

Undertake a commercial energy performance certificate, advises Russell Paul, a partner of Greenbuy Energy, a company that installs renewable technologies.

"The analysis will provide you with your building's energy-efficiency rating and give you a list of actions you can take to improve it."

2 Promote a change in staff behaviour

UK office workers waste more than £160m a year just by leaving lights on unnecessarily, according to a survey by Green Office Week, an initiative of Avery, the office products supplier.

"The most fundamental piece of advice for reducing energy use is to empower staff to make a difference and ensure you have a culture that values and encourages staff's contribution to saving energy," says Jo-Anne Newell, finance manager at Avery.

The Carbon Trust has launched an online office tool called Carbon Trust Empower, which is designed to help staff commit to making carbon- and cost-savings in the office.

3 Look for quick wins

"Before you invest in expensive new plant and equipment, understand what the quick wins are," says Alan Ford, a cost and purchasing specialist at Auditel, which provides cost-management services and partners with Wellers Accountants to reduce companies' energy spend.

"Gather all your existing energy bills and take them to a utilities broker," advises Chris Maynard, director of utilities at Hyman Capital, which provides business services. "A broker should be able to find you anything from 7 to 19 per cent savings in our recent experience."

Maynard suggests other quick wins. "Reset the thermostat one degree lower. You'll save between 5 and 10 per cent on bills. Don't work under old-fashioned fluorescent lights – there are dozens of cheaper alternatives."

4 Monitor IT energy consumption

A single computer and monitor left on 24 hours a day will cost a business as much as £50 a year. Organisations with hundreds or even thousands of PCs need to find ways to monitor their power use. Staffordshire University installed monitoring software supplied by Verdiem to track energy use in the 4,000 PCs used by staff and students. Result: targeted energy savings of 551,200 kWh in a year, equivalent to £65,000 off the energy bill.

"Statistics show that the average desktop monitor uses 30 per cent of its energy while idle and 40 per cent outside of business hours, leaving just 30 per cent used productively," says Bimal Parmar, vice president of marketing at Faronics, a company that provides computer management software.

5 Install a smart meter

More than half of businesses (51 per cent) need help identifying options for reducing energy costs, the British Gas survey discovered. An obvious starting point is to install a smart meter. The research found that two-thirds of the businesses with smart meters have used its statistics to identify investments for efficiency improvements, such as boiler optimisation and building insulation. But the survey also found that only 29 per cent of businesses had smart meters installed.

6 Use an energy management system

It can provide the analytical information that helps the management team take informed decisions about controlling energy use. When Tesco installed an energy management system, it cut its energy consumption by 20 per cent in the first two years. The system collects usage information from the chain's 10,000 main and sub-meters for electricity, gas and water, then measures specific energy use for heating, lighting and refrigeration, etc.

Good information is the lifeblood of any energy-saving campaign, says David Young, director of The Green Energy Manager, a division of the Green Electrician, a company which installs solar panels and renewable technologies. "A good energy improvement programme begins with having an effective monitoring system to benchmark performance and identify successes and failures," he says.

7 Check efficiency of machinery

In process and manufacturing businesses, a significant proportion of energy will be consumed by equipment on the shop floor.

For example, compressed air machinery is a heavy user of energy, but can often have leakage rates of between 20 and 30 per cent. In manufacturing companies, compressed air often represents 10 per cent of energy bills.

When Brammer, a company that provides industrial maintenance and repair products and services, carried out a leakage audit at Cadbury's factory in Chirk, north Wales, it found that leaks were costing £32,000 a year in unnecessary energy use. A £1,500 repair solved the problems.

8 Manage the financials more effectively

That includes everything from being sharper about negotiating energy contracts through to taking advantage of the Renewable Heat Incentive (RHI) and Feed-In Tariffs (FIT).

Buying energy may mean turning the company into a "rate tart" – seeking the best deal every year. One useful tip from an experienced energy buyer: when signing a new energy contract, send in the contract cancellation at the same time. That way, there's a ready option to change suppliers after a year if needed.

"The RHI pays you for every kWh of renewable heat you produce through technologies such as biomass boilers, heat pumps and solar thermal," says Greenbuy Energy's Paul. "The payments go on for 20 years after joining the scheme."

Paul explains: "The FITs are for producing renewable electricity through solar photovoltaics, which you can install on your building. They pay you for each kWh produced during a 25-year period, but also pay extra for electricity fed back to the National Grid."

Peter Bartram is the author of The Perfect Project Manager *(Random House Business Books)*

Study Notes

Paper P1
Performance Operations p44

Paper E1
Enterprise Operations

The E1 paper requires you to learn a daunting range of theories. If you want to observe several of these in action and so memorise them more easily, you could do worse than going on a lunchtime shopping trip

By the examiner for paper E1

Not so long ago, the pop group Oasis explored the story of their *Morning Glory*. Much earlier, the Kinks enjoyed lazing on a *Sunny Afternoon*, while the Beatles endured *A Hard Day's Night* and Wilson Pickett sang *In the Midnight Hour*. Songwriters have evidently been inspired by different times of the day. The big exception I can think of is that period in the working day when we grab a snack and recharge our batteries before the rigours of the afternoon. I struggle to recall a single song celebrating lunch hour – maybe it's not the most inspiring time of day? In a modest attempt to redress the balance, this article is based on a particularly insightful lunch break that I experienced recently.

Late morning on the day in question brought an email from *FM*'s commissioning editor, asking if I would be prepared to write something about the subject matter for the E1 paper, because "students value contributions by senior examiners", and even experienced financial managers like to keep abreast of developments and be reminded of significant techniques.

I accepted the invitation, but wasn't immediately sure what to write about, given the enormous breadth of topics covered by the syllabus. Seeking inspiration and needing some shopping, I took an early lunch break and strolled into town. My first stop on the high street was the bank. The transaction I wanted to make was too complex to complete at the ATM, so I went in and queued up for cashier service. As I stood in line, browsing the glossy brochures on display, one leaflet caught my attention. It explained that "as part of our customer charter we offer staff the opportunity to volunteer to help charities and projects in the communities where they live and work". The statistics were impressive: in 2011 the bank's employees took 7,500 days of paid leave to do "community force work". It wanted to improve on that figure this year and was giving customers the chance to join its employee volunteers.

'I asked the bank clerk whether he had volunteered for community work. "Of course – everyone here does," he replied enthusiastically'

When it was my turn at the counter, the clerk apologised politely for the delay, dealt with my transaction and asked if there was anything else he could help me with. I asked whether he had volunteered for the community work. "Of course, everyone here does," he replied enthusiastically.

Moving on to the supermarket, I picked up a few things for dinner. Avoiding the "fast lane" self-scan tills, I took these to a normal checkout, where I was given a small green plastic disc with my change. I must have looked puzzled, because the cashier

Paper E1
Enterprise Operations

explained excitedly that I could influence the size of the supermarket's donation to a local charity by using this token to "vote". He urged me to do so "because it's really quite important". The elaborate display by the exit informed me that this was one of 190 branches that gave £1,000 every month to three good causes in proportion to the numbers of discs placed in the three voting boxes below it.

Having cast my vote, I returned to the office and checked my emails. After deleting three spam messages I opened an email from a colleague that contained a link to a YouTube video featuring former footballer and sometime actor Vinnie Jones. In it he portrayed a gangster who'd witnessed a cardiac arrest and was administering hands-only CPR on the victim to the disco rhythms of the Bee Gees' *Stayin' Alive*. There was a serious message involved – the video was endorsed by the British Heart Foundation – but it was both novel and entertaining. I forwarded the link to my son. If he liked it, he'd probably share it with his friends, too. Now it was time to get back to work.

Later, I reflected on my lunchtime experiences. I'd seen two businesses potentially jeopardising their profits in an era of austerity by giving away money and staff time. I'd also seen a polished public-service advert that hadn't previously appeared via traditional media such as TV, radio, newspapers, magazines or billboards. What a curious lunchtime I'd had – how to make sense of it all? After a few moments I realised that it could all be explained in terms of the fine grain of the syllabus on which I'd agreed to write my article.

Corporate social responsibility or cause marketing?

Corporate social responsibility (CSR) can be defined as "taking more than the immediate interests of the shareholders into account when making a business decision". Some people might interpret the actions of my bank and the supermarket within this context. CSR recognises the rights of more than those who are the legal owners of the business and includes other groups – in these two cases, local charities and worthy causes. It involves maximising the positive effects upon all stakeholders while minimising the negative effects.

The extent to which businesses meet their legal, ethical, economic and philanthropic responsibilities will determine the degree of corporate citizenship they exhibit. In terms of philanthropy, corporate gifts to recognised charities often carry the benefit of being tax deductible. It can also be argued that business philanthropy and good CSR are good for public relations. This in turn helps to generate repeat sales and attract new customers. The message is that CSR need not depress profits. It might even enhance them.

'American Express first used the term "cause marketing" in 1983 after pledging a two cent donation to a San Francisco arts festival for every transaction using its credit cards in the area'

Some people might see the actions of the bank and supermarket less as CSR and more as cause marketing. American Express first used this term in 1983 after pledging a two cent donation to a San Francisco arts festival for every transaction using its credit cards in the area. At the end of the short campaign, the festival was the delighted recipient of $110,000 and the company exceeded all expectation in terms of increased card usage and new custom. Cause marketing differs from corporate philanthropy in that it's more about building a relationship between the organisation and a particular initiative. Cause marketing therefore involves the co-operative efforts of businesses and not-for-profit organisations. The vital element is the mutual benefit arising from such a relationship. The charities, some of which have unsophisticated approaches to fundraising and marketing, gain welcome publicity and significant resources. The donor organisations gain impressive benefits such as good PR and improved staff morale.

Philanthropic giving or cause marketing might be seen as tokenism by employees if they feel that their organisation doesn't take the initiative seriously. This was clearly not the case at the bank and the supermarket that I visited – the motivational impact on both employees was obvious. A motivated workforce can be a source of strategic strength and give the organisation a competitive edge. The link between motivation and productivity is undeniable: while demotivated employees may damage their organisation's reputation through, say, inappropriate behaviour, motivated employees interact far more positively with customers and so project a positive image of their employer. The organisation can also expect improved staff retention, which means fewer unnecessary recruitment and training costs and less likelihood of unplanned absences. Strengthening the organisation's brand as an employer in this way should also improve its ability to attract and retain more high-calibre employees.

Paper E1
Enterprise Operations

Internally, cause marketing and CSR offer a business a vehicle for making its employees feel proud of their organisation. Externally, the organisation will seem more attractive to both potential recruits and potential customers.

Other forms of marketing

If cause marketing was christened (if not born) in the early 1980s, then so was guerrilla marketing. Jay Conrad Levinson coined the term in his book *Guerrilla Marketing* (Piatkus, 1983) to describe his recommended approach for smaller businesses and entrepreneurs with limited budgets. This approach relies on well-planned, highly focused and often unconventional attacks on key marketing targets. The aim is to achieve maximum impact at minimal cost.

According to Levinson, guerrilla marketers do the following things:

- Use psychology, rather than guesswork.
- Measure profits, not sales.
- Keep track of the number of new relationships established each month.
- Concentrate only on a few products or services.
- Focus on generating more business with, and referrals from, existing customers, rather than chasing new ones.
- Collaborate with other businesses instead of competing with them.
- Use a combination of marketing methods.
- Apply technologies that their organisation already possesses.

Guerrilla marketing is not traditional, but it does take a traditionally direct approach. Direct marketing entails taking an active role in the selling process by communicating with a particular market segment – e.g. advertising a product in a trade journal. Indirect marketing, by comparison, is more passive and might not be explicitly linked to a specific segment, product or goal.

What about the Vinnie Jones video? Its similarities to guerrilla marketing lie in the use of an existing free-to-use channel, rather than more costly traditional media, and the intention to "create a buzz". But this particular mode of communication is increasingly being referred to as viral marketing. Satisfied customers have always contributed to an organisation's indirect marketing when recommending its products or services to other consumers. What's different in this case is the technology involved – the internet – meaning that positive messages are spread through word of mouse rather than word of mouth. Viral marketing encourages people to pass on a message, thereby creating exponential growth in the message's exposure in the same way that computer viruses proliferate. By using existing social networks, it increases brand awareness through the posting of attention-grabbing material. The aim is to persuade the recipient to forward the message – just as I did.

The fact that both of the main political parties used viral marketing in the run-up to the 2010 UK general election illustrates how its popularity has spread. Possibly the best example is the campaign by sportswear giant Nike, with its three-minute video of footballer Ronaldinho donning a new pair of boots and then juggling a ball. Since the video was posted on YouTube, there have been 26 million "hits" on the page in question, signifying mass exposure to the Nike brand.

My lunchtime experiences were, for once, a source of inspiration and can be understood in terms of several areas of the E1 syllabus (*see table, below*). I may not have found the time to eat anything, but I had plenty of food for thought.

REFERENCES TO THE E1 SYLLABUS

Component learning outcomes	My lunchtime experience and reflection
Explain the principles and purpose of corporate social responsibility.	Possible philanthropic actions of the bank and supermarket in relation to local causes.
Discuss ways of organising and managing information systems activities in the context of the wider organisation.	ATMs at the bank, self-scan tills in the supermarket, social networks for viral marketing, unsolicited spam emails.
Explain the social context of an organisation's marketing behaviour.	The involvement of the social-cause charity British Heart Foundation in viral marketing.
Apply tools within each area of the marketing mix.	Promotional mix: viral marketing, PR, guerrilla marketing, cause marketing and indirect marketing.
Describe the business contexts in which marketing principles can be applied.	Banks, supermarkets, charities, political parties. (In the context of guerrilla marketing, small and medium-sized firms.)
Explain how HR theories and activities can contribute to the success of an organisation and discuss the HR activities associated with the motivation of employees.	Cause marketing is motivational for staff. Often, the HR department is responsible for developing a corporate cause marketing programme or central to its implementation.
Describe the HR activities associated with improving opportunities for employees to contribute to the organisation.	The bank's community workforce scheme offers employees opportunities to develop their teamwork and leadership skills.

Paper P1
Performance Operations

Variance analysis is a standard management accounting technique, but too many P1 candidates struggle to apply it because they don't bother to understand what all the variances actually mean

By the examiner for paper P1

Students tend to find the P1 exam difficult because the information given in the scenarios and the requirements vary considerably from question to question. Rote learning for this paper, therefore, will not be effective.

Section C of the exam often includes a question requiring a variance analysis. I have invariably been disappointed by how badly most candidates have performed on answering such questions, particularly because it's a core area of the syllabus that they should see as their bread and butter. Post-exam guides have stated that students tend to try to learn by rote for this subject, rather than understanding what they are trying to achieve. Variance analysis is not about learning formulas; it's about working out what the variances mean. Once these are understood, the figures necessary to calculate them usually become clear.

Let's attempt question 3 in section C of the November 2011 P1 paper, which required candidates to perform a variance analysis. Here is the scenario it gives, along with part A of the requirement:

TP makes wedding cakes that are sold to specialist retail outlets, which decorate the cakes according to the customers' specific requirements. The standard cost per unit of its most popular cake is as follows:

Direct material:		$
Ingredient A	4kg at $25 per kg	100
Ingredient B	3kg at $22 per kg	66
Ingredient C	2kg at $11.50 per kg	23
Direct labour:	3 hours at $12 per hour	36
Variable overhead:	3 hours at $8 per hour	24
Standard cost:		249

The budgeted production for the period was 10,000 units.

Actual results for the period were as follows: Production: 9,000 units.

'I have invariably been disappointed by how badly most candidates have performed on answering variance analysis questions'

Direct material:		$
Ingredient A	35,000kg	910,000
Ingredient B	28,000kg	630,000
Ingredient C	27,000kg	296,000
Direct labour:	30,000 hours	385,000
Variable overhead:		230,000

The general market prices at the time of purchase for ingredient A and ingredient B were $23 per kg and $20 per kg respectively.

TP operates a just-in-time (JIT) purchasing system for ingredients and a JIT production system. Therefore, there was no inventory during the period.

Prepare a statement that reconciles the flexed budget material cost and the actual material cost. Your statement should include the material price planning variances and the operational variances, including material price, material mix and material yield (12 marks).

The first thing to note is that a reconciliation statement is required. Many candidates didn't produce a statement and, while this omission was treated fairly leniently in the marking, the post-exam guide for that paper warned that this might not always be the case. Such questions test not only your ability to calculate variances, but also your ability to calculate the appropriate variances that will explain the difference between the budget figures and the actual figures.

In addition, the reconciliation should be between the "flexed budget material cost" and the actual material cost. The original production budget was 10,000 units, but only 9,000 units were actually made. Therefore we need to reconcile the budget cost of 9,000 units – i.e. the flexed budget – with the actual cost of 9,000 units.

The second part of the requirement makes it clear which variances need to be calculated: the material price planning variances and the operational variances, including the material price, material mix and material yield variances. Despite this, a disappointingly high number of candidates wasted a lot of valuable time calculating labour variances and variable overhead variances. This may have been because questions they had practised during their revision required the reconciliation of profit or contribution. It is important to read the question requirements carefully, because no marks will be awarded for performing calculations that are not required. Other candidates,

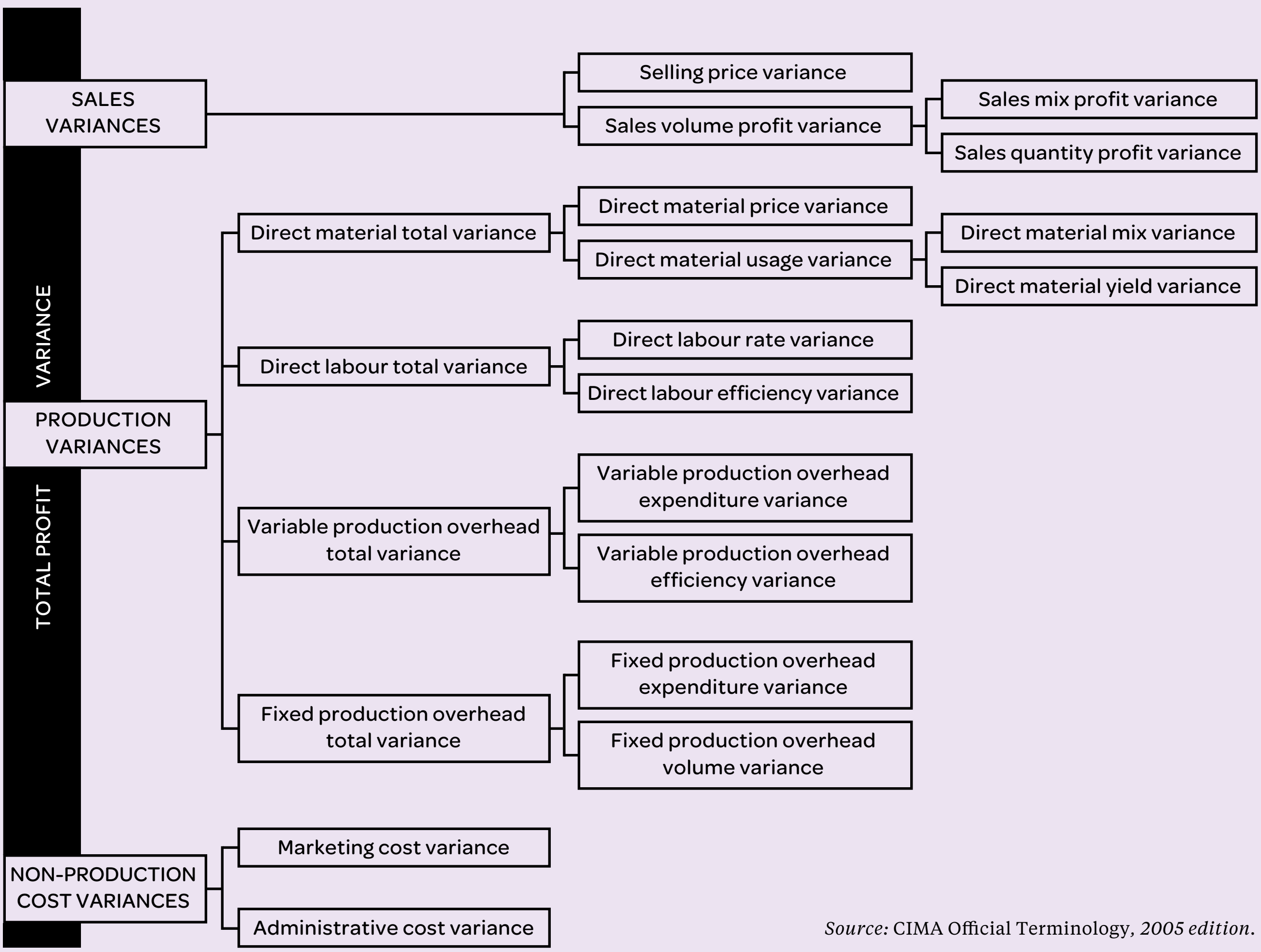
Paper P1 Performance Operations

while they didn't calculate labour or overhead variances, worked out the material usage variance. This meant that there was a duplication of variances, because the material usage variance is a combination of the material mix variance and the material yield variance.

The diagram below shows the chart of variances using absorption costing principles. The same applies under marginal costing, except that the sales variances will relate to contribution and there will be no further breakdown of the fixed production overhead total variance.

Many questions on variance analysis require the reconciliation of budget and actual profit. They will ask candidates to show variances in as much detail as possible. If the scenario involves a firm selling multiple products and/or a product that requires a mix of different inputs, you should calculate sales mix and sales quantity variances and/or material mix and yield variances. But you should not then also calculate the sales volume variance and the material usage variance, as this would result in duplication and it would be impossible to reconcile the budget and actual figures.

Chart of variances using absorption costing principles



Source: CIMA Official Terminology, *2005 edition*.

Further reading *CIMA Official Study Text – Performance Operations* (2011-12 edition), CIMA Publishing, 2011.

Let's now consider the variance calculations. The reconciliation statement is as follows:

		$
Flexed budget material cost (original standard)	9,000 units x $189	1,701,000
Material price planning variance – ingredient A	36,000kg x ($25/kg – $23/kg)	72,000 favourable
Material price planning variance – ingredient B	27,000kg x ($22/kg – $20/kg)	54,000 favourable
Flexed budget material cost (revised standard)		1,575,000
Material price operational variance – ingredient A	(35,000kg x $23/kg) – $910,000	105,000 adverse
Material price operational variance – ingredient B	(28,000kg x $20/kg) – $630,000	70,000 adverse
Material price variance – ingredient C	(27,000kg x $11.50/kg) – $296,000	14,500 favourable
Material mix variance	Workings to follow	74,500 favourable
Material yield variance	Workings to follow	175,000 adverse
Actual material cost		1,836,000

The first step is to calculate the flexed budget material cost. This should be based on 9,000 units and the original standard material cost – i.e. the total cost of ingredients A, B and C, which is $189.

The next step is to calculate the material planning variances. The scenario makes it clear that the general market prices of the ingredients at the time of purchase were different from the original standard cost, so we need to adjust the original standard to reflect these changes. The price of ingredient A has fallen from $25 to $23 per kg, resulting in a favourable variance of $2 per kg, since the revised budget will be lower than the original budget. Each unit requires 4kg of ingredient A, so for 9,000 units the standard amount of ingredient A will be 36,000kg, resulting in a favourable total planning variance of $72,000. The same calculation can be performed for ingredient B, for which the market price has also fallen by $2 per kg. If we then deduct the favourable variances from the original standard we end up with a revised materials budget of $1,575,000.

The next step is to calculate the operational variances. The first one we must deal with, price variance, compares the standard cost of the actual quantity of material purchased with the actual cost of what was purchased. The reason for using the actual quantity purchased is that we are trying to isolate the effect of price changes – that is, exclude any effect of usage gains or losses. We therefore multiply the actual quantity of each

GLOBAL CONTACT DETAILS

CIMA corporate centre
26 Chapter Street,
London SW1P 4NP
T: +44 (0)20 8849 2251
E: cima.contact@cimaglobal.com
www.cimaglobal.com

CIMA Australia
5 Hunter Street, Sydney,
NSW 2000
T: +61 (0)2 9376 9902
E: sydney@cimaglobal.com

CIMA Bangladesh
Suite 309, RM Center, (3rd Floor), 101 Gulshan Avenue,
Dhaka-1212
T: +8802 881 5724
E: zareef.matin@cimaglobal.com

CIMA Botswana
Plot 50374 , Block 3, 1st Floor,
Southern Wing, Fairgrounds
Financial Centre, Gaborone
T: +267 395 2362
E: gaborone@cimaglobal.com

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

CIMA China: Beijing
C 201, 2/F Landmark Tower 2,
8 North Dongsanhuan Road,
Beijing 100004
T: +86 (0)10 6590 0751
E: beijing@cimaglobal.com

CIMA China: Chongqing
Room 1202, Metropolitan
Plaza, 68 Zou Rong Road,
Yuzhong District,
Chongqing 400010
T: +86 (0)23 6371 3538
E: infochina@cimaglobal.com

CIMA China: Shenzhen
16/F, CITIC City Plaza,
Shennan Road Central,
Shenzhen 518031
T: +86 (0)755 3330 5151
E: shenzhen@cimaglobal.com

CIMA Ghana
3rd Floor, Ayele Building,
IPS/Attraco Road,
Madina, Accra
T: +233 (0)30 250 3407
E: accra@cimaglobal.com

CIMA Hong Kong
Suite 2005, 20th Floor,
Tower One, Times Square,
1 Matheson Street,
Causeway Bay, Hong Kong
T: +852 (0)2511 2003
E: hongkong@cimaglobal.com

CIMA India
Unit 1-A-1, 3rd Floor, Vibgyor
Towers, C-62, G Block, Bandra
Kurla Complex, Bandra (East),
Mumbai 400051
T: +91 22 4237 0100
E: india@cimaglobal.com

CIMA Ireland
5th Floor, Block E, Iveagh
Court, Harcourt Road, Dublin 2
T: +353 (0)1 643 0400
E: cima.ireland@cimaglobal.com

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

CIMA Malaysia: Sarawak
Sublot 315, 1st Floor,
21 Jalan Bukit Mata, 93100
Kuching, Sarawak
T: +6082 233136
E: doreen.tan@cimaglobal.com

CIMA Malaysia: Penang
Suite 12-04A, 12th Floor,
Menara Boustead Penang,
39 Jalan Sultan Ahmad Shah,
10050 Penang
T: +60 (0)4 226 7488
E: penang@cimaglobal.com

CIMA Middle East
Office E01, 1st Floor, Block 3,
PO Box 502221, Dubai
Knowledge Village,
Al Sofouh Road, Dubai,
United Arab Emirates
T: +9714 434 7370
E: middleeast@cimaglobal.com

CIMA Nigeria
Landmark Virtual Office,
5th Floor, Mulliner Towers,
39 Alfred Rewane Road,
Ikoyi, Lagos
T: +234 1 463 8353 (ext 518)
E: lagos@cimaglobal.com

CIMA Pakistan
201, 2nd Floor,
Business Arcade, Plot 27-A,
Block 6, PECHS,
Shahra-e-faisal, Karachi
T: +92 21 3432 2387
E: pakistan@cimaglobal.com

CIMA Pakistan: Islamabad
1st Floor, Rehman Chambers,
Fazal-e-Haq Road, Blue
Area, Islamabad
T: + 92 51 260 5701-6

CIMA Pakistan: Lahore
Flat 1, 2, 1st Floor,
Front Block 3, Awami Complex
at 1-4, Usman Block,
New Garden Town, Lahore
T: +92 42 3594 0311-16

CIMA Poland
Warsaw Financial Centre ,
Floor 11, ul Emilii Plater 53,
00-113 Warsaw
T: +48 22 528 6651
E: poland@cimaglobal.com

CIMA Russia
Office 4009, 4th floor,
Zemlyanoj Val 9,
Moscow 105064
T: +7495 967 9328
E: russia@cimaglobal.com

CIMA Singapore
3 Phillip Street,
Commerce Point, Level 19,
Singapore 048693
T: +65 68248252
E: singapore@cimaglobal.com

CIMA South Africa
1st Floor, 198 Oxford Road,
Illovo 2196
T: +27 11 788 8723
E: johannesburg@cimaglobal.com

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

CIMA Sri Lanka: Kandy
229 Peradeniya Road, Kandy
T: +94 (0)81 222 7883
E: kandy@cimaglobal.com

CIMA UK
26 Chapter Street,
London SW1P 4NP
T: +44 (0)20 8849 2251
E: cima.contact@cimaglobal.com

CIMA Zambia
6053 Sibweni Road,
Northmead, Lusaka
T: +260 1 290219
E: lusaka@cimaglobal.com

CIMA Zimbabwe
6th Floor Michael House, 62
Nelson Mandela Ave, Harare
T: +263 4 708600
E: harare@cimaglobal.com

Paper P1 Performance Operations

ingredient purchased by the revised standard cost and compare this with the actual cost. Note that the operational variances use the revised standard, as we are trying to assess operational efficiency, which makes it necessary to exclude any planning variances since these are not within the operational manager's control.

Normally, the next material variance to calculate would be the material usage variance. But, as this process uses a number of ingredients, we need to calculate the material mix and material yield variances. The material mix variance calculates the effect on cost resulting from any change to the standard mix of input materials. It is concerned solely with the effect of changes to the mix, so it compares the actual quantity of material used at the standard mix with that used at the actual mix. The total quantity of material used was 90,000kg and the standard mix was 4kg of A to 3kg of B to 2kg of C. We therefore take 90,000kg and apply the standard mix – the result of which is shown in the second column of the table below. Column three shows the actual ingredients at the actual mix (given in the scenario). Column four shows the variance, which is favourable ("Fav" in the table) for A and B, as the actual input was lower than the standard. For C it is adverse ("Adv"), as the actual input was higher than the standard – that is, more of C than expected was used in the mix. Note that the total of the variance column will always be zero. We then multiply the variances in kg by the standard costs – and again it's the revised standard costs that should be used, because we are calculating an operational variance.

An alternative method for calculating the mix variance, which uses the difference between the revised standard cost and the weighted-average standard cost in column five, can also be used and would be equally acceptable.

Material mix variance calculation

Ingredient	Actual input at standard mix (kg)	Actual input at actual mix (kg)	Variance (kg)	Standard cost ($/kg)	Variance ($)
A	40,000	35,000	5,000 Fav	23	115,000 Fav
B	30,000	28,000	2,000 Fav	20	40,000 Fav
C	20,000	27,000	7,000 Adv	11.50	80,500 Adv
	90,000	90,000			74,500 Fav

EXAM DOS AND DON'TS

Do read the question requirements carefully.

Do answer the question that you have been asked, not the one that you'd like to have been asked.

Do practice answering past exam questions, but **don't** assume that all future questions will cover exactly the same ground.

Don't rely on rote learning – understand what you are calculating and why you are calculating it.

The final variance to calculate is the material yield. This measures the effect on cost of any difference between the actual usage of material and the standard required for the output produced. The workings are as follows:

- Standard weight of material per cake = 9kg.
- 9,000 cakes x 9kg = 81,000kg.
- Actual usage = 90,000kg.
- Variance = 9,000kg Adv.
- Weighted-average standard cost per kg = $19.444.
- Variance = 9,000kg x $19.444/kg = $175,000 Adv.

Here, the yield variance of 9,000kg is valued at the weighted-average standard cost per kg, which is calculated by dividing the revised material cost of $175 per unit by 9kg per unit. Once again, it's the revised standard cost that is used, as this is an operational variance.

Alternatively, the material yield variance can be calculated by comparing the output that should have been produced from the material input with the actual output. The workings are as follows:

- 90,000kg should produce 10,000 cakes.
- 9,000 cakes were actually produced.
- Yield variance = 1,000 Adv
- Standard material cost per unit = $175.
- Yield variance = 1,000 x $175 = $175,000 Adv.

Once all the variances have been calculated, the final task is to work out the actual material cost. For this, you add the actual cost given in the scenario for all three ingredients. This should be calculated independently of the variances, just in case you have made an error in working out any of these variances. But, once you have calculated the actual material cost, you can then check that the budget material cost, plus and minus all the variances, gives the same figure. If it doesn't, then you have made a mistake somewhere and you'll need to check your variance calculations.

Exam notice

Visit www.cimaglobal.com regularly for updates

May 2012 exam results

The results for all paper-based exams will be released by first-class post, airmail or email on 12 July. (The closing date for registering on "My CIMA" to receive your results via email is 5 July.) The results for the T4 part B on PC exam were released on 14 June. The institute cannot give out results on the phone or to personal callers at any CIMA office.

Attendance receipts

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

Reviewing your performance

Your results will include a breakdown of the marks awarded. You should review this information along with the question paper, model answers and post-exam guide to help identify any problem areas. These resources are free to download from the relevant CIMA website pages linking to bit.ly/CIMAstudyresources. More model answers can be found in past issues of *Velocity* (www.cimaglobal.com/velocity).

Post-exam guides

Post-exam guides for each of the May 2012 papers will be made available on CIMA's website in early August. These are essential reading for unsuccessful candidates and for those studying a new subject. They contain:

- The exam questions.
- The rationale for each question.
- Suggested approaches to answering each question.
- The outline marking scheme.
- The examiners' comments.

Script and administrative review services

After the May exam results are published CIMA will offer a script review service for the three Strategic level subjects and T4 part B. The service is available only if you received between 40 and 49 marks (between 20 and 24 credits in T4 part B) in the paper for which you want a review.

An administrative review service is available for all Operations, Management and Strategic level papers.

The application deadline for script and administrative reviews for the May exams is 5pm BST on 10 August.

Further information about these services and how to apply for them can be found in the "After the exams" section at www.cimaglobal.com/students/exams.

September 2012 'extra' exams

Management and Operations level "extra" exams will be available in the UK and Ireland only. These are paper-based exams. Strategic level "extra" exams on PC will be available in all countries. All these exams will be held from 28 August to 1 September (the next chance to sit the T4 part B exam on PC will be on 29 August).

The deadline for entries is 20 July. Visit www.cimaglobal.com/students/exams for full guidance on how to enter.

Any student who sits an "extra" exam and wants to take the November exams will have between 20 and 26 September after receiving their results to enter online for the November paper-based exams via their "My CIMA" account. The usual late-entry fee will not be charged in this case.

November 2012 main exams

This sitting will be held on 20, 21 and 22 November. Online entry opens in early August – enter by logging into your "My CIMA" account. The standard deadline for entries is 5pm BST on 14 September. If you enter after this date, you will have to pay an additional fee. The deadline for late entries is 5pm BST on 21 September.

CIMA does not accept cancellations and will not refund fees. To change papers or exam centres, email exam.changes@cimaglobal.com. A fee will be payable.

Visit www.cimaglobal.com/students/exams for further information.

Pre-seen material for papers at strategic level and T4 part B

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 September's E3, F3 and P3 papers is available to be downloaded from www.cimaglobal.com/strategicpreseen. New material for November's Strategic level papers will be available in mid-October.

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

Computer-based assessments at Certificate level

For details on entering for a computer-based assessment at Certificate level, visit www.cimaglobal.com/certificateentry.

If you wish to sit Operational or Management level exams in November, you must complete all of your Certificate level subjects by 1 September.

New guidance notes for each of the 2011 syllabus subjects are available online. CIMA has also compiled answers to some FAQs on the 2011 Certificate syllabus. Visit www.cimaglobal.com/2011certificate to access these resources.

CIMAsphere

Visit www.cimaglobal.com/sphere, CIMA's online community, to ask questions, share information and find expertise and support among CIMA students, members and alumni. You can also read useful blogs on studying and the exams.

Queries

Visit www.cimaglobal.com/students/exams or get in touch with CIMA Contact (cima.contact@cimaglobal.com) or your local office (*see panel, page 47*).

Code of ethics *CIMA members and students are required to comply with the CIMA code of ethics. Ensure that you are familiar with the code and how to apply it. Further resources are available at* www.cimaglobal.com/ethics. *Also see this month's Hot Potato, page 12.*

Technical
Notes

Four obstacles facing tomorrow's leaders p54

The importance of being coached

Coaching is considered as vital to leading corporations to ensure that their best people develop effectively. It is even seen as a means to ensure long-term sustainability

Audrey Besson Levine is a business and executive coach and a freelance writer. She spent eight years with General Electric, where she was part of the corporate audit staff, before taking up a CFO role in a newly acquired consumer finance business in Belgium

The International Coaching Federation defines coaching as "partnering with a client in a thought-provoking and creative process that inspires them to maximise their personal and professional potential".

In the past, coaching could have easily been associated with helping under-performers. However, in today's environment, it is mostly used to provide "A players" with the means to sharpen their skills and enhance their performance as leaders. A study carried out by the American Management Association reported that 60 per cent of the individuals that are being coached are employees with a high potential for advancement.

Statistics around the benefits of coaching are scarce, but in 2001 Manchester Inc conducted a study among 100 executives, mostly from *Fortune* 1000 companies. Its findings suggest that the average return on investment for a company that invested in coaching for its executives is almost six times the cost of the coaching. The benefits ranged from increased productivity, organisational strength and bottom-line profitability to improved working relationships, work satisfaction and teamwork.

'A coach can be useful when "A players" are identified and the company wants to develop their talent'

When conducted with a clear and adequate approach, it has been proven that coaching can have a significant impact on employees' individual job performance and improve the company's overall capability as a result.

When to coach?

There are many different scenarios where coaching adds value to a company. In many instances a significant change is happening, either to the employee's situation or to the organisation. A coach can help an individual during the transition period by partnering with them in order to maximise their own potential and create the opportunity for change. This results in a win-win situation for both the employee and the company. Examples of such situations include coaching employees who have just joined the organisation or who have been newly promoted, helping workers through the implementation of changes and supporting successors during transition.

Coaching can also be used to improve a worker's motivation, or to correct their under-performance, but this tends to be the minority of cases. A coach can be useful when an A player is identified and the company wants to develop their talent and build competencies, while team coaching can be a great way to improve the efficiency of a management team.

Coaching executives is another category. Being successful as a senior executive often requires a different skill set from those they may have relied on to get where they are today.

One study involved a leadership competence model developed by Lyle Spencer for the $2bn industrial controls division of Siemens. When star performers were compared to average managers, four competencies of emotional intelligence emerged as the unique strengths of the stars. Not a single one of them related to technical or purely cognitive strengths. The following four abilities distinguished those managers who were star leaders; that is, those whose growth in revenues and return on sales put their performance in the top 10 to 15 per cent:

1. The drive to achieve results.
2. The ability to take the initiative.
3. Skills in collaboration and teamwork.
4. The ability to lead teams.

Then, with a clear idea of which competencies to target, another pool of managers was trained to cultivate these four strengths. They were evaluated on each competence and then set goals for improving them. The result was an additional $1.5m profit, double that of a comparison group that had no training.

> ‘A coach can be called in for many reasons, where an organisation can see value in developing, retaining and motivating their employees’

This example illustrates how a coach can add significant value in the C-class by helping leaders to develop emotional competencies. It can get very lonely at the top, and having someone who is going to listen, help reflect decisions and behaviours, and challenge beliefs can be extremely valuable at this level of the organisation.

A coach can be called in for many reasons, and in a variety of scenarios where an organisation can see value in developing, retaining and motivating their employees. Coaching has been found to be more successful when there is clarity around the reason why it is used. It is also advised to try to match the right expertise with the right employee to ensure success in the coaching relationship.

> **‘The benefits a coach can bring has been demonstrated in many surveys and business cases’**

What are the benefits?

Several studies have demonstrated the benefits of coaching. In 2002, Metric Global conducted a survey in a *Fortune* 500 firm and concluded that “coaching produced a 529 per cent return on investment and significant intangible benefits to the business”. The financial benefits from employee retention boosted the overall return on investment (ROI) to 788 per cent.

Better productivity, employee satisfaction, working relationships with peers, supervisors, customers, conflict reduction and bottom-line profitability enhancement are some of the advantages that companies recognise coaching can bring to the table.

In a research report from the Lore Research Institute, a summary of the personal and organisational improvement lists the following: enhanced executive learning, gains in corporate performance, enhanced relationships and increased leadership effectiveness.

Although there is no recent data and accurate methodology on how to calculate the ROI of a coaching relationship, all opinions tend to confirm that there is a significant value added in hiring a coach in the right circumstances. Most *Fortune* 500 companies use the services of coaches today. A survey in the US carried out in 2000 among 300 companies concluded that almost 60 per cent of them were using coaches, which would lead one to believe that this number might be now closer to 80 per cent. A survey by Qa Research that was carried out in the UK in 2011 reported that 80 per cent of organisations interviewed had used or are now using coaching. There are at least 12,300 business coaches in the US and Canada, about 18,000 in Europe and around 4,300-4,700 in Asia, according to a 2008/2009 global coaching survey. Those numbers show that there is a real demand for coaches and it is safe to assume that it is due to the success of the model.

What is the process?

Each coach will have his or her own methodology, but in most cases the process includes similar phases.

The first is the contracting phase, where all the relevant parties agree on the terms and conditions of the agreement, define confidentiality and the operating mechanisms. It can include the coach and the coachee, as well as any other relevant parties and stakeholders.

Once all parties find a consensus on the terms and conditions of the coaching relationship, the

Getty Images

coach and his coachee can decide on some initial goals. These may evolve over time, but it is a good starting point. It can include, for example, three goals the employee wants to achieve by the end of the coaching relationship, typically a minimum of three months. If HR is involved and underperformance is one of the reasons for using a coach, the goals should address those needs.

This phase is usually followed by an assessment, which can be conducted in many different forms. A 360-degree survey is one of the most common assessments, but other tools can be used, including Myers Briggs, DISC behavioural-style assessment, PIAV values assessment or the Bat-On EQi emotional intelligence assessment. These tools can be an objective way to assess a client's strengths and development opportunities, and provide a good baseline.

Based on the results of the assessment and the initial goals, the coach can help the client to put an action plan in place with achievable and measurable targets that can be evaluated on a regular basis.

Lastly, the coach and client will evaluate progress along the way and adjust direction as needed. Accountability is an important part of a coaching relationship as it helps the coachee to be both action-focused and goal-oriented.

Even if the process is similar, each coach will have their own style. Some will be more direct than others, have a more holistic approach versus a specific one. Some will have no problem challenging a client, while others might be less inclined to do so. It is critical for the success of the coaching relationship to find a good match to the personality of the person being coached. The chances of good results are higher if the coachee feels comfortable and can establish a relationship of trust with their coach.

Important things to consider when selecting a coach...

The benefits a coach can bring to an organisation have been demonstrated in many surveys and business cases. The challenge becomes how to find the right coach. A study carried out by the American Management Association found that using external coaches for managers and executives is more effective than internal coaches.

Having someone who understands the business world and has completed a recognised certification should be a minimum requirement. A good coach should not be confused with a consultant, a therapist or a friend. They should respect their client's agenda and help them find their own answers, rather than bring solutions to the table. A successful coach is a facilitator who will help an employee to find their untapped potential and bring it out to reach a new level of competencies. They will be able to challenge their client when required and help them to discover new ways of thinking, behaving, and eventually, being.

Four obstacles facing the management accounting professionals as they seek to step up as global leaders

No matter how aspirational they are, management accountants face a series of roadblocks in the course of building careers in organisations. Experts reveal the four key obstacles that need to be addressed in the course of becoming global leaders

Dr Jai Kim, professor Caroline Hatcher and associate professor Cameron Newton – QUT Business School, Queensland University of Technology

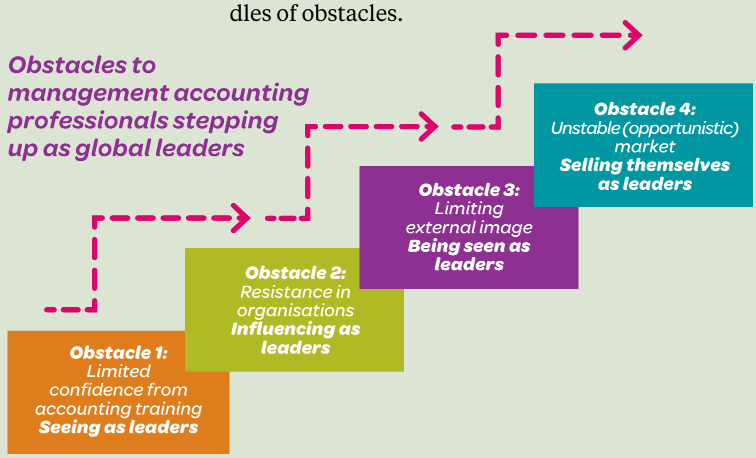
Much soul-searching about personal and professional responsibility and identity has followed the heady days of the 2008 financial crisis, and many questions about leadership and accountability continue to be raised as the European and US economies falter again. If management accountants (MAs) had more influence in their organisations, would things be different? What are the obstacles facing management accounting professionals as they seek to be recognised as global leaders?

A CIMA international investigation conducted during 2011 by researchers at the Queensland University of Technology asked 1,158 CIMA members and industry managers about their current roles and future vision for the identity of MAs. We focused on "the issues that MAs face in operating as leaders" and "the impact of the recession on their professional identity". While challenges and obstacles remain, overall CIMA members are optimistic about the future of the profession.

MAs are now better placed to move to leading positions in their organisations than ever before (CIMA, June 2010). However, the core meaning of the profession seems unclear to many people, including MAs themselves. Traditionally, accountants in movies and the media are typically portrayed as boring, dull bean-counters, or cast as honest and law-abiding followers. These stereotypes are hard to shake, despite advertisements and social media attempting to turn around existing perceptions with creative and futuristic images of "extreme" accountants (CIMA, 2010).

These competing qualities projected by the media create confusion about the identity of MAs to those outside the profession and lead management professionals themselves to ask a number of fundamental questions: Who are we? What do we want to be? Do we have a leadership role in such uncertain times?

Overall, CIMA members and senior managers and managers in HR, IT, marketing and engineering described their two top issues. The majority of 1,381 issue statements broadly fell into the four bundles of obstacles.



Obstacle 1: Limited confidence from accounting training – Seeing as leaders

In the confidence stakes, CIMA members indicated that they often lack the self-confidence to take on a leadership role and that they are observed by other professionals as "not interested" in doing so. This can be seen as lacking ambition from outsiders.

In the CIMA QUT study, 19 per cent of issue statements (266 out of 1,381) pointed out that accounting training practices often drive this perception. According to CIMA members, they were "being taught as just accountants who keep the record" and "not trained to look for solutions outside their brief". The traditional emphasis on "accounting standards", being "process-driven" and "short-term" analysis often hinders MAs from thinking outside the box and translating numbers to strategic solutions. CIMA members particularly felt that they need more commercial exposure and entrepreneurial thinking to break out of the old accounting moulds, and to boost their confidence.

The second issue relates to MA's emerging roles. MAs are often negatively perceived as professionals who are "too broad", but "not sufficiently technical". CIMA members, as well as industry

'Accountants in movies and the media are typically portrayed as boring, dull bean-counters. These stereotypes are hard to shake'

Getty Images

managers, agreed that MAs need "in-depth" finance/accounting knowledge as well as "wider" management skills. Transcending their hard skills with leadership, responsiveness, adaptability, communication and soft people skills was identified as critical to future success, but also as areas where MAs often lacked training opportunities and experience.

"Management accountants are placed by an organisation on a ladder to move up towards success. These people need to improve their communication, problem-solving and business competencies. They should be better prepared and skilled for leadership positions." (HR manager, manufacturing industry, India)

In all, the respondents in the CIMA survey emphasised the need for both hard and soft skill development, and the support to build their confidence and knowledge so that they could "see" as leaders.

Obstacle 2: Resistance in organisations – Influencing as leaders

According to 10 per cent of issues statements (145 out of 1,381), an additional obstacle is the perception that MAs do not adequately understand business and operations. Without the breadth of knowledge and experience in a wide spectrum of business areas, MAs find it difficult to gain cooperation and trust from other business areas. Industry managers felt that MAs "block operational initiatives" based on costing rationales, while MAs suggest that dealing with non-financial decision-makers is challenging as they often ignore figures. However, both groups agree that MAs need to "get out of the office" to learn more about hands-on business.

'Members argue that they need to convince senior management that MAs are "right-hand" advisers'

Most of all, CIMA members argue that they need to convince senior management that MAs are "right-hand" advisers, thus promoting MAs' value-adding role and strategic capability. An overall suggestion to overcome the resistance was that individual MAs need to train themselves to translate numbers into strategies and to use their influencing skills "to get the message across". By working their way into the hearts and minds of management, MAs can become critical players in strategy formulation.

"They are advisers to operational managers and executives. They need to prove that they understand the

business and have the ability to influence the business and communicate in the right way to get the message across." (CIMA member, senior management finance, construction industry, Australia)

Obstacle 3: Limiting external image – Being seen as leaders

The inherent image of the accounting profession and the lack of recognition of MAs have become a tough obstacle to MAs, particularly since the financial crisis, according to 21 per cent of statements (290 out of 1,381). Internally, CIMA members raised concerns that they are badged as "just accountants" and "bean-counters" rather than as leaders. Externally, industry managers expressed that accountants are perceived as neither "accountable" nor "accurate", and even as "unethical" after the financial crisis. Some core qualities of accountants seemed to have turned unfavourably against the leadership image of MAs since the recession.

"I suppose they (MAs) need to fight the stigma of being associated with financial accountants, in that they clearly have different characteristics and attributes more suited to leadership roles." (Senior management, technology industry, UK)

According to CIMA members, a major reason for this perception is the lack of differentiation of MAs from financial accountants. Consequently, business communities misunderstand MAs' strategic roles.

"Irrational prejudices from a misunderstanding of the worth and value of management accountants." (CIMA member, senior management finance, public sector, UK)

A strong issue raised by CIMA members is the misconception that financial accountants and their qualifications (e.g. CA and CPA) are superior to MAs. MAs are often seen as a "second cousin" number-cruncher or "soft alternative", according to the CIMA QUT study, instead of being recognised as business strategists. This underlying perception seems to hinder MAs in securing CFO and CEO positions in a competitive market. According to 130 CIMA members and 30 industry managers, strategic and value-adding roles of MAs and the CIMA brand need to be marketed worldwide to overcome the misconception.

Obstacle 4: Unstable (opportunistic) global market – Selling themselves as leaders

Thirty-one per cent of statements (428 out of 1,381) relate to global market and its impact on the MA profession. Since the financial crisis, there has been a general loss of confidence and trust in financial markets. Industry managers indicated that MAs' skills are perceived as being unable to predict financial futures accurately and to interrelate analysis with company-level decision-making. The unpredictable global market, with fewer job opportunities, has become a hard-yard obstacle for MAs to face.

'The financial crisis boosted MAs' roles in cost control, strategy formulation, forward thinking and business improvement'

However, 158 statements from CIMA members suggest that they are optimistic about the profession, because while industry managers perceived that the image of accountants generally was damaged by the financial crisis, it did not particularly impact MAs, or possibly even increased the awareness of MAs' contribution as the key to organisational survival. By comparison, only 47 statements from CIMA members were concerned with negative impacts, such as distrust and redundancy at work. In comparison, industry managers were split almost equally, stating 73 positive/nil and 68 negative impacts on the future professional identity of MAs.

"The recession has offered MAs the opportunity to demonstrate how we can add value to a business by behaving more as a business partner, interpreter and communicator of forward-looking strategies and profitability business decisions." (CIMA member, self-employed, retail, UK)

Some CIMA members said that senior managers now spend more time with their MAs discussing strategies and results. The financial crisis boosted MAs' roles in cost control, strategy formulation, forward thinking and business improvement. However, CIMA members felt that they now need to provide more timely forecast, risk management, contingency planning and corporate governance roles in this unstable market.

"The recession has enhanced the importance of management accountancy even more than it was previously." (Non-CIMA member, senior management, accountancy, USA)

"The recession has shown that management accountants are willing and flexible and have a can-do attitude. I have had the misfortune to be made to feel that my qualification was second grade by chartered accountants and now I feel that I was right – I am the best placed to succeed." (CIMA member, senior management, accountancy, UK)

It is a good time for well-prepared MAs to position themselves as leaders, stepping up to the obstacles of "seeing", "influencing", "being seen" and "selling themselves" in their workplaces. The future desired qualities and emerging strategies for professional identity of MAs will be available in a later 2012 report.

References "Management accountants' skills match those of leaders", Insight, CIMA, June 2010.
"Risk manager or risque manager?", Research Executive Summaries Series, volume 6, issues 2, CIMA, 2010.

What you learn on the...
Business analytics and Risk management for finance professionals Mastercourses

Course speaker: Aubrey Joachim, FCMA, CGMA, past president of CIMA, is a business and management accounting practitioner

The two courses I am conducting for BPP are part of the continuing professional development (CPD) programme that is integral to the success of management accountants. While management accountants are able to receive a strong technical grounding, it is the broader skill set of CPD that gives them the confidence to contribute to the success and financial position of major organisations.

Business analytics is a day-long course that looks at how finance professionals can contribute to a company's bottom line by exploiting the vast data sources that are available today. A key area looked at is the management of big data, and how organisations can exploit all parts of this trove of information – after all, if it is used properly this information is a potential gold mine.

Management accountants are best able to exploit this asset because they are equipped with the skills, competencies, tools and techniques for extracting as much insightful information as possible from data. As such, they are not just able to present the outcome, as seen in financial reports, but have a sense of what the numbers mean in the wider context, which for a company could be areas such as the environment, economic conditions or the competitive landscape. Thus, the data needs to be looked at in multiple contexts.

If this is done successfully management accountants can then take the next step and look at how the data can be used to predict what will happen next. That becomes gold in the hands of a competent management accountant who has the background and understanding, and now the tools and techniques, to develop predictive analytics.

The challenge arises for CIMA to change the mind-set and soft skills of members so that they are able to recognise the value and communicate to management teams how this material can be best used in an organisation. Although management accountants may have strong technical skills, they will

Getty Images

still need to develop the means to convey how an organisation can be transformed and how they can play a key role in transforming it. I'm writing a book on the subject called *Business Analytics for Finance Professionals: The Opportunity for Finance Transformation*, which explores how these aims can be achieved.

Finance professionals have the prerogative and remit to collect and analyse, and ultimately exploit, all kinds of organisational data, but often there are hurdles to this happening. The finance department is too often heavily committed to the ledger, financial reports or balance sheets to take part in transformational work. So a consequence is that the management accountant is not able to be an effective partner to management in developing outcomes the organisation is seeking.

This course makes clear that these obstacles can be overcome, especially if finance professionals can be both a coach and mentor to lead the management team into the new landscape. That's why, besides the analytical skills and competencies, the coaching and presentation skills of management accountants have to be developed. We also have to develop the mind-set of the management accountant to simultaneously understand the needs of the organisation and be able to think outside the box in order to produce solutions.

That's best understood by having a handle on issues affecting an organisation's capabilities, such as how people work, and therefore understanding human resources analytics. It could be an understanding of the drivers affecting the revenue stream using economic indicators as far away as a potential economic downturn in China. It could even be through the use of regression analysis, combining multiple variables to come to a predictive conclusion.

The sum of all these elements is that analytics can be a powerful tool for opening up the mind and viewing the organisation through a much wider gauge than just through the P&L account or the balance sheet.

Risk management for finance professionals, also a day-long course, addresses the issues of how finance professionals can and must play a major role in the management and mitigation of risk in organisations. The course is a response to the fact that risk is increasingly coming under the purview of the CFO. It covers a number of key questions, such as how does risk management work? What is an enterprise risk management framework? How can risk be costed? How does an organisation understand its risk appetite? And how are risks reported to different audiences?

It discusses the fact that the biggest risks facing organisations are strategic. Recent examples, such as BP's Gulf of Mexico catastrophe, demonstrate how strategic decisions in the boardroom led to a culture of sacrificing safety standards in pursuit of bottom-line improvements, and ending in disaster. In this case, what started as a strategic risk became an operational risk.

Another good example is Kodak, which fell into receivership after it failed to recognise that the industry was changing, but doggedly stuck to its view that photography would not change. Now an old-established company has disappeared.

Both courses, which will be run in London in October, address topic areas that will play a major role in the transformation of finance.

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

CIMA global events

Past events

Ethics discussed at member/student forum

A CIMA Ethics Breakfast Forum was held recently in advance of the release of the Institute's "Managing Responsible Business" report. The event, held at the Carlton Hotel in Singapore, included presentations from Tanya Barman and Professor Mak Yuen Teen from the National University of Singapore. These were followed by a panel discussion at which both speakers were joined by Thomas Thomas (executive director of Singapore Compact for CSR) and Simon Wright (lecturer from Nottingham University). Forty CIMA students and members witnessed the discussion, which was followed by a networking session.

Pictured: Derek Barnes, chairman of CIMA Global Markets Committee; Irene Teng, CIMA regional director, SE Asia and Australasia; Harold Baird, CIMA president; R Dhinakaran, CIMA Singapore branch president

President's Dinner shines a light on value of the CGMA designation

May, Singapore

Outgoing CIMA President Harold Baird highlighted the value of the CGMA designation and CIMA's thought leadership reports as he addressed members at a recent President's Dinner in Singapore.

The trip to Singapore also saw the presentation of a prize to the winner of the CIMA Global Student Writing Competition, Toh Eu Jin. At the President's Dinner, members were treated to a four-course meal and offered the chance to take part in a lucky draw.

Student roadshows are hailed a success in the lead-up to exams

April/May, UK

More than 60 students attended CIMA's roadshow of paper-specific workshops, which were designed to prepare students for the May exams. The first event was presented by Roger Bentley, F3 tutor, in Manchester on 16 April. Roger referred to examples of previous papers and pre-seen material to illuminate how the syllabus has appeared in past papers, and to give insight into what to expect in the May exam. That event was attended by 30 students and received positive feedback from all who attended.

Performance management tops China discussion

May, China

More than 90 financial experts participated in a CIMA management workshop in Chengdu. The topic was performance management and speakers included Ng Seow Kong, FCMA, CGMA, as well as members of a local software business – each of whom shared their experience and knowledge of performance management.

Coming events

UK

Bank of England's view of the economy 2012 – joint event with AAT
11 July, 6.30pm
National Skills Academy in Financial Services, Norwich NR2 4TP
Visit www.cimaglobal.com/eastmidlandsandeastanglia

Introduction to the Bribery Act and review of recent developments in money laundering
12 July, 6.30pm
Wyboston Lakes Conference & Training Centre, Wyboston MK44 3AR
Visit www.cimaglobal.com/eastmidlandsandeastanglia

Management accounting update – adding value beyond the numbers
8 August, 9am
Reading
Cost: £599 +VAT (£539 +VAT for CIMA members)
This Mastercourse will introduce delegates to current hot topics in management accounting, as well as give updates on budgeting, management reporting and control.
Visit www.cimamastercourses.com/MAUA or email mastercourses@cimaglobal.com

Topic: Commercial skills for finance professionals
6 September, 9am to 5pm
London
Cost: £599 +VAT (£539 +VAT for CIMA members)
This Mastercourse will show delegates how to become a true business partner.
Email mastercourses@cimaglobal.com

Finance and funding in an NHS Trust – joint event with AAT
12 September, 6.30pm
Birmingham Chamber of Commerce, 75 Harborne Road, Birmingham B15 3DH
This event will look at what is required and the type of issues that have to be dealt with on a daily basis from a financial perspective in order to successfully manage and maintain the budgets and operational efficiencies of a large-scale NHS Foundation Trust.
Contact Julie Witts at region.four@cimaglobal.com

Negotiation skills
13 September, 7.30pm
Future Hotel, Cardiff Bay, Hemingway Road, Cardiff CF10 4AU
Attend this event and develop your skills and succeed in negotiations. Everything is negotiable and every negotiation is unique. Learning the basic concepts of negotiation and the theory behind it will provide a strong foundation from which to develop your skills as a negotiator.
Contact Suzanne Allen, on +44 (0)117 960 9734 or email region.two@cimaglobal.com

Professional ethics and the Bribery Act – joint event with AAT
15 September, 9.30am
Kingsley Village, Penhale, Fraddon, Cornwall TR9 6NA
What does business ethics mean to me? What exactly are professional ethics? How can it affect you in your job? Ethics is becoming more and more important in the battle for public trust.
Contact Suzanne Allen, on +44 (0)117 960 9734 or email region.two@cimaglobal.com

Area planning day
22 September, 10am to 4pm
Holiday Inn Filton, Filton Road, Hambrook, Bristol BS16 1QX
This event is open to all members and students and is your opportunity to give your feedback and views on how we can promote CIMA locally, including what events will be held within the area during 2013.
Contact Suzanne Allen, on +44 (0)117 960 9734 or email region.two@cimaglobal.com

Competency-based interviews/interview tips
27 September, 6.30pm
The Arden Hotel, Coventry Road, Bickenhill, Birmingham B92 0EH
This event is being held in association with Gleeson Accountancy Recruitment, Birmingham.
Contact Julie Witts at region.four@cimaglobal.com

CIMA North West Autumn Ball
6 October, 7.30pm
The Midland, Peter Street, Manchester M60 2DS
Cost: members £50; guests £50; new members/fellows plus one accompanying guest at £35 per ticket
Join the CIMA North West Autumn Ball, where you will have a chance to relax and enjoy a luxurious evening of entertainment with the region's most influential individuals.
Visit www.cimaglobal.com/northwestenglandandnorthwales or email region.six@cimaglobal.com

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

The importance of being honest

Robin Vaughan explains how CIMA's conduct process works – and how it ensures everyone gets a fair hearing...

What would happen if a judge threw out a case in a Court of Law simply because it was going on too long or it was getting expensive? A recent case before CIMA's independent conduct committees attracted some publicity and comment, including the view from some that CIMA's Council should have stepped in and stopped the proceedings. Certainly, in the past, councils of professional bodies might have done that but, for good or bad, that is now no longer possible. This article informs members how CIMA's independent disciplinary processes are conducted.

Historically, there have been questions about the ability of professional bodies to discipline their members appropriately for misconduct. This is because of concern that governing bodies would look to protect their own and, indeed, even if they were not looking to protect their own, could hardly be seen as independent of their own in attempting to arrive at a proper conclusion to an allegation of misconduct. Depending upon the amount of public outrage involved, different solutions have been found in different places. For example, solicitors and various branches of the medical and caring professions have lost all control of disciplinary matters and these are remitted to separate and independent bodies.

Professional bodies like CIMA have been allowed to remain responsible for their disciplinary schemes as long as these schemes are independent of its governance and cannot be influenced by governance. CIMA is required to remit major public interest cases to the Accountancy and Actuarial Disciplinary Board (AADB). CIMA Council is responsible for the formation of byelaws and regulations relating to conduct and the disciplinary process but is not allowed, as is common across the professions, to participate in the progress of a complaint. That progress is entirely and necessarily within the remit of the conduct committees. This is taken very seriously and CIMA is inspected from time to time by both the Financial Reporting Council and the Irish Auditing & Accounting Supervisory Authority who have the right to go through all conduct work, to look at all files, to look at all emails, and to interview staff, to ensure the integrity of CIMA's processes.

> The outcomes of complaints must be determined by people not connected to CIMA governance

It is an essential part of the process that persons of independence, not connected to the governance of CIMA, determine the outcome of complaints made against CIMA members. All the conduct committees are composed of at least three persons. Two lay members: one of whom is the chairman and a member of CIMA who is not part of CIMA's governance. Conduct committees are assigned legally qualified independent advisers.

A complainant can be an individual (usually complaining about a grievance) but can also be the Institute itself if information has been received that a member or registered student has done something improper. Sometimes the member or registered student themselves will make this notification as is required by the regulations, for example because they have a court order against them.

CIMA's professional conduct department will process the complaint, seeking further information if necessary and establish whether it might transgress the Institute's Code of Ethics, Byelaws, or Regulations. If it does, the conduct department will draw up a summary of complaint to be put to the person complained against and refer the complaint to the Investigation Committee.

The Investigation Committee determines whether there is a prima facie case to answer which, if proved, would amount to misconduct. If it finds that there is a prima facie case to answer, it will make one of three decisions:

- That the complaint is sufficiently insubstantial to warrant no further action;
- To offer the option of a consent order to accept an appropriate sanction (in which case the matter is concluded); or
- That the complaint be referred to the Disciplinary Committee.

The Disciplinary Committee considers the complaint referred to it, decides whether the allegation is substantiated by the evidence presented and, if so, whether it amounts to misconduct. It will then decide upon an appropriate sanction. Where the member or registered student has been sanctioned, the decision will be published.

The issue of costs is entirely separate. Whatever the costs, they are incurred in furtherance of upholding standards in which public confidence is essential if the word "professional" is to mean anything. Costs awarded are not a sanction or a penalty. The Disciplinary Committee will decide what contribution, if any, the member or registered student should make towards the costs CIMA has incurred in performing its disciplinary function, taking into account the

PRESIDENTIAL ENGAGEMENTS

13-19 July CIMA Cricket Across the Pond Event
21-26 July Global Business Challenge, Sri Lanka

Illustration: Dmitry Litvin/Dutch Uncle

member or registered student's ability to pay. To ensure a fair approach, the Committee will consider whether CIMA's costs were appropriate and reasonable, having regard to factors such as the conduct of the parties (for example, whether a party has caused unnecessary delay, or whether the member or registered student has minimised costs by cooperating during the process) and the complexity of the case.

The average costs for most of CIMA's disciplinary proceedings up to the conclusion of a Disciplinary Committee hearing lie typically between £15,000 and £20,000, depending on each case. However, the need to limit costs cannot be the sole driver of a case and there will always be examples of cases which have cost more. For example, a CIMA case some years ago came in at £137,000 and a more recent one at about £200,000. There is an ongoing case that was remitted by the Investigation Committee to the AADB in 2007 where the costs are currently around £230,000. Costs will always be what they are – each case is different, each case will have levels of complexity and a unique set of witnesses and evidence before the relevant committee.

CIMA's last conduct committee is the Appeal Committee, which is administratively managed by a department separate from the professional conduct department within CIMA to maintain independence and impartiality. A panel of the Appeal Committee comprises two legally qualified lay members and a CIMA member and has an independent legal adviser. It can hear an appeal against the upholding of the complaint by the Disciplinary Committee or against the sanction imposed by it.

The Professional Oversight Board (POB) of the Financial Reporting Council is available as recourse if a member or registered student found guilty of misconduct feels they have not been treated correctly under the process. It can review all that was done, with access to all the papers relating to the case and those involved. Beyond that, the member or registered student might seek to challenge the decision of a conduct committee in the courts.

Fairness and integrity are never driven by cost alone or public relations considerations

These processes sit at the heart of CIMA as a professional body. They are subject to review and external scrutiny. They provide confidence to those who have a grievance about a CIMA member or registered student that their complaint will not be hindered because it embarrasses or inconveniences CIMA or that the costs are too high. Rather, it will be handled in accordance with the rules, no matter how complex or high profile. All complaints are treated equally – fairness and integrity are never driven by cost alone or public relations considerations.

Robin Vaughan is executive director, Governance and Professional Standards

CIMA CEO column

‘Time for the government to make decisions based on data’

We recently partnered with the Institute for Government and Deloitte to produce a report into the use of management information in central government. Albeit the report highlighted some pockets of best practice, it was still noticeable by its absence across the Whitehall landscape. Put bluntly, many government decisions appear to be based on a hunch and not evidence based. When ministers make decisions are they as well informed as possible, do they have access to all the facts, data, costs and evidence to test policies and assess if they are indeed good value for money? I suspect not. I think central government is awash with facts and figures but lacks data that can be honed to be relevant, timely, comparable and actionable.

What would CIMA like to see instead? To start with, we would like to see all decisions made more on the evidence. Certainly politicians must continue to make political decisions but they need to know the facts first. Frankly we would also like to see Whitehall worry a good deal more about value for money than it does currently. Policy should be shaped on what can be delivered and at what cost. Then there is Best Practice – adopting best practice should be second nature for departments. And, finally, risk management needs to be embedded across Whitehall.

What this amounts to is running Whitehall on insightful data that embraces both financial and non-financial data – the cost of providing a public health campaign on obesity and its actual impact on target groups, for example. Management accountants are adept at handling both sorts of data and need to lead the transformation.

Certainly change will not come overnight. We are, as they say, on a journey. But we do not have time to waste now that the years of plenty have come to an end. With 27 pence of every government pound being borrowed, cuts are inevitable. And if we are not able to cut wisely, in an evidence-based manner, we will be cutting where it hurts public services most, not least.

“Management information is not the stuff of headlines, it is not a page turner, but without it nothing else works. You couldn’t run a business without it; you can’t run a government without it,” said Cabinet minister Francis Maude. We would advocate that government should have a clear overall long-term strategy with measurable outcomes based on accurate data. More emphasis needs to be placed on value for money not making “savings”. The public sector is too focused on stopping services through “efficiencies” and not about driving value using information insights.

The report suggests the following remedies:

- Clarify the responsibility for developing management information
- Use non-executives to help create demand for improvement in management information
- Create a new priority on continuously improving value for money.

In summary, the good news emerging from this report is that Whitehall is perfectly capable of developing and using complex information, however it is not standard best practice to do so. I suspect the problem is twofold: in some cases a lack of understanding of the benefits of management information and, in others, a lack of demand to do things differently. We need quality management information which can be translated into practical tools to enable effective decision-making.

Government must build upon its pockets of best practice so that a culture of quality information and analysis becomes the norm right across Whitehall.

‘Government should have a clear overall long-term strategy with measurable outcomes based on accurate data’

Charles Tilley, FCMA, CGMA
Chief executive, CIMA

Illustration: Masao Yamazaki/Dutch Uncle

CIMA and an entrepreneur answer your questions

This month... 'Our firm has no women on the board. Should we join the 30% Club and mandate a minimum number of women at a senior level?'

CIMA versus Pinky Lilani

A. CIMA

There are too few women in boardrooms, but while there is a strong case for having a better gender balance, the winning argument is founded on pure business logic.

Research shows that having women on boards makes business sense. McKinsey found that companies with a higher number of women on their management committees had the best financial performance. Return on equity was 10 per cent greater, operating results 48 per cent higher and stock price growth 1.7 times larger.

Mandating a minimum number of women at senior level can be a fast way of achieving progress and accelerating cultural change. But others disagree with quotas, believing they can create "trophy directors" and even undermine the achievement of those women who have been selected because they were the best people for the job. Many prefer voluntary targets, which is the approach of the 30% Club. But whether you choose a mandatory or voluntary approach, it's essential that you clearly articulate the business benefits from having more women in senior management to the entire organisation. Education is a key part of creating change.

You may also want to review your HR and training policies to encourage more women to progress. The main obstacle is balancing work and family demands. Do you offer flexible hours and working patterns? Does your organisation provide part-time senior appointments or project assignments? And do you have a leadership programme aimed at high-potential females? Empowering and inspiring female employees to reach for the top is a key part of widening your talent pool. The CIMA report "Breaking Glass: Strategies for Tomorrow's Leaders" offers practical advice on getting to the next level. You might also want to encourage female CIMA members and students in your company to join our exclusive women's network, where they can share career tips, seek advice and network with peers. The network and report can be found at www.cimaglobal.com/women.

Sandra Rapacioli is CIMA's R&D Manager

A. Pinky

Joining the 30% Club is a great idea as it seeks to encourage women on to boards and will give you access to key players in this area. It also calls for better gender balance, but does not call for quotas.

I think that to have a mandate for a minimum number of women at a senior level is similar to quotas, which I totally disagree with. They undermine the principle of equality and are patronising to women.

Women want to be there on merit. What I believe your company needs to do is to investigate why there aren't any women at a senior level and take affirmative action to encourage them – mentoring, role models, flexible working (if needed) and networks are all strategies for helping women.

The importance of keeping this subject at the top of the agenda is vital. It has been flavour of the month too often. While changes are taking place, they are too slow. EU's justice commissioner Viviane Reding says that at the current rate of change it would take more than 40 years for women to hold 40 per cent of board positions in Europe's publicly traded companies.

Good networks are vital for women, and encouraging them to join them outside the business is a good strategy.

Someone recently asked me if I wanted to replace the old school boy network with the old school girl network? My response was I would love to replace it with the young school girl network as it is the pipeline of talent that is even more important than those who are there at present.

This is the reason I am involved in the Women of the Future Ambassadors Programme, which connects award-winning women with sixth-formers. In the long run, it is initiatives like this that make an impact, not quotas.

Pinky Lilani OBE is the founder of Spice Magic and founder and chairman of the Inspirational Women's Network, the Asian Women of Achievement Awards and the Women of the Future Ambassadors Programme

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

Illustration: Dmitry Litvin/Dutch Uncle