Financial Management

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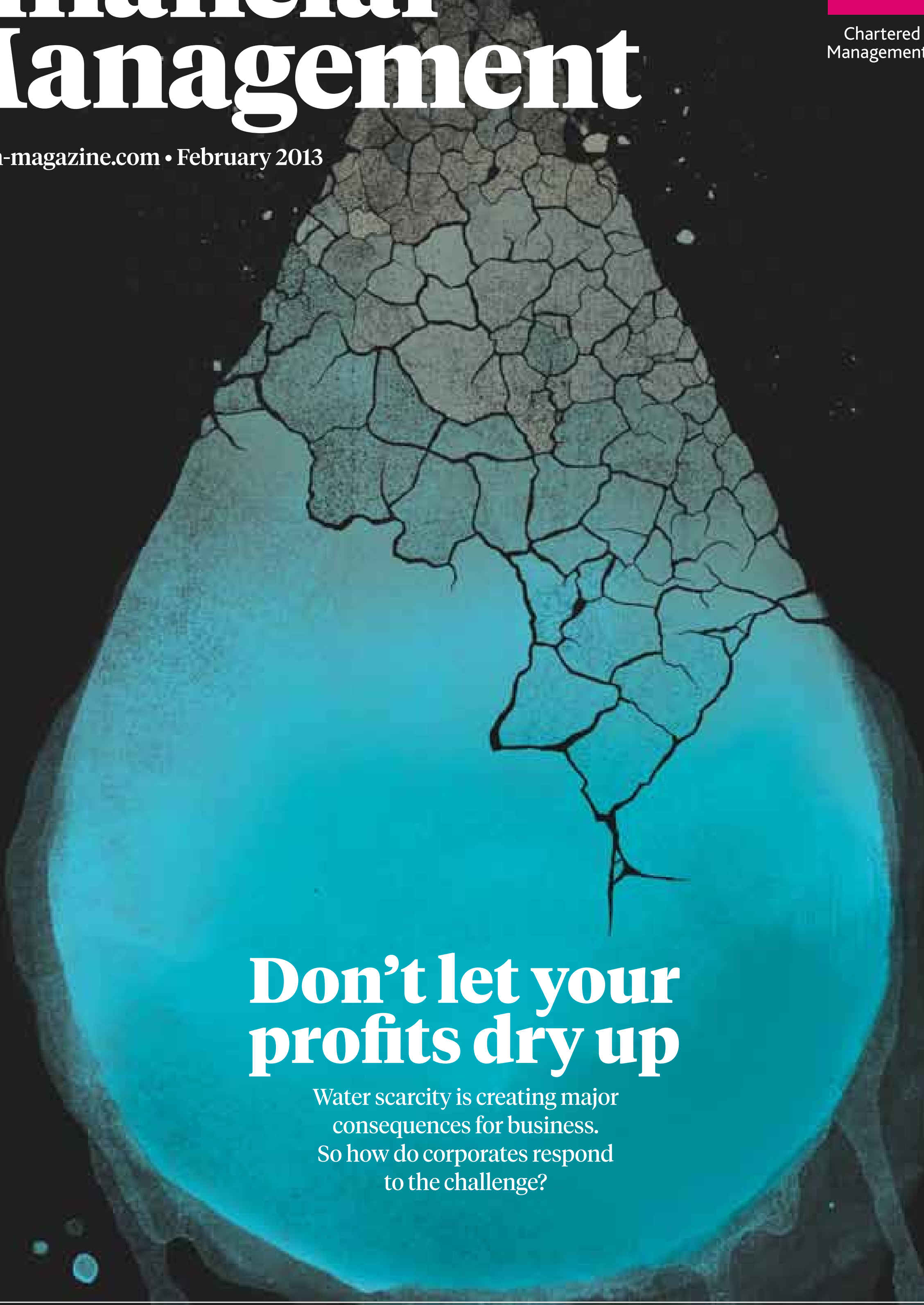


Don't let your profits dry up

Water scarcity is creating major consequences for business. So how do corporates respond to the challenge?

Making the case for a controlled exit for eurozone strugglers

How finance is leading transformation at the Ministry of Defence

The *FT's* Joshua Chaffin on EU-US free-trade deal negotiations

Plus:
The rise of the middle class around the world p14
8 ways to... succeed in mergers and acquisitions p36

A word from the president

Illustration: Masao Yamazaki/Dutch Uncle

‘Employers fired up about global standard for business experts’

The new year could not have got off to a better start. I am writing this article 30,000ft above the ground as I fly back from a heart-warming trip to India. As a son of this vibrant region, I am not ashamed to admit that I soaked up the warmth of the Asian sunshine and the CIMA members and staff I met on my visit. This experience was made even more special by the fact that I was able to celebrate the first anniversary of CIMA’s joint venture with the American Institute of Certified Public Accountants (AICPA) in my country of origin.

The Indian subcontinent was a very fitting location for such a celebration. Why? Because there are strong synergies between the outlook in this emerging economy and that of the institute. Both have a strong tradition and culture. But, at the same time, both have a global vision that is firmly fixed on looking forward and harnessing innovation, dedication and professionalism to achieve long-term, sustainable success.

CIMA’s vision has been greatly enhanced by its work with the AICPA. The aim of the joint venture was to create the world’s first globally recognised management accounting designation – the Chartered Global Management Accountant (CGMA). From the outset, our research indicated that there is a strong demand for finance professionals with both a world-class qualification and a global business perspective.

The take-up from AICPA members reflects this demand. Following the launch of the joint venture, we set a target for 35,700 AICPA members in business and industry to adopt the CGMA designation by July 2013. This target was, in fact, exceeded last October and, with a current total of 37,350, we are optimistic for the future development of management accounting in the Americas. This demand was reinforced by the recent confirmation that CIMA now has a student or member presence in all of the top 100 global brands listed by the world’s largest brand consultancy, Interbrand.

I have spoken to dozens of CGMA designation holders – both CIMA and AICPA members – and have found the energy and excitement surrounding the designation palpable. They understand the benefits of being part of a global community of first-class professionals. And employers are fired up about a global standard for their business experts. Meanwhile, CIMA continues to focus on supporting its members and creating tomorrow’s agenda for sustainable businesses. Since the CGMA launch on 31 January last year, we have produced a range of publications, tools and events based on six overarching themes. Together, these themes address the most critical challenges facing today’s businesses and are based on extensive research and analysis of market conditions.

‘CIMA’s vision has been greatly enhanced by its work with the AICPA’

So far, we have covered ethics and “doing the right thing”, developing the skills and talent to succeed, and utilising contemporary performance management to “make it happen”. This year, we are focusing on risk and innovation, creating resilient business models and turning data into insights and action. This year will be rounded off with a special summit to launch further work on “valuing the human dimension in business”.

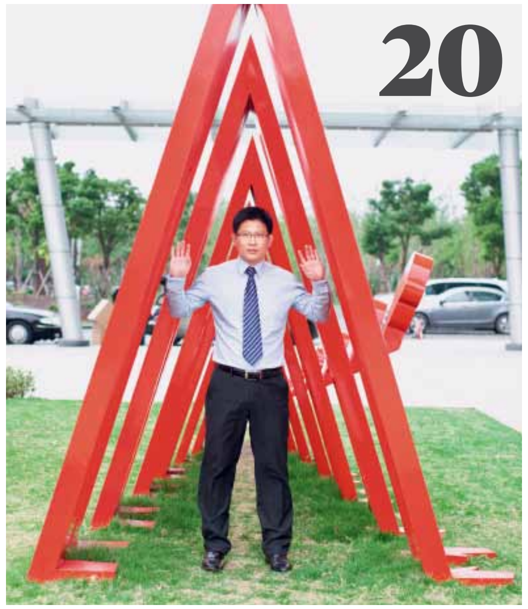
This year also sees an exciting development for our student community. Following an agreement with leading exam provider, Pearson VUE, we have dramatically increased exam accessibility for those studying the entry-level CIMA Certificate in Business Accounting and the Islamic Finance qualification. Today, almost 5,000 exam centres are available to students, compared to fewer than 300 before the new agreement.

With all this in mind, I honestly believe that there has never been a better time for management accountants to showcase their skills, and that there is no better management accountant than a CGMA. CIMA knows this. I believe you all know this. Now it is our job to ensure that the rest of the world knows it, too.

Gulzari Babber, FCMA, CGMA
CIMA president

Financial Management | February 2013

At a glance



Cover illustration
Mike McQuade

Editor's note

One of the most extraordinary facts thrown up in our cover story on water scarcity is that up to a quarter of the profits generated by corporations the world over could be wiped out if the commodity was priced to reflect its availability. With that in mind, companies are starting to produce reports revealing to investors their water usage and future strategies. The resulting demand for data places management accountants on the front line in a new area of uncertainty that will play out in the next few years.

Efforts to reduce trade protectionism could move a step closer if an agreement between the US and EU is thrashed out. These efforts to remove another area of global uncertainty have been ramped up after failure to achieve agreements through the World Trade Organisation. But cultural uncertainties could scupper any deal, argues Joshua Chaffin, Brussels correspondent of the *Financial Times*.

Even individual projects are subject to uncontrollable forces, it would seem. Top of the list of cost overruns prepared for *FM* by the University of Oxford's Saïd Business School is the Canadian Firearms Registry, which saw an initial cost forecast of CAN $2m overrun by nearly 37,000 per cent.

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

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 Furber, FCMA, CGMA
Vice president
Keith Luck, FCMA, CGMA
Chief executive
Charles Tilley, FCMA, CGMA

Director of profile and communications
Victor Smart
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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
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Production manager
Michael Doukanaris

Account manager
David Kershook
Group publishing director
Rachael Stillwell
Commercial account director Hilton Young
Advertising manager
Philippa Mathers

Email: Philippa.Mathers@seven.co.uk
Tel: 020 7775 5717
Managing director
Jessica Gibson
Chief executive Sean King
Chairman Tim Trotter

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www.cimaglobal.com

I worked on ...
Creating sustainable employment in Tanzania

Start date 2011 **End date** 2012

Having worked for 27 years in various positions for the Boots Group (now Alliance Boots) I took voluntary redundancy in 2004, aged 50, to consider new pursuits.

I was given the opportunity to change my career and spent five months working as an English teacher in China before deciding to pursue a career in the charity sector through Mango (Management Accounting for Non-Governmental Organisations).

Having previously worked in Nairobi for five years as the finance director and finance manager of an overseas subsidiary of Boots in the 1990s, I wanted to return to Africa. I initially worked for a small charity in Mozambique called Jacana, before joining Trade Aid's project at Mikindani, a small village in Tanzania 500 miles south of Dar-es-Salaam [the country's largest city], as the volunteer head of finance.

The aim of Trade Aid, a small UK charity, is to improve the lives of the villagers by offering them work in Old Boma, a training hotel that was originally a German fort built in 1898. It provides training for about 30 workers in the village, which they can use to build careers in the hotel industry. The charity also undertakes projects such as refurbishing buildings and setting up a micro finance project in the village.

It has been a hugely rewarding experience because when I arrived (with my wife, who taught English) the project's finances were in a mess. There was no budget and the balance sheet was wrong. There were 10m shillings in the bank, while the balance sheet was showing a loss of 5m shillings.

It has been challenging because of those issues and because it is a very different culture. However, having a CIMA qualification meant I had a lot to offer the role through my previous experience, as well as a personality that is right for this kind of work.

i

Name: Ian Lockwood

Role: Head of finance at Trade Aid project at Mikindani

Industry: NGO

Location: Mikindani, Tanzania

CIMA qualified: 1984

Alamy

Update

Getty Images

Values and ethics hold the key to successful business

The impact of values and integrity on business performance was the topic of two CIMA/Tomorrow's Company lectures in London recently.

Speaking at the CIMA/Tomorrow's Company annual parliamentary reception at the House of Lords, Marks & Spencer chairman Robert Swannell set out how businesses must act with integrity to ensure success in the long term.

Addressing an audience of around 150 business leaders, he said the importance of ethical behaviour was heightened at present, due to declining trust in the financial and political world and a toxic debt of $220trn held by US banks.

Swannell explained that his own organisation's clear stance on "deeper values, integrity, sustainability in business and 'doing the right thing'" is helping it recruit and retain "the very best talent", and he called for all organisations to pay more attention to corporate culture as they seeks to repair the damage from the financial crisis.

Speaking at another CIMA/ Tomorrow's Company lecture in London, entitled "Employee ownership, happiness and business success", John Lewis Partnership chairman Charlie Mayfield discussed the link between "value and values".

He told delegates that "an employee's happiness produces business value and results", adding: "The happiness of all our members relies on their worthwhile and satisfying employment in a successful business. To achieve this we aim to give all partners a relevant, consistent and rewarding experience during their career. This experience is based on the partnership and partners themselves delivering three commitments: taking responsibility for our business success, building relationships powered by our principles and creating real influence over our working lives."

To view a video of Robert Swannell's lecture, visit http://tinyurl.com/b64vuzv

Update

Now on CGMA.org

For those who hold the CGMA designation, the following content is available online:

- One-to-one – Keshav Murugesh, group chief executive, WNS: Charles Tilley, chief executive of CIMA, spends time in Mumbai with Murugesh and writes about his insights on achieving sustainable business success.
Visit http://tinyurl.com/d4xtq4n

- Master the learning curve for a successful start in a new job: After HR and computer training, how do you settle in to a new job? Learning the culture of a company is often far more challenging than remembering your password or learning formal procedures. A survey by Accountemps offers tips to help employees get off to a smooth start.
Visit http://tinyurl.com/a68l5na

- Is your company prepared for the rise of the Asian consumer? Because more multinational companies have expanded into Asia, workers there have acquired more disposable income. By the end of the decade, Asian economies are expected to account for 25 per cent of global consumption.
Visit http://tinyurl.com/anqb9fl

- Five ways to prepare for Europe's "lost decade": The future of the eurozone is more secure than a year ago. But research by Ernst & Young and the McKinsey Global Institute suggests that companies operating in the region shouldn't let down their guard.
Visit http://tinyurl.com/aasv3o9

- Mediocre managers just as damaging as bad ones? Run-of-the-mill managers can quietly do just as much harm as the acknowledged horrible boss, research by the Chartered Institute of Personnel and Development (CIPD) suggests.
Visit http://tinyurl.com/auo44jo

App of the month

Our guide to the best online tools

SlideShark

Business people on the move are increasingly looking to share their presentations using mobile devices. This app allows you to view and share PowerPoint presentations on the iPad and iPhone as they were intended: with graphics, animations and fonts intact.

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Cost: free
Category: productivity
Updated: 18 December 2012
Current version: 2.2.1
Size: 24Mb
Language: English
Developer: Brainshark Inc
Compatible devices: iPhone, iPod touch and iPad
System requirements: iOS 4.0 or later

Update

Fading eurozone fears boost CFO outlook

UK business leaders are more confident about the year ahead, as concerns over the impact of the euro debt crisis fade.

That's the key finding of Deloitte's latest "CFO Survey", which reports that only 22 per cent of CFOs believe a break-up of the single currency is likely, compared with 37 per cent 12 months ago. In addition, few now fear a triple-dip recession in the UK.

Business leaders are particularly confident about monetary policy, which includes interest rates, inflation and the availability of credit – with 81 per cent of finance bosses rating it as "appropriate".

However, they are concerned about government micro-economic policies, stating that they believe the government is not doing enough to create an environment that encourages long-term success.

The areas of greatest concern on micro issues are regulation, infrastructure, and energy and immigration policy, rather than macroeconomic policy.

Despite the improved outlook, Deloitte says this is yet to translate into a change of strategy for large UK businesses.

"The emerging picture is one of businesses that are constrained by low growth and uncertainty, rather than weakness in business models or access to capital," said Ian Stewart, chief UK economist at Deloitte.

"Confidence has returned, but perceptions of economic and financial uncertainty remain high and the greatest worries for CFOs are still the weakness of the euro area and UK economies."

Hot potato
This month's dilemma:

I am a member in business who works for a plc with market cap of £8m. In going over some of the year's numbers from one of our divisions I have discovered a significant fraud. The auditors are due in this week and I am not sure if I should refer this up the line internally or discuss directly with our auditors? Is this likely to be compromising confidentiality at this stage?

Our response:
If there is a legal or professional duty to disclose (refer to Section 140.7 and 140.8), based on substantive facts, you would not be breaching confidentiality and would be upholding the code. It would be recommended to both raise and document the fraud to senior management, informing them of your obligation to discuss with, and not mislead, the auditors (Section 310.2) – where misleading includes "remaining silent".

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

Tanya Barman, head of ethics, CIMA

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Update

Retail banks turn to innovation

Efficiency and productivity will continue to rule the day in retail banking technology deployment in 2013 – although these will be increasingly challenged by the need for innovation and transformation, according to a new report.

The report, from software analyst Ovum, explores the technology strategies retail banks will employ in 2013 as they remain torn between the opposing pressures of cost reduction and the need to invest and transform.

Denise Montgomery, research director of financial services technology at Ovum, says: "Slowing economies, market uncertainty, cost pressure, regulatory impost, squeezed margins, and the search for increased productivity, have become a global backdrop for retail banking. Balanced against this cost pressure is the need for banks to invest in capability to better position themselves in the face of the sweeping wave of digital and social changes."

Indeed, retail banking is increasingly pressed by the need to innovate to stay competitive, largely due to the consumer-driven digital economy and the mobile revolution.

Montgomery adds: "The mobile revolution will shape the innovation agenda in banks throughout 2013. Banks across the board view innovation in the mobile banking and payments space as a critical differentiator. Large and small banks are examining innovation initiatives and searching for best-practice lessons."

Ethical issues in the spotlight

Two major organisations have announced they are currently "cooperating with authorities" over fraud investigations.

Hewlett-Packard has said it is cooperating with authorities after the US Justice Department opened an investigation relating to its acquisition of Autonomy Corp. Hewlett-Packard has accused the software company of misrepresenting its performance before being bought out last year.

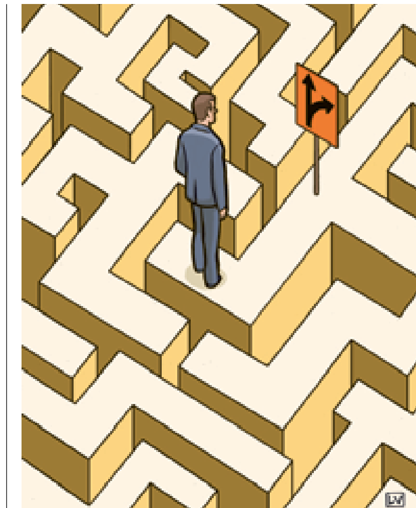
Meanwhile, Rolls-Royce has announced it is working with authorities after the Serious Fraud Office approached it over allegations of malpractice in Indonesia and China.

Rolls-Royce said in a statement that it had "significantly strengthened" its compliance procedures in recent years, including the establishment of a new ethics code, but took a further step recently with the announcement that it will appoint an "independent senior figure" to review its compliance regime and report to the board's ethics committee.

Learn from...
The innovative thinking of Bug Agentes Biológicos

Brazil is the world's third-largest agricultural exporter, but the country has begun to phase out the noxious chemical pesticides that Brazilian farmers use to protect crops. Responding, pesticide supplier Bug Agentes Biológicos has developed a natural alternative. It mass-breeds wasps that are "programmed" to attack only their natural enemies, and has also devised a way to spray them onto soy fields, just as pesticides are spread via airplane. Bug has the only alternative approved by Brazilian agricultural, health, and environmental ministries. It's currently at 100 per cent capacity, with plans to double the acreage it covers – showing the value of innovative thinking.

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



Book in brief

How Do We Fix This Mess?
By Robert Peston and Laurence Knight
Hodder & Stoughton £20

BBC business editor Robert Peston explains how the world got itself into the current economic mess – and how we might get out of it. He looks at the role played by bankers, investors and regulators, as well as governments and consumers, leading into the downturn – and asks how we can move to a more sustainable economy. Here is a synopsis of the authors' arguments:

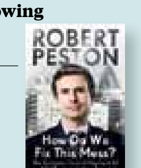
1. The unbroken growth between 1992 and 2008 was based on a number of dangerous illusions, when in fact year after year the UK and the US consumed more than they earned.

2. The financial crash of 2007/8 and the subsequent economic slump in much of the West was the moment that we realised we had borrowed more than we could repay.

3. The leaders of some of the world's biggest financial institutions were as far off the pace as any, blinded to the risks they were taking.

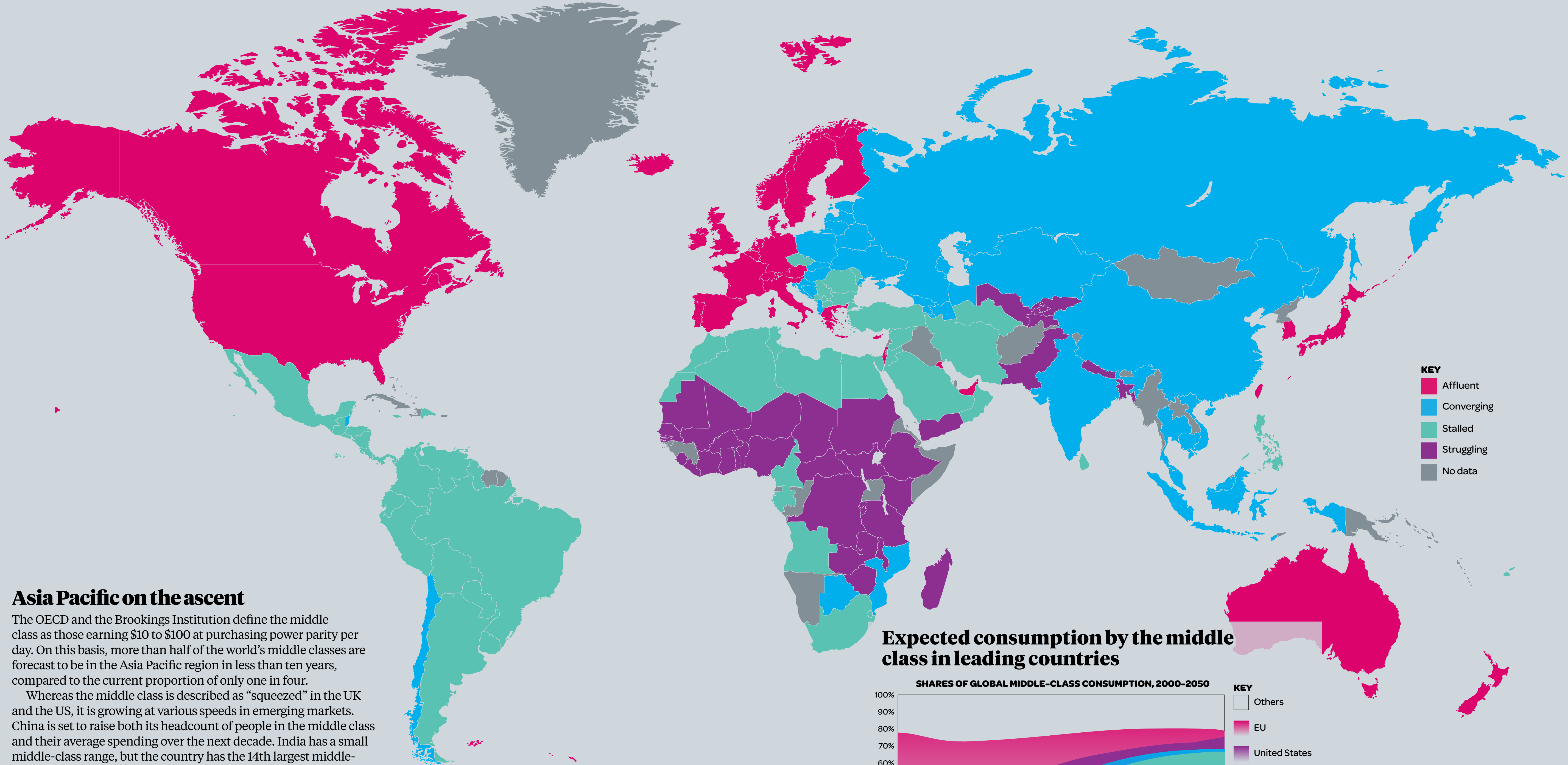
4. As much as addressing bankers' bonuses and City pay scales, we have to boost the banks' reserves, regulate their borrowing and get a handle on the casino markets.

5. What is now required is more rigid regulation and visionary leadership.



The Data

The rising middle class



Asia Pacific on the ascent

The OECD and the Brookings Institution define the middle class as those earning $10 to $100 at purchasing power parity per day. On this basis, more than half of the world's middle classes are forecast to be in the Asia Pacific region in less than ten years, compared to the current proportion of only one in four.

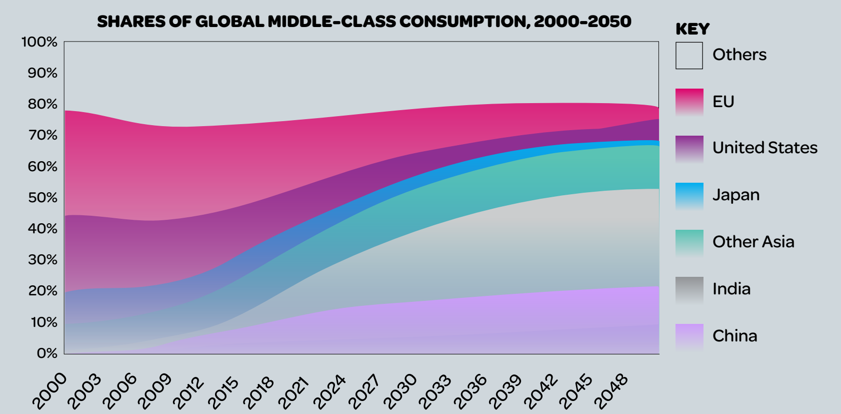
Whereas the middle class is described as "squeezed" in the UK and the US, it is growing at various speeds in emerging markets. China is set to raise both its headcount of people in the middle class and their average spending over the next decade. India has a small middle-class range, but the country has the 14th largest middle-class spending power in the world due to the size of its population, a similar scale of overall spending to that of Canada or Spain.

The red regions comprise the affluent nations; the blue the "converging" regions, where the breadth and density of the middle class is growing rapidly; the green areas are areas where structural income disparities have helped stall middle-class development; while the purple areas are "struggling".

In this map, Brazil is the real surprise and is considered – at least in this treatment – as "stalled".

Source: OECD

Expected consumption by the middle class in leading countries



Forum

From the blogs

Pledging to abide by ethical code

I've never been much of a football fan, but it was hard to miss the story last year about the sacking of Roberto di Matteo, the former manager of the English football team Chelsea FC.

It would be fascinating to see the appraisal KPIs for a Chelsea manager – constant high performance is clearly a critical success factor.

I later attended a CIMA and Tomorrow's Company lecture on employee ownership, happiness and business success, in which Charlie Mayfield, chairman of the UK's John Lewis Partnership, spoke, among other subjects, about the intricacies of pig farming.

The critical success factor of the pig, we learned, is infant mortality rate – mother pigs have an unfortunate habit of rolling over and squashing their young. Charlie went on to explain that taking time to observe the pigs, and breeding from those who roll in a specific way, helped ensure piglet survival. "But," he added, "this is only achievable because we are in this business for the long term."

This sustainable approach also extends to the workforce.

Careers for life do not appear to be an option at Chelsea. It is possible, of course, that the extreme performance management strategy favoured by the boss is to blame; a recent CGMA report, "Talent Pipeline Draining Growth", showed that businesses are missing out on performance targets and growth opportunities as a result of inadequate human capital management.

Perhaps Chelsea owner Roman Abramovich should order a lesson in sustainability with his next Waitrose delivery?

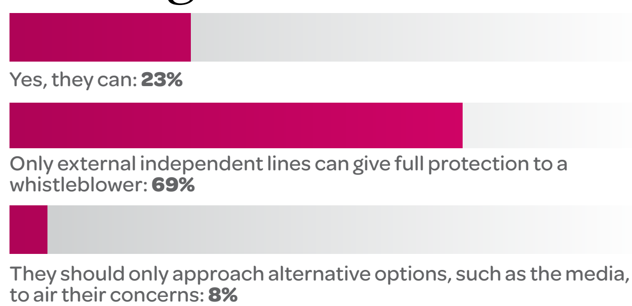
Rebecca McCaffry, ACMA, CGMA, innovation specialist at CIMA.

A full version of this blog can be found at http://community.cimaglobal.com/blogs

Poll of the month

We asked...

Can whistleblowers rely on the internal lines offered by their organisation?



Source: Survey on fm-magazine.com, 2012

Alarm bells and supply chains

I recently was at a United Nations Global Compact meeting, with a focus on supply-chain issues. One of the participants sought to ascertain the credentials of the factories his company was using in China. Each of the 20 factories had been fully audited. When he requested copies of each report to understand the detail, he hit a wall. They weren't kept on file. He found that there wasn't even any clear information on where all the factories actually were. Boxes had been ticked, but backup wasn't apparent. Alarm bells rang, he escalated the issue and within weeks the board had sanctioned an investigation and overhaul of the system. Reputational costs of a scandal related to any labour, health and safety or financial irregularities could be immense. So he and a team flew out, visiting the factories first hand to ensure that due diligence and risk assessment were undertaken.

The individual, to me, acted with true objectivity. Although short-term costs could increase, the overall interests of the business were served and risk in the longer term averted. He no doubt annoyed a few colleagues, but try to imagine the longer-term fallout. The cost to the brand could have been disastrous.

Tanya Barman, head of ethics at CIMA.

A full version of this blog can be found at http://community.cimaglobal.com/blogs

You asked...

I have a problem following Porter's Diamond model on competitive advantage and how it then fits in with the emerging economies.

Porter's Diamond seeks to explain why a given country can give rise to world-class industries of a particular type.

For example, Zambia has a world-class copper industry on account of its possession of readily mined reserves of copper. But it lacks an IT industry because of its relatively poor telecommunications industry (due to state ownership and the huge distances between settlements making it very expensive) and lack of investment in IT education.

It can be used in questions:

- Where you are given data about a country and asked to apply the model, just put the data under the headings.
- Where a firm that has been successful in one country and is thinking of going to another, will the diamond conditions it has enjoyed in the past be present in the new country?
- If a firm from a country is trying to identify its competitive advantage in world markets, you can look at its home diamond conditions and comment on whether they are world class.

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

Opinion

Joshua Chaffin

EU correspondent, *Financial Times*

Regulatory differences could be a major stumbling block as the US and the EU try to forge a transatlantic free-trade agreement

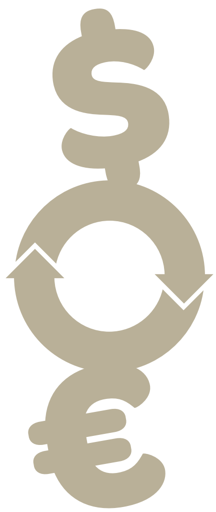
The global economic downturn has seen governments around the world push up trade barriers in a frantic attempt to shield ailing companies from foreign competition. But amidst the protectionist gloom, the coming days could bring a development that would give free-traders on both sides of the Atlantic reason to cheer.

That is when a joint EU-US working group is expected to conclude a report recommending that both sides embark on negotiations for a transatlantic free-trade agreement. The idea has received high-level endorsements in recent weeks from none other than Hillary Clinton, the US secretary of state, and Karel De Gucht, the EU trade commissioner. Business groups have also swung behind it, arguing that even a modest drop in already low tariffs between the world's biggest trading partners would yield huge benefits.

"There is a real economic advantage to doing something," says Peter Chase, a vice president at the US Chamber of Commerce, which has estimated that tariff reductions alone could add $180bn to the parties' combined gross domestic product. The idea of a transatlantic free-trade agreement has been bounced around for decades. Yet it has never managed to take flight. So what is different now?

The biggest answer is that politicians on both sides of the Atlantic are desperate to find tangible ways to improve economic growth. "Everybody is trying to find answers and solutions to create more jobs," said Jürgen Thumann, co-head of the Trans-Atlantic Business Dialogue, which has put a transatlantic pact at the top of its agenda.

The growing momentum for an EU-US deal also reflects another reality: efforts to achieve a global trade agreement through the World Trade Organisation have failed. Countries have been pursuing such an idea under the Doha Round negotiations for more than a decade. But the talks have been frozen for the past two years. As a consequence, countries have increasingly left the Doha table to embark on their own efforts to seal bilateral trade deals. Consider the EU: it saw a sweeping pact with South Korea come into force last year, has nearly completed a similar agreement with Canada and is poised to launch negotiations with Japan early next year.



'The problem is that EU/US disputes over regulation can be quasi-religious when it comes to agricultural and food safety issues'

An EU-US deal would trump all of those in both size and ambition. Trade in goods between the two amounts to more than $600bn a year, while each has invested more than a $1,000bn in the other – far more than either has invested in China.

In addition to boosting those commercial flows, a side benefit of a transatlantic deal is that it would give the EU and the US more clout to set standards for issues such as intellectual property that China, India and other emerging powers would have to respect.

But for all its apparent benefits, there are good reasons why a transatlantic deal may never come to pass. The most daunting may be the different regulatory cultures that prevail on either side of the Atlantic. Because tariffs are already low between the EU and the US, harmonising these regulations may be the biggest benefit for many companies. A carmaker, for example, would be spared the need to endure overlapping technical and safety tests in both markets.

The problem is that EU-US disputes over regulation can be quasi-religious when it comes to agricultural and food safety issues. The EU embraces a "precautionary principle", assuming that things are dangerous until proved safe. The US takes a more liberal approach.

Many in Washington suspect that lurking behind Brussels' cultural caution is a stubborn desire to protect local industries from foreign competition. With that in mind, the US has adopted a wait-and-see approach before committing to serious negotiations on a transatlantic deal. The White House has demanded that Brussels demonstrate its good faith by resolving a trio of food safety issues before it will go forward. Next up is the thorny matter of health standards for tallow, an extract from beef and mutton fat that has both food and industrial uses.

It is hard to imagine that such a vast deal, with sweeping global economic and strategic implications, could come to rest on tallow. But of such things are free-trade agreements made – and broken.

Financial Times Ltd

Aiming high

Ouyang Xia, ACMA, CGMA, finance controller, Rolls-Royce, North East Asia

Interview by Lawrie Holmes

What is Rolls-Royce's working environment?
It is a privilege to work with Rolls-Royce, a great company that is "Trusted to Deliver Excellence". To support delivery of this promise, the company aims to drive business success through people. It is an enjoyable experience to interact with such diverse and talented colleagues. The cutting-edge technology adopted by the company has helped to overcome the barrier of distance. So no matter where you work, you feel connected.

Rolls-Royce's people strategy underpins business growth. The delivery of our strategy manifests itself in a wide range of activities and roles within a global team. The culture of driving high performance encourages people to deliver, and to get recognised and rewarded too.

In my own case, I had two great bosses from business and function reporting lines who supported, engaged and empowered me all the time. I always feel valued, so I really enjoy working at Rolls-Royce.

How is the company performing in China?
Rolls-Royce is a world-leading provider of power systems and services for use on land, at sea and in the air. In recent years it has accomplished significant growth in China in all its business sectors, including civil, marine, energy and nuclear, where the market continues to represent a significant opportunity.

Rolls-Royce Marine established manufacturing facilities in Shanghai with a strong workforce. Workshops have been set up, along with service teams, to deliver comprehensive after-market services to our customers.

We have delivered strong business results in the past few years, but the marine industry is now operating in a very difficult market, exacerbated by the gathering problems and economic slow-down in Europe. Nevertheless, Rolls-Royce is determined to strengthen its China team in order to be better positioned to capitalise on the growth present in that massive market.

In the civil aerospace business sector, 12 airlines in China (including Hong Kong and Macao) are using more than 300 aircrafts powered by Rolls-Royce engines. The RR Trent 900 continues to be the leading engine for the Airbus A380 in terms of through-life fuel burn and emissions. China Southern Airline put Rolls-Royce-powered A380s into service in 2012. In the energy business, Rolls-Royce supplied compressors to the West-East pipeline, and more pipeline compressor business is expected.

Rolls-Royce is also active in the nuclear business by providing instrumentation and control systems to existing nuclear power units in China. Working with customers on long-term support agreements, Rolls-Royce helps to ensure the best maintenance and lifetime care for the reactor.

> 'The culture of driving high performance encourages people to deliver, and to get recognised and rewarded'

How does the working culture differ between Europe and China?
Working in China is very different to working in Europe – a much faster pace of work is expected. Hard work is one of the main themes for office workers, stimulated by opportunities under the dynamic social and business environment in China.

Why did you decide to become a management accountant?
I've always tended to analyse and predict the outcomes of complex issues. I've also been keen to translate those issues into messages that can be understood, and to find out what's behind the numbers. When I was on the fast track of the

Photography by Eric Leleu

international management trainee programme at the Kerry Group [the Irish food giant] I was able to rotate into different roles within financial accounting and management accounting. During that time my appetite for data increased, not only in trying to find out what lies behind data by analysing it from different perspectives, but also by scrutinising the origin of the data. Becoming a management accountant was inevitable.

How did you end up in the engineering industry – what has been your career so far?
I initially studied engineering at university. Later, I realised that being an engineer was not something I wanted to do so I started my early career in project management with Nokia. I developed my skills in that area before being promoted to oversee a sizeable team for the roll-out of the mobile network, as well as servicing customers such as Chinese mobile phone operators CMCC and Unicom.

In 2003, I joined the Kerry Group after completing a masters degree in international finance management at the University of Leeds. The Kerry Group is widely recognised as having a very strong financial management culture, so I joined its graduate programme. It was an unforgettable period in my life. I started learning all over again, working on basics such as book-keeping and all the sub-functions in the main accounts department, including banks, debtors and creditors, and reconciliation.

I continued my finance career with Kerry before joining Rolls-Royce in 2010. Each move has brought me different values and experiences. Working in financial management for an engineering company looks to be the perfect fit for me.

Why did you decide to study for the CIMA qualification?
Following my management experience with Nokia, by the time I decided to study for an accountancy qualification I wanted to undertake one that combined both managerial and strategic disciplines – CIMA was the sole choice in this respect. I still believe it was the right choice. I started the CIMA course when I arrived at the Kerry Group in 2003 and completed it in 2006.

How has the CIMA qualification helped you?
During my CIMA studies I worked at different sites in Europe and Asia, so it was challenging to work and study at the same time. However, it was beneficial for my early career in financial management as it laid a solid foundation by enhancing my accounting knowledge through practice. It helped me to re-shape my understanding of organisations through the operational, management and strategic business framework.

‘Working in financial management for an engineering company looks to be the perfect fit for me’

The strategic focus of the CIMA qualification allows me to easily understand the most senior levels of thinking and the execution of decisions, and it helps me to carry out strategic planning. The skills developed with the CIMA qualification, and supported through CPD, have enabled me to manage performance, and to support and drive decision-making. The breadth of the CIMA qualification brings additional advantages for me as I work across functions such as business development and marketing.

‘Each move has brought me different values and experiences’

Both the Kerry Group and Rolls-Royce are strong partners for CIMA, so to a certain extent they share a similar philosophy and methodology in terms of financial management, even though they are in different industries. The qualification helped me to quickly adapt to the financial network when I joined Rolls-Royce.

What have been your career highlights?
The management trainee programme I joined at Kerry provided me with excellent exposure to the company by moving me through all levels of the organisation, interacting with a diverse and motivated group of people. The additional bonus was making friends everywhere, especially at the head office in Tralee, Ireland, where a bunch of internationals stayed. I enjoyed and appreciated the culture difference between the West and the East.

Setting up a new head office for Kerry in China was my first assignment when I returned. The company's business and technology centre was launched as a result of the acquisition of two local private manufacturing sites. I was responsible for implementing Kerry's management information system, which was essentially a finance job. The post-acquisition integration involved all levels and functions. The business process set-up was an important part of the integration. It was a difficult but interesting experience.

The past two years at Rolls-Royce have been fantastic. As one of the key members of the North East Asia (NEA) management team I was charged with formulating and implementing NEA's business plan and its key performance indicators. For an organisation in transition, I also made a contribution by using my experience from other industries. It has also been exciting to build the NEA organisation with a strong and diversified management team, and to witness the changes taking place successfully, as well as meeting the challenges we faced and continue to face.

Where do you see your career going in the next few years?
Ultimately, I may look to move into general management, but would prefer to do so when I've had more experience in financial management. If I am still with Rolls-Royce, I would be open to moving around to stretch my skills and exposure to the Rolls-Royce business globally.

> 'Don't over-rely on others as you are the manager of your own destiny and no-one else knows you better than yourself'

What advice would you give to today's CIMA students?
Form a career plan at an early stage and stick to it until you achieve your ultimate goal. Of course, you need to be flexible enough to adjust the original plan when necessary as you progress and understand yourself and your strengths better.

We should always try to make the most of the CIMA qualification as obtaining it is tough. Combine theory with practice, because that is important. It is also helpful to listen to the network of senior staff, HR and CIMA members, but don't over-rely on others as you are the manager of your own destiny and no-one else knows you better than yourself.

CAREER LADDER

2010: Joined Rolls-Royce as financial controller of North East Asia (Merchant) and financial controller of motion control and deck machinery business.

2008: Became project manager-Asia, leading the management information system implementation (post-acquisition integration project) at Kerry Asia.

2007: Passed CIMA qualifications.

2006: Appointed financial controller-China, of Kerry Bio-science, based in Shanghai.

2005: Became commercial accountant at Kerry Asia's head office.

2004: Moved to the Kerry Group head office in Tralee, Ireland, as business analyst in the group reporting department.

2003: Began work at the Listowel site of the Kerry Group in Ireland as international finance management graduate.

2003: Graduated from the University of Leeds with an MSc in international finance.

2000-2002: Promoted to assistant project manager, then care project manager at Nokia.

1998: Joined Nokia (Network Division) as project coordinator.

1995: Graduated from the Zhejiang University of Technology.

Illustration by Mike McQuade

Sea change

Corporate profits could be slashed the world over if increasing water scarcity leads to a sharp rise in the cost of basic commodities. Lawrie Holmes investigates how the challenge is being met

There have been many stark warnings about the effects of increasing water scarcity. The United Nations estimates that two-thirds of the world will face water "stress" situations by 2025, while the World Bank has stated that the demand for fresh water is doubling every 21 years.

Against this background, governments and non-governmental organisations alike have pressed for more efficient use of water, especially in extremely dry areas such as Australia and the Gulf region. There is also a growing call that large parts of the private sector, especially in the food, drink and extractive industries, should reduce its water usage.

That challenge has been addressed in some form by hundreds of companies worldwide. Professor Dr Patricia Wouters, founding director of the Dundee UNESCO IHP-HELP Centre for Water Law, Policy and Science at the University of Dundee, says: "Over the past five years I've been surprised by just how much companies have initiated responses."

For finance departments, that means crunching an extra set of data for the reports. Prof Wouters says that corporate enthusiasm for tackling the issue was initially driven by organisations such as the UN. "But three years ago the World Economic Forum started to look at water as an economic issue. Now we are seeing corporates grappling with a complex set of issues they don't fully understand. We are seeing a surge in the number of companies that are producing reports that address their use of water."

The urgency being demonstrated by the corporate sector reflects various phenomena that are impacting on water supplies simultaneously. Extreme weather conditions, such as the worst drought in the US for 50 years, which pushed commodity prices through the roof, are one issue. Another is the exploitation of water resources worldwide, which has led to significant degradation of ecosystems and the goods and services they provide. Fast-rising populations and rapid enrichment in some parts of the world have added to the dangerous mix.

Demand for water is often at its highest in places where availability is low. For example, the so-called Dry 11 of the 31 regions of mainland China provinces create 52 per cent of China's industrial output and 40 per cent of agricultural products. That's according to Trucost, an environmental research group that worked with sportswear manufacturer Puma, the first company to create an economic valuation of the ecological impact of water consumption along its value chain.

> 'We are seeing a surge in the number of companies that are producing reports that address their use of water'

But one of the biggest reasons for water overuse is pricing, which is subsidised in most parts of the world. "More than a quarter of profits of the world's biggest companies would be wiped out if water was priced to reflect its availability," says Dr Richard Mattison, chief executive of Trucost.

A false market

A case in point is Spain's fruit and vegetable exporters, who are responsible for 80 per cent of the water used in what is the EU's driest country, and which also has one of the highest water consumption rates in the world. Dr Milo Jones, visiting professor at the IE Business School in Madrid, says the natural solution to water scarcity in Spain is more efficient pricing of it as an asset. "The problem is, putting the

price of water up would have an adverse effect on the competitiveness of Spanish fruit and vegetables in the export market," he says. Virgilio Oñate, a water specialist at Spain's IESE Business School, says: "Water in Spain is very cheap. It's a political issue."

The EC has warned Spain that it could withdraw funding invested in desalination plants because they were underused due to a lack of competitiveness as a result of the water subsidy. The EC says that Spain is failing to implement EU Water Framework Directive (WFD) requirements, which call for environmental costs to be reflected in the price of water.

Other options are to limit usage, such as water trading. Through the buying and selling of water access entitlements, water trading schemes have been developed in the US, Chile, South Africa and Spain's Canary Islands, as well as some informal schemes in Asia. But there are inherent problems in the system, say observers such as Prof Wouters: "For example, water travels across national or state boundaries, making it difficult to create such schemes."

'The report "Assessing Water Risk" concluded that companies' use of water will be increasingly under the sportlight'

Investor scrutiny

In the 2011 report "Assessing Water Risk", WWF Germany and KFW BankenGruppe concluded that companies' use of water will be increasingly under the spotlight. "It will be open to the scrutiny of society, communities, governments, media and, increasingly, investors," said the report.

Indeed, Dutch pension fund PGGM recently launched a project with Norwegian fund Norges Bank Investment Management to encourage companies in China and India to report on and reduce water risks.

PGGM says that in addition to the agricultural sector, the electricity and mining sectors are heavily dependent on water. The rapid rise in demand for energy – and hence water – in both China and India means that water risks are becoming increasingly significant for investors, says the fund.

BHP Billiton's water strategy

BHP Billiton, the world's biggest mining group, said in its 2012 sustainability report that it had delivered a 29 per cent improvement in the ratio of water recycled/reused to high quality water compared to a target of ten per cent in the base year of 2007.

The company says that all of its operations are required to develop a water management plan, taking into consideration the baseline quantity and quality of water potentially affected, and quantifying the acceptable level of impact to water resources, taking into account regulatory requirements and stakeholder expectations. It also details the preventative and mitigating controls necessary to achieve the acceptable level of impact, with each operation required to implement a monitoring and review programme that verifies the effectiveness of these controls.

The report says: "Our new water target requires all operations with water-related material risks, including volume and quality considerations, to set targets and implement projects to reduce their impacts on water resources. This target recognises the local and regional context of water by including all material risks, rather than adhering to a single metric based on water-use reduction, and allows operations to define the necessary projects that will best address their material water risks.

"By 30 June 2012, BHP Billiton-controlled assets with material high-quality water use or material water risks will establish targets to reduce impacts on water resources in the regions where they operate.

"In accordance with our Environment Group Level Document (EGLD), we are implementing water management plans at all our operations, including controls to mitigate the impacts of water use and discharge.

"Unlike the more developed accounting approach to GHG emissions, there is not yet an internationally consistent approach to water accounting, which adds to the complexity of finding solutions to address water quantity and quality concerns. We are working with the Minerals Council of Australia to develop the Water Accounting Framework, an industry-wide approach to water reporting and accounting. The framework seeks to establish a nationally consistent water accounting and reporting framework for the minerals industry, which will lead to improved data transparency and water management."

'Water trading schemes have been developed in the US, Chile, South Africa and Spain's Canary Islands'

PGGM says an important first step for companies is to monitor their water use and assess their water security. "PGGM has taken the initiative of urging companies to release data on water consumption, water security and water management, as they have for greenhouse gas emissions," says the fund. "An important aim of the engagement project is to encourage a number of leading companies in water-dependent sectors to report water risks so that investors gain greater insight into the strategies required to deal with these risks and seize any opportunities."

First movers

The degree to which companies are prepared to respond to these challenges is mixed. Companies in industries with a high demand for water, such as global beer company SABMiller and sports goods manufacturer Puma, were pioneers in evaluating the impact of water consumption.

SABMiller, the first company to create a corpo-

Sustainability

rate water footprint in 2009, has a target of becoming 25 per cent more water efficient from 2008 to 2015. In its latest report it says average water consumption per hectolitre of lager produced fell to 4.0hl/hl, 5 per cent less than the previous year. "Since 2008, when we first set our target of reducing consumption per hectolitre of lager by 25 per cent by 2015, our water efficiency has improved by 13 per cent," says the group. Andy Wales, vice president, head of sustainability at SABMiller, says: "Those targets are driven down to brewery level targets in every part of the business. Then below that to the packaging hall, the brewing hall and the people who run various parts of our business."

The brewer created an independently verified sustainability assessment matrix (SAM) of ten proprieties. "On water usage it's broken down into: What is your water efficiency? What is your waste water level? What are you doing to understand water risk in the supply chain through water footprinting? What kind of partnerships have you built to protect your water risk and to work with communities on water? So you get a weighted score for your water performance," says Wales. "In addition, two of the nine KPIs in the annual report are water related."

Puma says it is also committed to reducing water consumption by 25 per cent by 2015 from when it began in 2009. So far, total water consumption has fallen from 11.7m^3 in 2009 to 11.5m^3 in 2010 and 11m^3 in 2011. The company says in its most recent report that water consumption per employee had fallen by 8 per cent.

Looking ahead

But it is the broader set of industries reliant on water consumption where the greatest challenges may lie. In an October 2012 briefing for financial institutions on the extractive sector, the UN Environment Programme said: "The incorporation of water risk as only existing in operations, or in a breakdown in daily operations, only partly captures its full risk dimension. There are relatively few studies that have been conducted which focus specifically on water risks in extractive industries. Some financial institutions have published focused reports on the extractive industry and sustainability, but none have yet focused solely on water risk."

Miner Rio Tinto has developed a number of programmes to help achieve performance in the area of water efficiency. It sets a water standard with minimum expectations for each operation when managing water; and delivers a water risk review that helps an operation assess risk and opportunities, and says it provides a holistic approach to water management.

'Companies the world over are responding to the threat of water scarcity'

But achieving water efficiency targets can be challenging. Against a target of a 6 per cent reduction in fresh water used per tonne of product between 2008 and 2013, it increased by 2.3 per cent its fresh water use per tonne of product compared with 2008 in its most recent report.

Companies the world over are responding to the threat of water scarcity, says Claudia Ringler, senior research fellow and deputy division director at the International Food Policy Research Institute. She says that as well as direct responses, such as closed-cycle mechanisms and water-treatment facilities to reduce dependence on water, companies can participate in public awareness campaigns on water scarcity and generally benefit from enforced water quality monitoring. "But with growing climate risks, such as flooding and droughts, some of the previous assessments need to be re-evaluated," she warns.

'SABMiller, the first company to create a water footprint, has a target of becoming 25 per cent more water efficient'

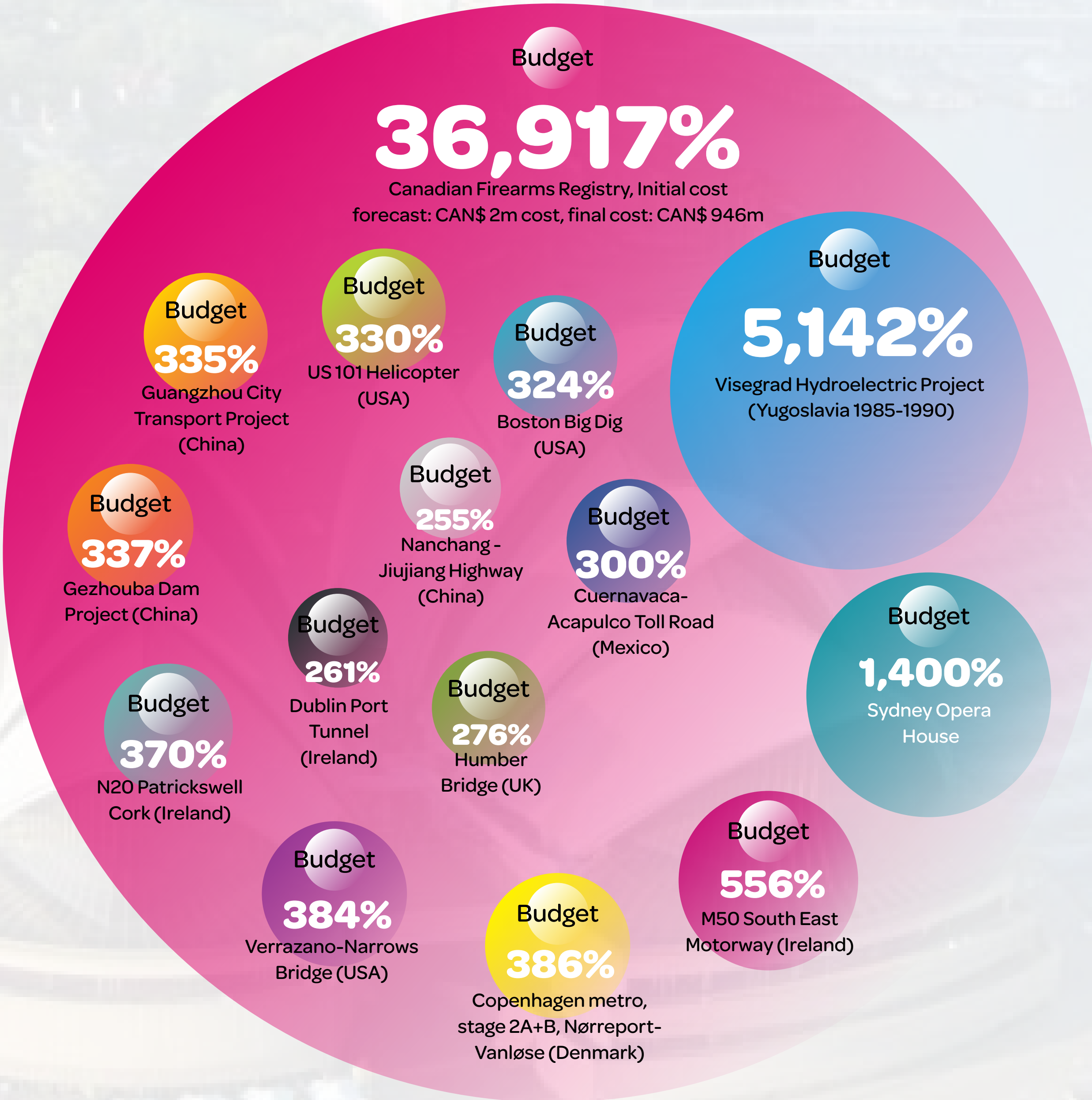
For all the advances made in addressing water scarcity, the fast-changing environmental conditions, combined with a vast array of corporate responses, may limit the ability of companies and investors to monitor water risk effectively.

Stuart Orr, freshwater manager at WWF International, says the result is that many corporates are at a crossroads in deciding on the next step. "Companies are especially reticent on the issue because it is not yet clear what rewards or incentives there are for working in water," he says.

Perhaps we are just at the starting point when it comes to companies defining their water strategy. As this commodity becomes increasingly precious, reports addressing a corporate's water needs and usage are likely to become more and more sophisticated. Inevitably, finance departments will play a key role in collecting the data used in the reports and the form they take. It's time every management accountant understands the issue.

Lawrie Holmes
is the editor of Financial Management

Prime number

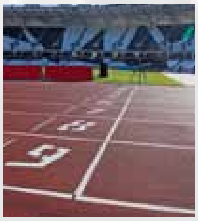


15 of the world's biggest cost overrun projects

Bent Flyvbjerg, professor of major programme management at the University of Oxford's Saïd Business School, says overruns in the order of 50 per cent in real terms are common for major infrastructure projects. He says this is because it is not uncommon for demand and benefit forecasts to be wrong by 20-70 per cent compared with actual development. Public passenger rail and urban projects tend to have especially big overruns.

A study of more than 5,400 IT projects found the average overspend of the starting budget can top...

45%



The average budget overrun for producing the Olympic Games since 1976 has been around...

200%

Sources: Centre for Major Programme Management, University of Oxford's Saïd Business School; McKinsey and the London School of Economics

Getty Images

Leading the charge

Faced with huge demands for cheaper and more efficient support services, the Ministry of Defence is undergoing a ground-breaking transformation programme. *FM* discovers that finance is at the forefront of the change

iStockphoto

Pressure to reduce the cost and improve the efficiency of support services to the Ministry of Defence (MoD) has been growing for some time. In 2010, the MoD set out measures to balance its budget, including a reduction in "frontline costs by an estimated £4.3bn by 2015" in its Strategic Defence and Security Review. The following year, the Levene report "Defence Reform" recommended that public-sector-enabling services should be "delivered as efficiently, effectively and professionally as possible".

The initiative follows numerous pledges by recent UK governments to deliver better value for money in defence spending. It also takes place in the context of the theory espoused by naval historian Cyril Northcote Parkinson that the number of defence personnel increases in inverse correlation to the number of frontline resources.

The current economic conditions mean that "Parkinson's Law" is more likely to be defeated, says CIMA vice president Keith Luck, who is leading a private-sector management team at the MoD to drive change in these areas. "This time the agenda is about fundamental affordability and sustainability, stemming from the ongoing financial crisis; not the traditional jockeying between government departments for a greater share of an ever-growing pie," says Luck, who is also director, strategic programmes, at outsourcing specialist Serco. "This time things really have to change – indeed, are already changing."

A fresh perspective

Ministerial demands for change have increased because globalisation and the knowledge-based economy have both driven a fundamental change in the way that business services are organised, explains Luck. These developments have raised scrutiny on cost and defined the impact that "top quartile" performance for back-office services can have on the public sector, while allowing for improving best practice. "There is a real appetite for change on the part of defence chiefs, and this time around the shared service model offers a robust and proven platform for both catalysing and operationalising change," he says.

The shared service model applied to the MoD is about "horses for courses"; tailoring the approach to the circumstances, says Luck. "It's about the people who actually do the job finding new ways of working together and getting things done better, faster and cheaper. The real power of the shared service model is that fundamental change can happen progressively under the control of management. Sharing services forces change and standardisation, but for mutual adjustment one size will never fit all – any exceptions have to be understood, and be appropriate. It means that support services can be transformed through a root-and-branch reappraisal of both their rationale and design."

'It's about the people who actually do the job finding new ways of working together and getting things done better, faster and cheaper'

The "insertion team", encompassing staff from Serco and sub-contractor Accenture, was mandated to identify opportunities for change from within Defence Business Services (DBS), which brings together £27bn of bills processing, civilian HR responsible for 56,000 staff, vetting and security clearances for MoD and civilian contractors, and the knowledge and information function, which holds internet and intranet services, as well as all library services. "We work as if employed by the MoD, but we have the advantage of being able to 'reach back' to the expertise of Serco and resources of Accenture," explains Luck. "We are implementing the solutions in conjunction with the existing staff and each of us plays a normal executive role within the organisation.

"This gives us the confidence to push back the change agenda in a way that ensures that the service won't fall over for lack of expert and operational sources, should they be required," says Luck. "This is very different to the usual model of consultancy, where either a plan or a turnkey solution is simply handed over to an organisation, often with the support staff having already been cut to the new, steady state level, and is thus unable to cope with the actual implementation process."

Among the challenges identified were concerns that the MoD may struggle to retain scarce skills during the redundancy process, while the scale of change was also noted as a potential cause for concern. A further factor is maintaining effective support to frontline operations, including the flexibility to cope with new military situations. "We believe that the shared services model will enable us to drive the requisite changes, while also retaining control over the overall shape and efficacy of the service," says Luck.

Size of the prize

Luck suggests that while a relative lack of flexibility would be expected in some areas of the budget, due to the long timeline of financial commitments, there is potential for greater flexibility in personnel costs in the medium and long term. "The MoD was originally required to cut its civilian workforce by around 25,000, and the military by around 17,000. These figures have subsequently been revised to 29,000 and 25,000 respectively," he says.

MoD expectations are for savings in line with the Levene recommendations in the order of 25-30 per cent, with customer service continuity, which will be achieved through new and better ways of working, efficiency, skills transfer and new working practices. "Shared services are expected to be centres of excellence, and the exercise as a whole acts as a 'transformation engine' for defence. Beyond the MoD there are also aspirations for business service growth of new services and new customers in defence, across government and in other organisations," says Luck.

Other goals of the exercise are driving up service levels, improving management information, upskilling staff and leaving the department with options at the end of the insertion contract, adds Luck. "The transformation objectives are to create a strong platform with both efficiency and effectiveness, and then to exploit the platform by transforming other services coming into DBS to deliver more value through management information, decision support and analytics, and to enable growth."

The target operating model is based on the DBS portal as a "single front door" for users to access DBS facilities and support, managed by customer service managers and a contact centre with the key aim of improving the user experience. Luck says: "The core of the operating model is the three elements of 'expert services', namely people services, finance services and the defence military intelligence centre of excellence."

Measuring success

Performance management (PM) of the project is based on 23 KPIs, of which four are critical, plus 200 performance indicators, all covered by a service level agreement. The MoD approved business cases for various transformation programmes. For example, bringing in optical character recognition (OCR) technology, while operational excellence and a continuous improvement programme are also part of the PM programme. "DBS is in a benchmarking club and Accenture is participating in the next generation business measures that the government is running. A key requirement is that we mustn't get involved in 'cost-shunting', and must concentrate on reducing process and friction in competing processes," says Luck.

Another way of assessing the project's success has been exposure of the organisation to the dynamics of the outside world, encouraging everyone to see their activity as a service that is competing to provide the customer with something that they want. "This idea of introducing the concept of a market for services is what suddenly changes collective and individual mind-sets, which is is needed to drive the right behaviours on the ground," according to Luck. "Cynics will argue that MoD customers have no effective choice of supplier. But because we are now involved in pitching for work to other government departments, the discipline of preparing bids and benchmarking ourselves against competitor offerings creates a marketing mind-set that permeates the whole of DBS."

'Other goals of the exercise are driving up service levels, improving management information and upskilling staff'

Looking ahead, the DBS's shared service centre will seek to recover a portion of costs by selling services "outside". But this produces an imperative to have a better understanding of costs so that when DBS comes to look at selling its services externally it can justify its costs – for example, by having a clear idea of what an invoice costs. "This also drives good behaviour in terms of data quality – it removes 'duff data' from the system because of the visibility of activities to the senior level," explains Luck. "There is an ambitious growth strategy – military HR may be implemented in late 2013 and we will also consider bringing in other parts of corporate services, so a key activity is determining what the boundaries of the work should be. At present, the work is more to do with basic transactional work."

By Ian Herbert, deputy director of the Centre for Global Sourcing and Services and senior lecturer in accounting and financial management at Loughborough University's School of Business and Economics; and **Dr Andrew Rothwell,** research associate at the School of Business and Economics – assisted by CIMA's General Charitable Trust.

Measuring alignment

A survey of CIMA-trained staff at Shell sought to understand how the qualification's syllabus maps to the company's required competences. Lawrie Holmes reports on the findings

CIMA aims to deliver consistent qualification standards worldwide. Its syllabus requires every CIMA student to study the same papers and progress either by exemption (up to a certain level) and/or by examination.

It is beneficial for CIMA to review its qualification within global organisations to audit its effectiveness around the world. Energy giant Shell, known for its meticulous methods of identifying and developing talent, surveyed some of its CIMA-qualified staff and mapped the accountancy body's syllabus to Shell's required competences.

Given its position as one of the world's largest integrated energy companies, Shell demands a large number of competences from its global workforce. This is increasingly the case as it seeks to develop oil and gas resources in evermore challenging environments, such as deep water and the Arctic, as described by the group's chairman, Jorma Ollila, in the company's 2011 annual report.

The increasing global demand for secure, affordable and sustainable energy, which Ollila also referred to in the report, requires the group to have first-class financial discipline and governance. As a result, management accountants are playing an important role in Shell's development. In this context, Shell partnered with CIMA to understand how CIMA-qualified staff could help the group to meet its aims. This research sought to discover the contribution of CIMA staff to the group's business by mapping the accountancy body's syllabus to Shell's required competences. CIMA's value proposition to employers is of providing financially qualified business leaders who help drive sustainable success. Additionally, CIMA believe that the qualification, and the services that it provides to support the qualification, helps employers to attract people, develop their skills and retain staff. Various case studies about the contribution of CIMA people to their organisations' success have highlighted the value of CIMA.

In order to map out the relevance of the CIMA syllabus, Shell provided CIMA with the competences it needs for the various roles in its finance function. Each competence has five levels of attainment, which consider a combination of intellectual formation and practical application gained mostly through experience. For a professional qualification to add value to its entry-level positions in its finance function, Shell expects the syllabus to primarily focus on intellectual formation.

To gain a shared understanding of the meaning of the competences, CIMA and Shell representatives engaged in a series of communications and meetings.

First, email communications clarified the meanings of the various competences, and a face-to-face meeting was held to discuss an initial mapping. At this meeting, further clarity was provided to the CIMA team about the meanings of the competences. Subsequent mappings were carried out and discussed in detail with the Shell team during conference calls.

The mapping of competences and syllabus was deemed complete and signed off only when both teams were certain that CIMA understood the meaning of the competences in the manner in which Shell intended them to be understood.

The result of the mapping demonstrated that around 65 per cent of Shell professional competences were covered at the basic proficiency by the CIMA syllabus. Those not covered by CIMA were mostly taxation and a few audit/assurance competences, where the CIMA syllabus provided at least some of the competences required.

The conclusion reached was that the CIMA syllabus could form the basis of delivering value to Shell.

The table below summarises the coverage at the various levels.

Group competences	% covered by CIMA syllabus
Risk	75%
Corporate finance	85%
Strategy and partnering	100%
Assurance, controls and reporting	63%
Planning and performance management	100%
Contract management	80%
Tax	33%
Securities operation and management	50%

Illustration by Ray Oranges

The list

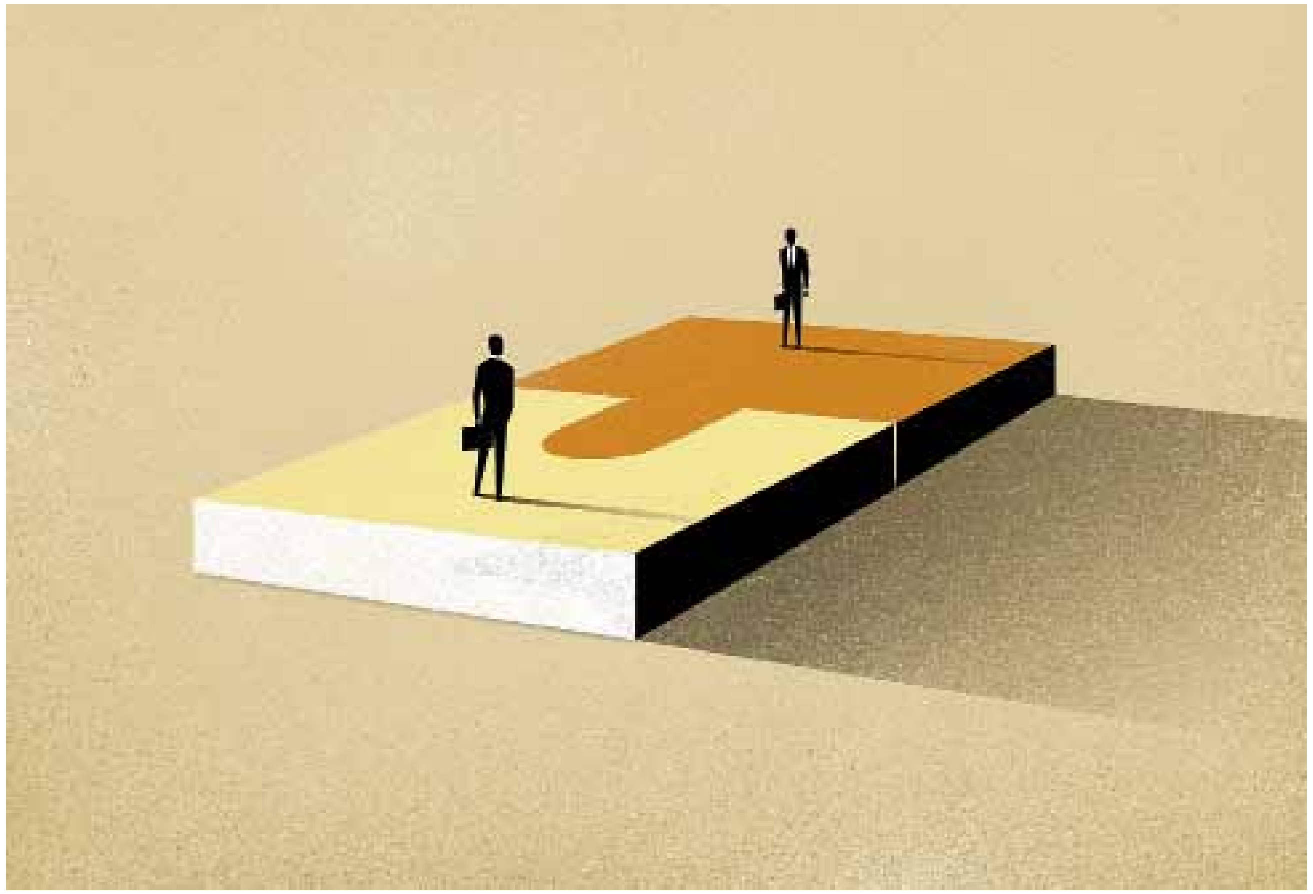


Illustration by Borja Bonaque

8 ways to…

…succeed with an M&A

Because there are so many ways in which merger deals can go wrong, it pays to prepare well and consider both the threats and the opportunities – as well as asking the right questions – says Peter Bartram

1 Understand the reason for the deal

"Understand why the seller is selling and why it makes sense for you to buy," says Professor Philippe Haspeslagh, the dean of Vlerick Business School in Belgium. "Don't confuse the business decision with due diligence, which is about uncovering and assessing all the risks, not just financial ones," adds Haspeslagh, author of *Making Acquisitions Work*.

He advises: "Clarify which risks are negotiable, which can be treated, and which are deal-breakers. Be willing to walk away if the latter are not resolved. Think through the key requirements to deliver the synergies. Be clear about your integration approach and assign responsibilities before completing the deal."

"Look to create incremental value from the M&A," says Andrew Campbell, director of the Strategic Management Centre at Ashridge Business School.

2 Perform great due diligence

A survey by accountants BDO found that in almost one in five transactions due diligence exposed serious problems, says Graham Elsworth, national head of transaction services. "There is an intrinsic link between the quality of due diligence and an effective and speedy integration," he adds.

And it's important to remember that due diligence shouldn't solely focus on the financials. Commercial diligence should explore how the unique selling propositions of the takeover target can benefit the company. Cultural diligence looks at whether the two companies can work closely together. Management diligence assesses whether the target's top team has what it takes to deliver in an enlarged organisation. And legal diligence should include an exploration of whether the target has proper title to all its assets.

3 Develop a clear implementation plan

Be clear about how the acquisition will be incorporated if the deal goes ahead. "The purpose is to create extra value," says Campbell. "But you need to know who is going to create that extra value and get their buy-in to the implementation plan," he adds.

Depending on where the synergies in the deal lie, the extra value could come from financial reorganisation, improved sales integration, enhanced R&D and more effective logistics, or any of a number of other sources. "Are the people responsible for creating the extra value really signed up to the deal?" asks Campbell. "Are they committed and enthusiastic – or are they busy doing other things and taking the view that the distraction cost will be greater than the benefit from the deal?"

4 Keep key people on board

After any deal, there will be people in both companies who are unsettled by the change that is under way.

"At one level that's beneficial," says Campbell. "People are expecting things to change so you can often get change to happen faster than if they weren't."

But unsettled people may also be thinking about their future and looking for jobs elsewhere – and it's usually the best people who can move most easily. "The ones you don't want to lose, you need to reassure quickly – literally in the first week of the deal," says Campbell.

"You should be visiting people to reassure them. They will want to see somebody senior – and they'll be watching closely the tone of your voice and your body language as you seek to reassure them."

5 Focus on the financials

Inevitably, the finance director will be tasked with scrutinising the target's financial potential. That will mean examining the target's accounting policies and deciding whether they are reasonable for the industry in which it operates. Hunt for any exceptional items that may have distorted the target's revenue, profitability or value in recent years. Determine whether the target has any contingent liabilities that could impact on future value.

Nigel Birks, FD of MeetingZone, which provides audio and web conferencing services, has been on both the buying and selling side of M&A at the company. He warns: "If a target has been preparing itself for sale for some time, look out for under-investment, especially in capital items and staff."

He adds: "As you get to within two or three weeks of signing, make sure you have up-to-date results. Even if they do not have accounts, nearly all businesses should be able to tell you their sales figures to within a few days."

6 Handle international deals with care

Negotiations are tricky enough when everyone is speaking the same language, but there is an extra layer of difficulty when they are not. There may be cultural differences that affect what people mean when they say "maybe", points out Eleanor Wilkinson, director at Livingstone Partners, the investment banking boutique that specialises in cross-border transactions. "And let's not even start on accents."

She advises: "Capture key points in a written presentation or a follow-up document that can be referred back to."

7 Listen selectively to advisers

Most deals will attract a retinue of professional advisers, including lawyers and investment bankers. But Campbell warns that advisers often have a vested interest in a deal going ahead – they earn larger fees. He says: "Take on board their technical advice, but try not to be over-influenced by their enthusiasm."

It's important to assess the true value of a deal in the light of an objective view of the facts. "That may not always be easy to do at an 8.30am meeting when advisers are saying the deal is fantastic," Campbell warns.

8 Follow through after the deal

As soon as you have full access, don't trust previous due diligence. Focus on the reality so that you are not managing a fiction, advises Haspeslagh. "Clarify the leadership as soon as possible and put gatekeeping in place to shield the acquired company from well-meaning volunteers in your own organisation," he says. "Focus first on getting the business back to work and back into the market. If it was a cost-driven acquisition, be willing to invest in a consultant-supported process to deliver the benefits fast.

"But if it is a top-line motivated acquisition, skip consultants, put teams together and involve both sides, so people own the decisions. Integration is key – like any change process in need of leadership. Don't declare victory too soon."

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

Study Notes

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Paper P2 Performance Management

Candidates should perform a series of checks before and after answering each question to satisfy themselves that they will achieve the maximum score warranted by their technical know-how

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

Recent articles in *FM* and *Velocity* have explained that candidates very often have the technical knowledge to answer a question, but fail because they don't approach it systematically. The post-exam guides also identify common errors that are often not technical. When tackling a paper, and each individual question within it, candidates need to follow a strict routine. Before you put pen to paper, you should ask yourself the following questions:

- Do I understand what is required? What is the examiner actually looking for?
- Do I understand the verbs that are being used in the question?
- Is there more than one element to each part of the question?
- Have I drawn up a plan?
- Have I allotted the suggested time (one minute and 48 seconds per mark) to answering each part of the question or the question in total? Bear in mind that effective time management is vital. Taking a few extra moments on each question could leave you without enough time to answer the last one that you attempt.

'When tackling a paper, and each individual question within it, candidates need to follow a strict routine'

Lastly, remind yourself that you must not write in red ink or in pencil.

Let's now tackle a question that appeared in September 2012's P2 exam. Its requirements were relatively straightforward, but many candidates failed to follow the principles I have listed and their answers were poor as a result.

HJ and KL are two companies that operate in the same industry. Details for the two companies for the year ended 31 December 2011 are as follows:

	HJ ($000)	KL ($000)
Revenue	1,600	990
Cost of sales:		
Variable production costs	400	400
Fixed production costs (including depreciation – see note 3)	800	390
	1,200	790
Gross profit	400	200
Administration costs (fixed)	120	80
Operating profit	280	120
Non-current assets:		
Cost	2,000	1,800
Depreciation (see notes below)	400	1,230
	1,600	570
Net current assets	200	150
Capital employed	1,800	720
Performance measures		
Return on capital employed	15.56%	16.67%
Operating profit margin	17.50%	12.12%
Asset turnover	0.89	1.38

Notes

1. Assume that the non-current assets of both companies are all used in their manufacturing processes.

2. The two companies use different depreciation policies: HJ depreciates its non-current assets using straight-line depreciation at the rate of 20 per cent of cost with no residual value; KL uses the reducing-balance method at 25 per cent per annum.

3. Included in the fixed costs of the year ended

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31 December 2011 is depreciation of $400,000 for HJ and $190,000 for KL.

4. Each company purchased all of its non-current assets in the month the company was formed. Neither has purchased or disposed of any non-current assets since their original purchase.

HJ has undertaken a benchmarking exercise. The managing director of HJ has been asked to explain the company's results compared with those of KL. The managing director says that the differences are because of HJ's depreciation policy and the age of the company's assets.

You are required to:

(a) Calculate the three revised performance ratios of HJ after adjusting its results to align the age of its assets and its depreciation policy with KL's (nine marks).

(b) Calculate, for KL only, the break-even sales value in 2013, assuming that there are no changes to its cost and selling price structure or to its mix of sales; that there are no purchases or disposals of non-current assets; and that the existing depreciation policy continues to be applied (four marks).

The directors of KL are now considering replacing its non-current assets with new equipment that will be fully operational from 1 January 2013. The manufacturer of the new equipment has offered to accept the company's old equipment as a trade-in at its net book value at 31 December 2012 of $427,500. If this offer is not accepted, KL does not expect to be able to dispose of the old equipment for any value at any time in the future.

The new equipment:

- Has a cost of $1.2m before any trade-in value is deducted.
- Increases the fixed production cost (excluding depreciation) by 30 per cent per annum.
- Reduces the variable production cost per unit by 20 per cent.
- Has a life of five years and a residual value after five years of $285,000. It is to be depreciated using the same method that's currently being used for the existing equipment.

Assume that:

- There is no change to the unit selling price or demand for KL's product.
- KL's cost of capital for this type of investment is 10 per cent per annum.

You are required to:

(c)(i) Recommend, based on net present value, whether or not KL should replace its non-current assets. Ignore taxation and inflation (six marks).

(c)(ii) Discuss the effect on the break-even sales value in 2013 of investing in the new equipment (six marks).

Answering part (a)

Note first that the main verb used in the requirement is "calculate" – ie, ascertain mathematically. Step one is to establish the age of KL's non-current assets as follows:

	$000
Cost	1,800
Depreciation at 25% in year one	450
	1,350
Depreciation at 25% in year two	337
	1,013
Depreciation at 25% in year three	253
	760
Depreciation at 25% in year four	190
End of year four (as shown in question)	570

Step two is to apply a depreciation rate of 25 per cent on a reducing-balance basis to HJ's non-current assets over the four-year period. The depreciation charge will be:

	$000
Cost	2,000
Less 25%, year one	500
	1,500
Less 25%, year two	375
	1,125
Less 25%, year three	281
	844
Less 25%, year four (required)	211
End of year four	633

The cumulative depreciation charge in $000s is therefore $500 + $375 + $281 + $211 = $1,367.

Step three is to redraft HJ's P&L statement:

		$000
Revenue		1,600
Cost of sales:		
Variable production costs	400	
Fixed production costs	400*	
New depreciation	211	1,011
Gross profit		589
Administration costs		120
Operating profit		469

* The original $800, less the previous depreciation of $400.

Paper P2 Performance Management

Step four is to redraft the balance sheet extract for HJ as follows:

	$000
Non-current assets:	
Cost	2,000
Cumulative depreciation	1,367
	633
Net current assets	200
Capital employed	833

Step five is to recalculate the ratios using the new figures identified for return (operating profit), capital employed and turnover:

- Return on capital employed: 469 ÷ 833 = 56.3%.
- Operating profit margin: 469 ÷ 1,600 = 29.3%.
- Asset turnover: 1,600 ÷ 833 = 1.92 times.

Return on capital employed equals the operating profit margin multiplied by the asset turnover figure. This equation offers a useful check (albeit one that earns no marks) that can quickly be made to verify the accuracy of the three ratio calculations. In this case, 29.3% x 1.92 = 56.3%.

Note that you need to use the same profit figures in the two ratios that include the profit. You should also ensure that you use the same capital employed figure in the two ratios that include the capital employed.

Answering part (b)

Once again, the verb used in the requirement is "calculate". Step one is to calculate KL's contribution-to-sales (C/S) ratio that won't change in 2013: C/S ratio: 590 ÷ 990 = 59.6%.

Step two is to establish KL's current fixed costs (excluding depreciation) as follows:

	$000
Fixed production costs: 390 – 190	200
Fixed administration costs	80
	280

Step three is to calculate the depreciation charge for 2013. If KL uses the same depreciation method – reducing-balance – in 2012 and 2013, its depreciation charge will be as follows:

	$
Non-current assets at 31 December 2011	570,000
Depreciation in 2012 (25%)	142,500
31 December 2012	427,500
Depreciation in 2013 (25%)	106,875
31 December 2013	320,625

Step four is to calculate the new figure for fixed costs, including depreciation, as follows:

	$
Original fixed costs excluding depreciation	280,000
Depreciation in 2013	106,875
	386,875

The final step is to calculate the break-even sales value in 2013 by dividing the fixed costs by the C/S ratio: $386,875 ÷ 59.6% = $649,119.

Do check that your answer is sensible and in context – and don't forget the currency sign.

Answering part (c)(i)

Note that the verb in the requirement this time is "recommend" – i.e. advise on a course of action. Step one is to quantify the changes identified in the question as follows:

- Fixed costs, excluding depreciation, are to increase by 30 per cent. This change equates to ($390,000 – $190,000) x 30% = $60,000.
- The variable production cost per unit is to decrease by 20 per cent. This change equates to $400,000 x 20% = $80,000.

The net cash inflow from the above changes is therefore a cost saving of $20,000.

Step two is to construct the following investment appraisal summary to establish whether or not KL should replace its non-current assets:

Year	0	1	2	3	4	5
Capital cost ($)	(1,200,000)					
Trade-in ($)	427,500					
Net savings ($)		20,000*	20,000	20,000	20,000	20,000
Resale value ($)						285,000
	(772,500)	20,000	20,000	20,000	20,000	305,000
Discount at 10%	1.00	0.909	0.826	0.751	0.683	0.621
NPV ($)	(772,500)	18,180	16,520	15,020	13,660	189,410
Overall impact ($)						(519,710)

* Only the incremental figure is required.

Step three is to draw a conclusion. In this case, it's that the investment has an overall negative net present value of $519,710, which means that KL would not wish to replace its equipment.

Answering part (c)(ii)

The verb used in the requirement is "discuss" – i.e. examine in detail by argument. Remember that the discussion must be supported by relevant figures.

Further reading *Adrian Sims, "ASAP: helping you to pass quickly",* Velocity, *June 2011 (bit.ly/VelocityASAP). Norwood Whittle, "Exam dos and don'ts: a marker's advice",* Velocity, *December 2011 (bit.ly/VelocityMarker).*

Paper P2
Performance Management

Step one is to establish the position. In this case, if KL were to replace its non-current assets with new equipment at a cost of $1.2m, this would cause a significant increase in the depreciation charge for the year.

Step two is to calculate the new depreciation figure for 2013. In this case the charge would be $1,200,000 x 25% = $300,000.

Step three is to calculate the new fixed cost for 2013 as follows:

	$000
Original fixed production costs	200
Administration costs	80
Additional fixed costs (£60,000 a year)	60
New depreciation	300
Total fixed cost	640

Step four is to calculate the new C/S ratio. The existing C/S ratio in this case is 590 ÷ 990 = 59.6%, which we calculated in step one of answering part (b). We need to repeat this calculation to help us understand the change that gives rise to the new C/S ratio. Because the variable production costs are expected to fall by $80,000 a year, the new C/S ratio will be (590 + 80) ÷ 990 = 67.677%.

Step five is to calculate the new break-even sales value by dividing the new total fixed cost by the new C/S ratio: $640,000 ÷ 67.677% = $945,668.

Step six is to establish the difference in break-even sales values. Without the investment, the break-even sales value is $649,119. With the investment, it's $945,668, revealing an increase of $296,549 – a 45.7 per cent rise.

When you have finished your answer, you should ask yourself the following questions:

- Have I written clearly? Will a marker be able to read my answer easily?
- Are all the figures clearly labelled?
- Are my calculations legible? Are my workings referred to clearly?
- Is the answer sensible – i.e. does it fit the context of the question?
- Have I used the units specified in the question – e.g. dollars or pounds?
- Have I answered the question, as opposed to answering the question I'd like to have seen?

Paper C02
Fundamentals of Financial Accounting

As with many topics, you would be well advised to practise a methodical approach to answering questions about suspense accounts, which are highly likely to appear in the C02 exam

By Cathy Sibley
CIMA exam marker and tutor at the London Management Centre

A suspense account is a temporary account in the nominal ledger that is used in two main situations. The first is where a trial balance does not balance: a suspense account is opened, which will be investigated and cleared later. The second is when a transaction needs to be recorded, but its exact details are not known – e.g. a receipt has appeared in the bank account but the source of that money is unclear. The entry would be Dr Bank, Cr Suspense until the source of the receipt can be found and the suspense account cleared.

For the purposes of the C02 exam, a suspense account balance will be provided, probably based on the first type of situation I have described, together with a number of errors that have been uncovered. Your task will be to resolve these and clear the suspense account. Although the use of computerised accounting systems has rendered any failure of a trial balance to balance unlikely – or even impossible, according to some – such scenarios are still extremely examinable. Questions involving suspense accounts are a good test of your double-entry skills, requiring you to establish what has happened and decide how to correct it.

Paper C02
Fundamentals of Financial Accounting

Let's work through a typical example involving suspense accounts to show how to tackle such questions in the exam.

A trial balance has an excess of debits over credits of $8,800. A suspense account has been opened to make it balance. It's later discovered that:

1. The discount allowed balance of $6,000 and the discount received balance of $14,000 had both been entered on the wrong side of the trial balance.
2. An item of $500 had been omitted from the sales records – i.e. the sales day book.
3. The purchase ledger control account balance of $467,572 had been included in the trial balance as $474,772.

The first step is to open a suspense account. As there are more debits than credits, you will need to start with a credit balance of $8,800 to balance the account:

Suspense account

	Dr		Cr
		TB difference	8,800

Let's consider each piece of information in turn. Note 1 states that the discount allowed balance of $6,000 and the discount received balance of $14,000 were both entered on the wrong side of the trial balance, so first we need to establish what should have been recorded:

Discount allowed is a debit entry:
Dr Discount allowed: $6,000.
Cr (unknown account):

Discount received is a credit entry:
Dr (unknown account):
Cr Discount received: $14,000.

For discount allowed you must move the entry from the credit side to the debit side. To do this, the account will need to be debited twice: once to cancel the credit entry and a second time to create the correct debit balance. For discount received you must move the entry from the debit side to the credit side. To do this, the account will need to be credited twice: once to cancel the debit entry and a second time to create the correct credit balance.

Rather than record two journal entries, it is just as easy to double the amount of the adjustment. So, if the error is $6,000, use $12,000 (2 x $6,000) to correct it.

Note 1 tells us nothing about the other side of the entry, as shown in our journal entries above. If the opposite side of an entry is not mentioned, it's safe to assume that there are no problems and it will not need correcting.

That leaves us with two correcting entries that do not balance each other:
Dr Discount allowed: 2 x $6,000 = $12,000.
Cr Discount received: 2 x $14,000 = $28,000.

Each journal is completed with the suspense account as the opposite entry:
Dr Discount allowed: 2 x $6,000 = $12,000.
Cr Suspense: $12,000.
Dr Suspense: $28,000.
Cr Discount received: 2 x $14,000 = $28,000.

Now we can update the suspense account:

Suspense account

	Dr		Cr
Discount received	28,000	TB difference	8,800
		Discount allowed	12,000

As the suspense account has not yet been cleared, we must move on to note 2, which tells us that an item of $500 was omitted from the sales records – ie, the sales day book. This error of omission means that neither side of the transaction was recorded and the entry is completely missing from the trial balance.

All that's required is for the correct entry to be recorded for sales from the sales day book:
Dr Sales ledger control account: $500.
Cr Sales: $500.

As you can see in this case, not all errors will require an adjustment in the suspense account.

With no impact on the suspense, we now need to look at note 3 to help clear the balance. It states that a purchase ledger control account balance of $467,572 had been included in the trial balance as $474,772. This is an extraction error, whereby the balance of a ledger account is entered incorrectly in the trial balance. The correct balance must be shown in the trial balance for accuracy, so the balance needs to be adjusted.

The purchase ledger control account needs to reduce from $467,572 to $474,772 – i.e. a decrease of $7,200.

This is a credit balance, so to reduce it you must post a debit. With an extraction error there is no opposite side to the correction, because all other balances are correct. The balancing entry will go to the suspense account:
Dr Purchase ledger control account: $7,200.
Cr Suspense account: $7,200.

Further reading *CIMA Official Study Text – Fundamentals of Financial Accounting*, Kaplan Publishing, 2012.

Now we can update the suspense account again:

Suspense account

	Dr		Cr
Discount received	28,000	TB difference	8,800
		Discount allowed	12,000
		Purchase ledger control account	7,200
	28,000		28,000

The account is now cleared.

Let's work through another example, which does *not* represent a typical exam question.

The trial balance of Cuan, a limited-liability company, at 31 December 2011 did not balance. There was an excess of debits over credits of $19,960. On investigation, the following errors and omissions were found (when all of these were corrected, the trial balance agreed):

1. On 31 December 2011 the purchase of a delivery vehicle on credit for $57,200 had been recorded by debiting the supplier account and crediting the motor vehicle expense account.
2. A cheque for $1,600 received from a customer to whom goods are regularly supplied on credit was correctly entered into the cash book, but posted to the debit side of the sales account.
3. A loan of $40,000 from one of the directors had been entered correctly in the cash book but posted to the wrong side of the loan account.
4. The company had purchased some plant on 1 January 2011 for $32,000. The payment was correctly entered in the cash book but credited to the plant cost account. The depreciation rate for such plant is 20 per cent a year on the straight-line basis.
5. When the company's cash book was reconciled with the bank statement, it was found that bank charges of $380 had not been entered correctly in the bank charges expense account. They had been debited to bank.

You are required to prepare journal entries and write up the suspense account to correct all of the errors listed.

First, we need to set up the suspense account as follows:

Suspense account

	Dr		Cr
		TB difference	19,960

Next, we go through the notes in order again. Note 1 tells us that the whole entry is wrong, so this will not affect the suspense account. The

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supplier account ought to show a credit balance of $57,200, with a corresponding debit balance in the delivery vehicle cost account, and the expense entry must be cleared:
Dr Delivery vehicle cost: $57,200 – to show the purchase of the asset.
Dr Motor vehicle expense: $57,200 – to clear the incorrect entry to expenses.
Cr Supplier account: 2 x $57,200 = $114,400 to turn the debit balance to a credit balance.

Note 2 tells us that a cheque for $1,600 received from a customer to whom goods are regularly supplied on credit was entered correctly in the cash book, but posted to the debit side of the sales account. Here, the correct entry has gone to the cash book but the opposite side is incorrect.

The right entry would have been:
Dr Cash book: $1,600.
Cr Receivables (customer account): $1,600.

But the actual entry was:
Dr Cash book: $1,600.
Dr Sales: $1,600.

The original entry does not balance owing to the use of two debits – instead of showing the reduction in the balance owed by the customer, it has cancelled the sale. This cancellation must be reversed and the reduction in the customer's account balance must be recognised.

The correcting entry is therefore as follows:
Cr Sales: $1,600 – to reverse the cancellation.
Cr Receivables: $1,600 – to recognise the reduction in the balance owing.
Dr Suspense: $3,200 – because the cash book side of the entry is correct.

Note 3 tells us that a loan of $40,000 from one of the directors had been entered correctly in the cash book, but posted to the wrong side of the loan account. The accounts used are correct but the debit and credits are not.

The right entry would have been:
Dr Cash book: $40,000.
Cr Loan account: $40,000.
But the actual entry was:
Dr Cash book: $40,000.
Dr Loan account: $40,000.

The loan account entry must be changed from a debit to a credit, so the amount of $40,000 will be posted twice and then the suspense account is used to balance the entry.

The correcting entry is therefore as follows:
Cr Loan account: 2 x $40,000 = $80,000.
Dr Suspense: $80,000.

Note 4 tells us not only that the $32,000 entry to the plant cost account on 1 January 2011 was incorrect but also that it affects depreciation.

The right entry would have been:
Dr Plant cost: $32,000.
Cr Cash book: $32,000.

But the actual entry was:
Cr Plant cost: $32,000.
Cr Cash book: $32,000.

We need to convert the credit entry to plant cost to its correct debit entry, so again the amount of $32,000 will be posted twice and the suspense account used to balance the entry as follows:
Dr Plant cost: 2 x $32,000 = $64,000 – to recognise the asset.
Cr Suspense: $64,000.

As a result, the balance on the plant cost account will be $64,000 higher, so the depreciation charge needs to be adjusted as follows (this won't affect the suspense account, but it will change the profit and carrying value for non-current assets):
Dr Depreciation expense: $64,000 x 20% = $12,800.
Cr Accumulated depreciation: $12,800.

Note 5 tells us that bank charges of $380 hadn't been entered correctly in the bank charges expense account but had been debited to bank.

The correct entry would have been:
Dr Bank charges: $380.
Cr Bank: $380.

But the actual entry was:
Dr Bank charges: $380.
Dr Bank: $380.

The debit entry needs to be made into a credit entry, so $380 will be posted twice and the suspense account used to balance the entry as follows:
Cr Bank: 2 x $380 = $760.
Dr Suspense: $760.

We can now put all the entries into the suspense account and see that they've cleared the balance:

Suspense account

	Dr		Cr
Credit customer receipt (note 2)	3,200	TB difference	19,960
Loan account (note 3)	80,000	Plant cost (note 4)	64,000
Bank (note 5)	760		
	83,960		83,960

Exam notice

Visit www.cimaglobal.com regularly for updates

November 2012 exam results
The results for the T4 part B on PC exam were released on 13 December 2012. The results for all paper-based exams in November were sent out by second-class post, airmail or email on 15 January.

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 on each question. You should review this information along with the question papers, model answers and post-exam guides to help identify any problem areas. The question papers and model answers can be downloaded free via your "My CIMA" account.

Post-exam guides
Post-exam guides for each of November's papers will be available this month. 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
A script review service is available for November's 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.

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

March 2013 T4 part B on PC and 'extra' exams
The March 2013 "extra" exams will be held on 25-28 February and 1 March. To be eligible to sit these (where available), you must have previously sat, or been absent from, the exams(s) you wish to take, although first-time T4 part B candidates may sit the exam. The closing date for entries was 22 January.

Information for March 'extra' exam candidates wishing to enter the May exams
When you receive your results for March, the institute will send an email advising you of the entry process for the May exams and the closing date for entries. You will have an additional period in which to enter the May exams without being charged the usual fee for late entries.

May 2013 exams
The exams will be held on 21, 22 and 23 May. Online entries will be accepted from early this month. Log into your "My CIMA" account to submit an entry.

The standard closing date for entries is 5pm GMT on 14 March. If you enter after this date, you will have to pay an additional fee. The deadline for late entries is 5pm GMT 21 March.

Exam fees
You must pay your exam fees online when you enter. Full information about CIMA's exam fees for 2013 can be found at www.cimaglobal.com/fees.

Cancellations and changes
CIMA does not accept cancellations and will not refund fees.

To change papers or exam centres, you'll need to email exam.changes@cimaglobal.com and pay the relevant fee.

Pre-seen material for papers at Strategic level and T4 part B
The pre-seen material for the March and May T4 part B exams is available at www.cimaglobal.com/t4preseen.

The pre-seen material for the March E3, F3 and P3 papers is available to be downloaded from www.cimaglobal.com/strategicpreseen.

It's 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.

Syllabus changes to F1 and F2
Students should familiarise themselves with minor syllabus changes to papers F1 and F2 that will apply from May's exams onwards. Full details about these can be found at www.cimaglobal.com/f1andf2syllabuschanges.

Computer-based assessments at Certificate level
Ensure that you read the new calculator guidance notes (www.cimaglobal.com/cbacalculatorguidance) before taking your assessment. For further details about entering for a computer-based assessment at Certificate level, visit www.cimaglobal.com/certificateentry.

If you wish to take Operational or Management level exams in May, you must complete all of your Certificate level subjects by 12 March.

CIMAstudy.com
Visit www.cimastudy.com for information about the institute's online learning resource, which can be used for self-study or as part of a blended approach.

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

Why Europe needs a euro exit strategy p54

The legacy of Kraft's takeover of Cadbury

The takeover of Cadbury in 2010 by Kraft Foods sparked a review of how takeovers are conducted in the UK. It was designed to ensure that the intentions of the offeror are disclosed to employees of the target company and its shareholders

By Jonathan Deverill, partner and head of London corporate group, DMH Stallard LLP

The UK general election of 2010 was as keenly contested as ever. The inconclusive public vote – which, after several days of horse-trading, gave rise to the first peacetime coalition government in the UK since 1931 – has spawned a wealth of comment, while speculation abounds as to the consequences for the next election, planned for 2015. Will we all agree with Lib Dem leader and deputy prime minister Nick Clegg? Is "New Labour" finished? What about the UK's relationship with the rest of the European Union? We don't know the answers to these questions, but we will return to the politicians later.

The election was not the only epic battle in the UK in 2010. In February, Kraft Foods completed its £11.5bn acquisition of Cadbury, the manufacturer of *Dairy Milk*, the *Curly Wurly*, Fry's *Chocolate Cream* and the *Creme Egg*. Kraft first announced that it was considering making an offer for Cadbury in September 2009 and, on 19 January 2010, Cadbury recommended Kraft's offer to its shareholders.

The transaction was to attract controversy for two reasons. First, a long-established, iconic British company was the target of a hostile takeover by a foreign corporation. Second, Kraft initially indicated that it would reverse Cadbury's decision to close the historic Somerdale factory near Bristol. But a week after the takeover had been finalised, Kraft announced on 9 February 2010 that it would be unable to keep the factory open.

The matter was reviewed in Parliament by the business, innovation and skills committee, which commented in its report published 6 April 2010 that: "The takeover of Cadbury by Kraft has highlighted a number of important issues in respect of the way in which foreign takeovers of UK companies are conducted. It has been the catalyst for a wider debate, both in government and in the City, about how takeovers are conducted... Recent experience of the behaviour of boards and shareholders in situations ranging from the fall of RBS [Royal Bank of Scotland] to the Kraft acquisition of Cadbury indicate that it is time to reconsider many aspects of corporate governance."

The Takeover Panel is an independent body, established in 1968, whose main function is to issue and administer the City code on takeovers and mergers, and to supervise and regulate takeovers and other matters to which the code applies, in accordance with the general principles and rules set out in the code.

On implementation in the UK in 2006 of the European directive on takeover bids, the panel was designated as the supervisory authority to carry out certain regulatory functions in relation to takeovers pursuant to that directive. Therefore, although in recent years the panel has operated on a formal, statutory footing, this has had little, if any, noticeable impact on its day-to-day approach; the panel has continued to have regard to a clear set of simple and well-defined principles that have not much changed since 1968, despite significant changes in market practice and the wider corporate and economic environment.

The code is designed principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover, and that shareholders of the same class are afforded equivalent treatment by an offeror. The code also provides an orderly framework within which takeovers are conducted. It is designed to promote, in conjunction with other regulatory regimes, the integrity of the financial markets.

The panel has made it clear that the code is not concerned with the financial or commercial advantages or disadvantages of a takeover, which are matters for the company and its shareholders; nor does the code deal with issues such as competition policy, which is the responsibility of government and other bodies.

The panel announced on 24 February 2010 that, in light of recent commentary and public discussion, and suggestions for consideration from the secretary of state for business, innovation and skills and others, the code committee had decided to initiate a consultation to consider whether certain code provisions and the timetable for determining the outcome of offers could be improved. The panel duly published a public consultation paper – "Review of Certain Aspects of the Regulation of Takeover Bids" – on 1 June 2010.

In October 2010, the panel published its response to the consultation. It had received an unprecedented number of responses, with 97 formal responses being received from a broad range of respondents representing industry, investors, academics, practitioners, trade unions and individuals. The panel noted that the consultation had occasioned a great deal of discussion among market participants and other interested constituencies.

While the panel explained that it had decided not to proceed with a number of possible changes to the code, which it believed would have had the effect of significantly extending the scope of the code, it had considered carefully concerns expressed by certain commentators that:

a It had become too easy for "hostile" offerors to succeed.
b The outcome of offers, and particularly hostile offers, may be influenced unduly by the actions of so-called "short-term" investors.

For example, the business, innovation and skills committee had been told by Jack Dromey, then deputy secretary general of the union Unite, in oral evidence on 12 January 2010 that: "… it simply cannot be right that in the way the market works good companies can be subject to predatory bids that put at risk the real economy and the public interest with no regard for workers, local communities and suppliers. Instead of responsible shareholder capitalism what we have now at its most obscene is nanosecond trading and, in relation to Cadbury, hedge funds in the form of boys wearing red braces who move in to make a quick buck at the time of a British icon's vulnerability."

'It cannot be right that good companies can be subject to predatory bids with no regard for workers, local communities and suppliers'

The panel went on (at paragraph 2.7 of its 21 October 2010 announcement) to say that it intended to bring forward proposals to amend the code with a view to reducing the tactical advantage enjoyed by offeror companies and redressing the balance in favour of the target company. In addition, the panel concluded that a number of changes should be proposed to the code to improve the offer process and to take more account of the position of those who are affected by takeovers, in addition to offeree company shareholders.

Fast-forward to December 2012 and practitioners in the UK public takeover field have been working with the amended code for about 15 months. In March 2011, the panel published and invited comment on its proposed changes to the code in light of the responses to the previous consultation, and – following a response paper published by the panel in July 2011 – the amendments to the code duly took effect on 19 September 2011. In summary, the objectives of the changes to the code in 2011 were fourfold:

i To increase the protection for target companies against protracted "virtual bids" by requiring potential bidders to be identified, and for them to announce either a firm intention to make an offer, or that they do not intend to make an offer, by the 28th day following the date on which they are first identified (or by any extended deadline).
ii To strengthen the position of the target company by prohibiting deal protection measures and inducement fees, other than in certain limited instances (and clarifying that target company boards are not limited in the factors that they may take into account in giving their opinion on an offer).
iii Increasing transparency and improving the quality of disclosure by requiring the disclosure of offer-related fees and of the same financial information in relation to an offeror and the financing of an offer, irrespective of the nature of the offer.
iv Providing greater recognition of the interests of target company employees by improving the quality of disclosure by bidder and target companies in relation to the bidder's intentions regarding the target company and its employees, and improving the ability of employee representatives to make their views known.

The panel stated in its July 2011 response paper that, given the significance of the changes to the code, it intended to undertake a review of the operation of those changes by reference to a period of not less than 12 months following their implementation (subject to the level of bid activity during that period). In the "Review of the 2011 Amendments to the Takeover Code" published on 26 November 2012, the panel analysed the impact of the changes to the code.

In the panel's view, the changes implemented in September 2011 have "operated satisfactorily", and although the panel will continue to monitor certain areas of practice and keep a number of the provisions of the code under review, it does not intend to propose any immediate changes to the code as a result of its 2012 review.

The rule changes designed to protect target companies against "virtual bids" has worked well and there has been a significant reduction in the proportion of offer periods commencing with the announcement of a "possible offer", and a significant increase in the proportion of offer periods commencing with the announcement of a firm intention to make an offer.

While the panel recognises that it is difficult for it to judge whether potential bidders have been deterred by the requirement to identify bidders on the commencement of an offer period, there appeared to have been no significant drop in takeover activity in the 12 months to 18 September 2012, as compared against the preceding 12 months. And of course there has, in practice, always been the risk of a bidder being named prematurely.

While it is difficult to establish a direct link between the rule changes and the proportionate increase in the number of offer periods commencing during the time period under review, the panel states that "these figures appear to suggest that the 2011 amendments have contributed positively towards the code committee's aim of reducing the leakage of information in relation to takeover bids".

'The panel believes that the prohibition on deal protection measures and inducement fees has achieved its objectives'

In a similar manner, the panel believes that the requirement for bidders to "put up or shut up" within 28 days of being identified "has successfully provided the offeree company with the ability to control the duration of the period of uncertainty and disruption following the announcement of a possible offer".

There were no cases in which the panel's executive had refused a request by a target company board for a deadline extension. The "formal sale process" exemption to the "put up or shut up" rule was a potentially valuable addition to the options available to target companies, although the panel believed it was too early to make a full assessment of the operation of that exemption.

The panel also believes that, in general, the prohibition on deal protection measures and inducement fees has achieved its objectives. However, there have been occasions where parties have tried to go beyond what the panel believed was permissible under the exemptions provided in the code.

Bidders will in future need to take care not to go beyond what has now been clarified as acceptable, and in particular it is not going to be possible in future to seek commitments from target company directors – such as to recommend the bidder's offer, or not to solicit a competing offer – in their capacity as such (as opposed to in their capacity as target company shareholders, when they may give undertakings in similar form to other shareholders).

In general, it seems that some "offer participants" have taken a broader view of the scope of the exemptions than the panel, and the panel will monitor the operation of this rule going forward and take appropriate action in the event of further breaches.

Lastly, while the panel reported an increase in the quality and detail of disclosures of offerors' intentions as regards target companies and their employees, it has been disappointed that some disclosures have not been as specific as it would have liked.

It reiterated that it would investigate if either general disclosures were made which were then followed by specific action – in which case it would wish to understand if a plan of action had been formulated which was not set out in the offer documentation – or where a party took action within 12 months contrary to its stated intentions.

Getty Images

Why Europe needs an agreed blueprint for exit from the euro

The eurozone crisis prompts talk of loan defaults and currency withdrawal, but there is a third way...

By Rob Thomas, Cass Business School

The events of the past four years have cruelly exposed the weaknesses in the design of the euro. But they have also revealed how difficult it is to construct a strategic response that balances the interests of growth and solidarity with the maintenance of appropriate incentives for nation states. Although viewed from Brussels or Frankfurt it may appear that there is no viable alternative to the current policy prescription for countries such as Greece, Portugal and Spain, the economic pain in these countries seems to be pushing them to breaking point and shows no sign of abating.

The remedy of internal devaluation to restore competitiveness, austerity to restore sound public finances, and bank deleveraging to restore the financial system to health, constitutes the most complete deflationary economic policy seen in western Europe since the war. Although the euro has taken surprisingly little of the blame, it seems just a matter of time before the electorates of southern Europe demand expansionary polices that are at odds with membership of the euro.

But to date, exit has only really been discussed as the product of a breakdown in relations between eurozone countries. A soft consensus has developed that if a country were to leave the euro it would have to exit unilaterally and float its new currency. Its government would redenominate contracts and bank deposits into devalued local currency, in what would represent a kind of "confiscation by redenomination". Who knows how far the exchange rate would fall.

This hardly sounds like a compelling alternative. But what if the various actors in this drama came to understand that an agreed exit plan for weak eurozone countries was in everyone's interests? Could Europe find a blueprint for exit that worked for the periphery and for core Europe?

In "How to manage a euro exit", using Greece as an example, I propose a blueprint that could, I believe, be seen as a more rational answer than the current binary alternatives of euro irreversibility or the chaos of a unilateral exit.

Under this proposal all euro-denominated contracts governed by Greek law (loans, wages, rents etc) would convert from the euro to a new drachma on a one-for-one basis. The external value of the drachma would be fixed at two drachma to the euro, supported by the ECB and the Bank of Greece, giving rise to a 50 per cent depreciation (although a smaller depreciation could be selected). Most significantly, deposits in Greek banks would be converted to drachma at a rate of one euro to two drachma, preserving their full value.

Maintaining the value of deposits on redenomination is a crucial feature of this proposal. Since bank deposits are instantly movable at face value, an exit that depreciated deposits would require exchange controls and a surprise announcement (implemented over a weekend) to avoid massive capital flight. The risk of contagion to other peripheral countries would also be huge – deposits would flood out of any other country thought to be at risk of a similar fate on an uncontrollable scale.

Preserving the value of bank deposits would make an exit a practical option by negating the need for a surprise announcement or the introduction of capital controls. Greece could take six months to ready itself for "conversion day", giving it time to print bank notes. The proposal would also remove the risk of capital (deposit) flight from other weak eurozone countries. Indeed, this blueprint would encourage depositors in other peripheral countries to repatriate funds already moved abroad.

Preserving the value of bank deposits is also a recognition that while an exiting government can legitimately redenominate domestic contracts, euro bank deposits are ultimately a claim on the ECB, not on national governments. Devaluation by exiting member states would have a corrosive effect on confidence in the whole euro project.

The risks of a floating exchange rate are also clear. The Greek government has a large fiscal deficit and no credibility within financial markets. Without access to international capital markets, foreign exchange traders will assume that Greece will finance its deficit by printing money. The drachma would fall precipitously and then be blown around by subsequent political and economic developments. A wage price spiral could easily develop, pushing inflation up to dangerous levels.

A fixed exchange rate offers several clear advantages. First, it would give Greece's post-exit monetary policy credibility, ensuring that the rise in the price level is a one-off process. Second, it would provide stability for the traded goods sector, encouraging investment. And third, Greek interest rates would continue to be tied to those of the euro, protecting the Greek economy from the risk of a spike in interest rates that might be expected to accompany a floating exchange rate.

'The proposal would also remove the risk of capital (deposit) flight from other weak eurozone countries'

If exit was inevitable, the ECB would surely accept the need to support a fixed exchange rate to the euro because a hyper-volatile drachma and an unstable Greece are in no-one's interest.

The Greek banks would need to be compensated for a conversion on these terms. The Greek government would meet this cost, providing each bank with a "balancing credit" to cover any gap between the value of its assets and liabilities on conversion. The funds would be raised by the Bank of Greece, which would create new drachma, in a similar fashion to the Bank of England's quantitative easing programme.

Based on Bank of Greece figures, I estimate that the cost of applying this enhanced conversion rate for deposits would be 190bn drachma or €95bn with another 70bn drachma (€35bn) to cover the mismatch of banks' assets and liabilities that remained in euros because they are governed by foreign law.

The creation of money to fund the balancing credit should not be inflationary as banks would be required to repay ECB debts with the proceeds (i.e. Greece's TARGET2 liabilities should be repaid in full) and because in a fixed-exchange rate regime the quantity of money in circulation will be determined by demand, not supply (i.e. central bank currency reserves will adjust to meet money demand).

How far-fetched is the idea of an agreed exit blueprint? If a Greek government was elected on a euro exit platform, would it make sense for the rest of the currency block to insist that it goes it alone in a unilateral exit that could have devastating consequences, not just for Greece, but for the eurozone economy as a whole? Or would they agree to work with Greece to successfully manage the transition? The rational answer seems obvious.

Since the euro crisis first hit the front pages three years ago, the eurozone seems to have been confronted with a stark choice of bailouts and austerity for the periphery stretching into the future, or the calamity of a member exit triggering an uncontrollable financial panic. An agreed blueprint for exit to a fixed exchange rate with the value of deposits protected offers an alternative that is worth serious consideration.

Rob Thomas *is an advisory board member of the Centre for Asset Management Research at Cass Business School.*

What you learn on the...

Management accountant to finance director Mastercourse

Andy Wilkes ACMA, CGMA, is a CIMA-qualified accountant with more than 17 years in management and senior management positions. He is also a qualified trainer with 12 years' experience of developing and delivering a wide range of training and development interventions

This series of one-day workshops, spread over the year, is aimed at individuals aspiring to, or recently appointed to, senior positions, such as financial controller or director. Recent research by CIMA makes it clear that the modern senior finance manager needs to integrate technical accounting knowledge with excellent interpersonal and communication skills to be an effective member of the board, whether in the private or public sector.

A significant part of the course focuses on identifying and enhancing these important interpersonal skills to help deal with the new and challenging environment that candidates will soon be facing.

The programme has been tailored by finance, learning and development professionals and aims to meet these needs. The workshops cover the core skills and update you on the leading-edge techniques deployed by successful professionals. They will enable you not just to learn, but also to test and practise techniques in a risk-free environment. I will be running the interpersonal skills workshops set out below, with the other modules being "The journey to finance director – the essential context", and "Project and stakeholder management", which will be covered in a future edition of *Financial Management*.

Communication and presentation skills

Accountants can often be introverted and communication with other members of staff who are not as adept at finance can sometimes be difficult. This course encourages candidates to think more about the communication process and to develop the best ways to get their message across – from things such as body language, stakeholder analysis and the plague that is email. By the end of the workshop it is intended that candidates will understand that often, in order to communicate effectively with everyone around them in the organisation, they need time to develop relationships in the first place.

When it comes to presentation skills, speaking to an audience can put the "fear of God" into many people. So we look at ways of improving your self-confidence when presenting and consider the best methods of delivery to get a clear message to an audience that may not always be on your side.

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

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Leadership and management skills

This workshop gives candidates a refresher on the leadership tools and techniques they may have learned during their studies, but have not had an opportunity to use, combined with the latest CIMA research on leadership best practice.

We look at the differences between management and leadership, motivational theory, team dynamics and power, and how to use it effectively.

Influencing, persuading and negotiating skills

This workshop is useful for brushing up on skills required in negotiation in areas such as procurement, budget and contract negotiations. It's about making sure things go the way you want them to, so we consider how to make your negotiations successful to the benefit of all parties.

The mind-set we try to encourage is that you go into a negotiation confident and well-prepared, and that you are given the opportunity to put those skills in place.

These workshops are seen as the first step on the journey towards success at board level. At the end of each day there is an opportunity for candidates to undertake self-evaluation and spend time considering an action plan for future development.

This need not simply be further training courses, but creative and practical interventions, such as job shadowing a senior manager in the business, going on a secondment or using a life coach.

The danger with all training is that candidates leave the course without putting what they have learned, and the plan that they have created, into action.

CIMA global events

Past events

Five teams make the China country finals of the CIMA 2013 Global Business Challenge

Five teams from top universities in China have made it through to the nationwide finals of the CIMA 2013 Global Business Challenge after triumphing in their regional sections.

Tsinghua University, Zhejiang University, Jinan University, the Southwestern University of Finance and Economics, and the Huazhong University of Science and Technology all won their regional championships in December and will now compete against each other for a place in the global finals in South Africa.

GBC 2013 in China saw 200 more teams register than the previous year – and it has also deepened grass-root engagement on campuses.

CIMA China also organised the CIMA GBC Career Camp, a GBC student convention for the top five teams in each of the five regions.

This GBC Career Camp was held in the city of Qingdao, supported by the major Chinese home appliance maker, Haier, towards the end of January.

The East China regional finals

Arati Porwal, CIMA chief representative, Indian liaison office

Breakfast roundtable with industry heads

December, India

CIMA, along with *People Matters* (a magazine that aims to provide practical aspects of managing, developing and coaching talent in India), organised a breakfast roundtable on the theme "Building Measurability in Human Capital" at The Leela Kempinski hotel recently.

The discussion considered how companies can assess the cost of losing talent and was moderated by S Varadarajan, executive president HR, Tata Teleservices, along with Ester Martinez, founder and managing editor of *People Matters*.

Cost Congress 2012

December, India

CIMA participated in the Confederation of India Industry (CII) Cost Congress 2012 at the Hilton, Chennai. The theme was "Changing Business Model in Turbulent Times – Leveraging TCM". The master session chairman was Mr S Mahalingam, chairman of the CII's Total Cost Management Division and the CFO of Tata Consultancy Services, while the master speaker was CIMA CEO Charles Tilley.

The two-day congress covered two main topics: "Steering Through Turbulent Times" and "Achieving Excellence Through Business Models". The first session was chaired by Dr K A Palia, executive director (finance), Godrej & Boyce, and the second by Mr A N Raman, member of the CII TCM Working Group.

Charles Tilley speaks at the CII Cost Congress

Prize-winners are welcomed by Keith Luck at the CIMA West Midlands dinner dance

November, UK

More than 130 CIMA members, students and their guests joined CIMA vice president Keith Luck at the CIMA West Midlands dinner dance held at the Burlington Hotel, Birmingham. Guests included representatives from AAT, the Professional Institute Network West Midlands and ICM. Four students who came in the top ten in their exams were congratulated by Luck and presented with prizes. Dinner guests were entertained by Alex O'Connor, who sang Michael Bublé and Sinatra swing classics. A raffle raised £635, with proceeds going to the CIMA Benevolent Fund.

Coming events

UK

Achieving excellence (joint event with AAT)
9 February, 10am
ATRiuM, University of Glamorgan, Adam Street, Cardiff CF24 2FN
This is a full-day event held jointly by AAT and CIMA. The following topics will be covered: management accounting research, six sigma and setting goals.
Contact Suzanne Allen on +44 (0)11 7960 9734 or email region.two@cimaglobal.com

Cyber crime
19 February, 7pm
Deloitte, 3 Rivergate, Temple Quay, Bristol BS1 6GD
Any organisation that uses the internet for business is potentially vulnerable to threats from criminals and various other malign factors. These threats give rise to a range of business risks.
Contact Suzanne Allen on +44 (0)11 7960 9734 or email region.two@cimaglobal.com

Growth and inflation prospects and the role of monetary policy (joint event with AAT)
20 February, 7pm
Quality Hotel, Birmingham Road, Coventry CV5 9BA
Glynn Jones, deputy agent of the Bank of England agency for the West Midlands, will set out the background to monetary policy, the role of the bank's agents and detail the prospects for UK economic growth and inflation. Includes a Q&A session.
Contact Julie Witts at region.four@cimaglobal.com or go to www.cimaglobal.com/westmidlands

Real-time information update (joint event with AAT)
20 February, 6.30 for 7pm
Wychwood Park Hotel, Weston, Cheshire CW2 5GP
HMRC is introducing a new way of reporting PAYE, called real-time information. This is the biggest change in payroll for 60 years.
Contact Julie Witts at region.four@cimaglobal.com or go to www.cimaglobal.com/westmidlands

Finance in football
20 February, 6.30pm
Palm Court Hotel, Aberdeen AB15 7YX
Join us to hear Duncan Fraser, chief executive at Aberdeen Football Club, discuss football club challenges in the current economic climate, and the hurdles to be jumped in delivering the club a new stadium. It will be preceded by an informal and short CIMA Aberdeen Branch annual meeting.
To book a place(s) at this event and for full details of all local events go to www.cimaglobal.com/scotland

Bank of England: an overview of the economy
25 February, 6.30pm
Hallmark Hotel, Ferriby High Road, North Ferriby, Yorkshire HU14 3LG
Join us to hear a Bank of England representative from its Yorkshire and The Humber Agency give an overview and assessment of the economy.
To book a place(s) at this event and for full details of all local events go to www.cimaglobal.com/northeastengland

Persuasive writing
28 February, 7pm
Britannia Daresbury Park, Chester Road, Daresbury, Warrington WA4 4BB
Do you wish you were more commanding or concise when you write? Would you like more cooperation from colleagues? Could you get ahead further and faster with well-written words? If so, then this interactive event is for you.
Email region.six@cimaglobal.com or visit www.cimaglobal.com/northwestenglandandnorthwales

International VAT issues (a joint event with CIOT)
6 March, 6.30pm
The Kennet Room, The Civic Centre, Reading RG1 7AE
Cost: £5 on the door
Neil Owen of VAT Advisory Services will discuss recent developments in the complex area of international VAT.
Contact Natalia Lada on +44 (0)20 8849 2429 or email region.eleven@cimaglobal.com

Accounting standards
14 March, 7.30pm
Hilton Bracknell Hotel, Bagshot Road, Bracknell RG12 0QJ
This event will discuss the latest position with IFRS and the impact it will have on your organisation. In addition, it will give an overview of the recently issued proposals by the UK Accounting Standards Board on the future of UK GAAP.
Contact Natalia Lada on +44 (0)20 8849 2429 or email region.eleven@cimaglobal.com

Being the difference – how to market yourself
28 March, 7.30pm
Hilton Maidstone, Bearsted Road, Maidstone ME14 5AA
How can you differentiate yourself to be more impressive and effective? How can you use your personal skills to make a difference in your company? Simon Jordan is a speaker on business and marketing and will give you practical advice on how to market yourself better in and out of your company. You will learn how you can make a difference in a changing world.
Contact on Hayley Dove on +44 (0)20 8849 2406, email hayley.dove@cimaglobal.com or visit www.cimaglobal.com/southeastengland

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 ben.jackson@cimaglobal.com

The Institute

CIMA Council members required

There is an opportunity to stand for election to CIMA's Council – Electoral Constituency 5 (north east England); Electoral Constituency 11 (central southern England); Electoral Constituency 15 (north Asia); and Electoral Constituency 16 (south east Asia).

Notice is given that there will be one vacancy on the Council for each of the above CIMA electoral constituencies (EC) following the annual general meeting (AGM) in June.

The term of office for the vacancy will be until the close of the 2016 AGM; elections will be held in March 2013. Nominations for candidates (fellows) to fill the vacancies may be made by six or more members (three of whom must be fellows), whose registered addresses are in the constituency concerned.

Nomination forms are available from Maggie Heasman, head of corporate affairs at CIMA (call +44 (0)20 8849 2235 or email maggie.heasman@cimaglobal.com). Forms may also be downloaded from http://www.cimaglobal.com/About-us/Governance-charter-and-byelaws/Elections/, where further details regarding the ballot process and the role of a Council member may be found.

Nominations must be received on the prescribed form by noon on Thursday, 28 February, and should be clearly marked for the attention of the Head of Corporate Affairs at 26 Chapter Street, London SW1P 4NP. Faxes or scanned copies are acceptable, but must be followed immediately by the signed original.

The corporate affairs department will acknowledge receipt of the nomination form within 48 hours of delivery. However, it is the candidate's responsibility to ensure that their nomination form has been submitted correctly and on time, and that receipt of the form has been acknowledged.

In the event that there are more candidates than the number of vacancies for each constituency, a ballot will be conducted.

Illustration: Dmitry Litvin/Dutch Uncle

CIMA – supporting global accounting standards

CIMA is a member of the International Federation of Accountants (IFAC). Through this membership it is able to contribute to the development of, and convergence to, international standards and guidance, as well as establish benchmarks for high-quality practices by professional accountants. Global standardisation is one of the most important ways in which the public interest can be served – it allows transparency and enables accountants to practise across the world, regardless of where they qualified.

The professional standards and conduct department works to maintain a balanced relationship with the IFAC and to support the CIMA members that sit on IFAC committees.

CIMA must meet the requirements of IFAC's Member Body Compliance Programme, and in order to do so CIMA must submit annual action plans for the IFAC to review. These plans highlight how CIMA is meeting the IFAC's Statements of Member Obligations (SMOs) – global accounting standards to set a benchmark performance in professional accountants. The action plans can be seen at http://www.ifac.org/ComplianceAssessment/published.php.

CIMA, by submitting the action plans, undertakes a self-assessment of organisational activity within the framework of the seven SMOs covering quality assurance, International Education Standards for Professional Accountants (IES), auditing and assurance, ethics, public-sector accounting, complaints and discipline and International Financial Reporting Standards (IFRS). The action plans include stages of development in each activity and availability of resource and scope of work undertaken – providing a clear benchmark for IFAC member and associate bodies. CIMA also feeds into IFAC Exposure Drafts covering strategy, technical policy, guidance, tools and other resources, thereby helping to position management accountancy on a global platform and enhancing the global portability of the CIMA qualification. CIMA members have access to IFAC publications and newsletters through http://www.ifac.org/publications-resources.

CIMA also responds to the IFAC's annual survey of the leadership of its members and other stakeholders on the global issues that are of primary importance. In this way, members input into the IFAC's strategic plan to ensure that it remains focused on the global agenda for accountancy. For 2012, CIMA emphasised the importance of a global ethics agenda to maintain the reputation and credibility of the profession, as well as the need to increase the adoption of international standards.

PRESIDENTIAL ENGAGEMENTS

7 February Honorary Officers Meeting
21 February Executive Committee Meeting

CIMA CEO column

‘Companies need to understand and manage risk’

Are boards slow to get to grips with the true risks to their businesses? Most people would say “yes”, following recent corporate failures and disasters that have dominated global headlines. These range from highly publicised corporate scandals to the G4S Olympic security fiasco, which culminated in army personnel having to police the London games.

But in today’s fast-paced world, how are organisations supposed to keep a handle on risk? And can risk ever be seen as an opportunity, as opposed to a threat? Risk management often focuses on drawing up detailed risk registers and mitigation plans. This can reduce some of the risks, but evidence shows that it does not appear to have been sufficient to head off some of the recent corporate disasters, such as Deepwater Horizon, as well as the failure of many financial institutions during the credit crisis. There are also other factors at play and these tend to be around issues of behaviour and culture.

So where do organisations begin? The recognition that there are both “hard” risks, such as system failures, and “human” risks needs to be fully understood. Research undertaken by Cass Business School on behalf of Airmic revealed that it is the latter that has the potential to tip a crisis into a full-blown reputational disaster.

So while identifying the so-called “softer” issues, such as inadequate leadership on ethos and culture, poor information flows, or ineffective board leadership that might be awkward to address, it is essential to understand the bigger picture in order for organisations to protect themselves. CIMA is building on this research as a member of Tomorrow’s Company Good Governance Forum, which is seeking to develop practical tools in response to the findings of the research.

At a recent CGMA event on reporting risk to the board, an audience poll revealed that 49 per cent didn’t believe that their board received the right type of risk information to enable it to make decisions effectively. The same poll showed that boards have become caught up in operational details and are missing the bigger picture, with more than half saying this, whereas only 24 per cent said that their board focuses on the actual “big risk questions” affecting strategy. Indeed, when asked about their board’s risk conversation, 26 per cent said its focus was on compliance issues, with 23 per cent saying strategic risks and opportunities. So we still have some way to go.

The finance function is diversifying, with management accountants leading the way. It is becoming increasingly apparent that there needs to be a step-change in the board’s focus on risk, and management accountants are providing the vital link. The development of the integrated reporting framework by the IIRC, in which CIMA is heavily involved, aims to break down “silo” thinking, which in itself helps organisations to see the bigger picture. As boards scramble to get ahead of the curve, their finance teams can reassure them on the appropriate risks to take, safe in the knowledge that there are measures in place to provide a timely warning should any situation change.

But risk should also be seen as an opportunity. In the current economic climate companies have no option but to actively seek out new opportunities, including in emerging markets. Too much caution is a risk in itself to long-term sustainable success. Constant reinvention and seizing opportunities are important to the long-term survivability and success of any organisation. Identifying the main enablers for an innovative corporate culture, while at the same time balancing growth, is crucial and CIMA is carrying out research on this. We are looking at how companies can be innovative while managing risk and we will begin this journey via round-table discussions with expert academics and practitioners, and one-to-one interviews with senior CEOs/CFOs in high-profile organisations. Understanding the changing environment and how this is driving a review of business models is important and CIMA is working on tools and a framework to address the issues. We will also be launching a spotlight page on this critical topic this month at www.cgma.org/innovation.

I strongly believe the companies that actively embrace innovation while understanding risk will be the ones that achieve long-term sustainable growth and business success in 2013 and beyond.

Charles Tilley, FCMA, CGMA
Chief executive, CIMA

‘There needs to be a step-change in the board’s focus on risk, and management accountants are providing the vital link’

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Charles Tilley writes a regular column for *CGMA Magazine*, entitled “One-to-one: Top tips from the boardroom”. For his latest column, visit http://tinyurl.com/d4xtq4n

Illustration: Masao Yamazaki/Dutch Uncle

CIMA and an entrepreneur answer your questions

This month...

'I've just completed my final CIMA exam and have a great business idea. Should I follow my dream and go it alone?'

CIMA versus George Graham

A. CIMA

One of the great benefits of studying CIMA is that it doesn't tie you to a career in accountancy – as a business qualification it can open all kinds of doors. Many CIMA members run their own business, and a recent survey showed that around 33 per cent of members work outside traditional finance roles.

This is not to say that your business has to be non-financial in nature – you could consider working as a member in practice, providing services to businesses without being a direct employee. CIMA runs a variety of support and CPD events for members in practice and those who are thinking about going it alone. Visit www.cimaglobal.com/mips for details.

Perhaps your business idea is not directly related to accountancy – CIMA members work in industry, commerce, management consultancies and banks, as well as non-profit and public-sector organisations.

Without getting into the risks and benefits of setting up a new business venture, it is important to consider your position carefully. Students tend to focus on the examination aspect of the CIMA qualification, but you also need to think about the professional experience element. Do you have sufficient work-based practical experience to gain CIMA membership? If not, will your business idea help you achieve the experience you need? In these uncertain times it pays to have the security of a highly regarded professional membership to fall back on should your venture prove unsustainable.

That said, there are all manner of exciting opportunities. Business TV shows, such as the UK's *Dragons' Den*, highlight the importance of "understanding the numbers", and the experience and knowledge you have gained through studying for CIMA will never be wasted. At the very least, your skills will save you money on accountancy fees.

Rebecca McCaffry, ACMA, CGMA, innovation specialist at CIMA

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

A. George

In 2009, I left my finance job at PwC and went it alone. Three years later, my business – Wolf & Badger – has two London stores, a thriving online business and even a summer store by the sea in Montenegro.

Running my own business has been incredibly rewarding. However, don't dive straight in. It's important to appreciate the realities: it may take years before you personally make much money; for my first few years I was certainly earning a lot less than my salary in finance. Second, the work-life balance becomes virtually non-existent; I am often up in the middle of the night sending emails, and virtually all my "free-time" is spent thinking or talking about work.

My first suggestion is to do your research. Don't think that you can't test your market and gain feedback on an idea while still holding down your day job. Only once you have gained complete confidence in your idea should you actually quit your job.

Once you've made the leap, my top tip is to try out new ideas related to your core business. Don't be afraid to try ten small things and have only one succeed. Focus on that one success and then try ten more; gradually you will make steps towards differentiating your business from the market through continuous innovation; each of those successes will combine into making your business unique, much as we have at Wolf & Badger by pioneering and developing the concept of "serviced retail".

My final piece of advice is that while it may be possible to set up a successful business on your own, finding a business partner that you can trust and work well with can be extremely beneficial. I work with my brother, Henry. It's great to bounce ideas off each other and I would have struggled to set up Wolf & Badger on my own. So while you're still employed and testing out your idea, why not keep your eye out for a potential business partner too.

George Graham is the founder of fashion retailer Wolf & Badger. He was the 2011 CBI Young Entrepreneur of the Year

Illustration: Dmitry Litvin/Dutch Uncle