

Finance & Management



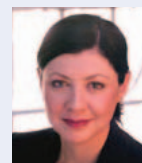
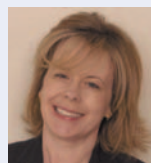
February 2006 Issue 130 Price: £5.00

The monthly newsletter for members, with news, views and updates on current topics

Faculty of Finance and Management

Do you really want to be a finance director? Good. Here's how...

The women's event – see report on page 9



CONTENTS

strategy 1
Finding the right business strategy is only the beginning of the story – then you have to implement it...

corporate governance 4
Boards can struggle to stay focused amid demands of markets and of governance. We offer a remedy.

management 7
Flexible working is good for business! We provide case studies of companies which have benefited.

F&M update i - iv
The latest financial reporting, tax, employment and general corporate developments are covered in our four-page supplement (after page 8).

finance 9
The recent Faculty women's event was an opportunity to hear several successful women in finance.

faculty – personal view 13
The Faculty's deputy chairman offers his view of the technical challenges faced by finance.

reporting 14
The abolition of the statutory OFR leaves the 'business review' looking like a mini-OFR. We explain.

tax update 15
An introduction to the Common Consolidated Corporate Tax Base.

events 16
Details of Faculty conferences, lectures etc.

THE GURUS

'DRIVE THY BUSINESS OR IT WILL DRIVE THEE' –
BENJAMIN FRANKLIN

STRATEGY

Making your plans come alive

Finding the right business strategy is only the beginning of the story. As consultant **Robin Speculand** explains, successful implementation of that strategy is what really gives companies a competitive edge.

Imagine the situation. As the chief executive officer (CEO) walks onto the stage and up to the podium, a hush comes over the employees. Then, with tremendous authority and passion, he starts to share the company's new strategy. He tells the employees how the changes will move the company forward, how they will make it more competitive and, most importantly, how the employees themselves will benefit. Even as he speaks, the new slogan is going up all around the organisation.

Fast-forward 12 months. The same CEO takes to the same stage and tells the staff, "We have just had a strategic failure."

Wouldn't that be a first? We use the word 'strategic' all the time – strategic goals, strategic objectives, strategic targets. But how often do you hear the words 'strategic' and 'failure' together?

90% of strategy implementations fail
Yet nine out of 10 strategies are not successfully implemented, according to five years' research in southeast Asia by Bridges Business Consultancy International. And research in other regions supports that statistic.

Indeed, companies all over the world constantly embark on new strategies – to win market share, improve service and grow revenues – but mostly fail to meet the inherent challenges and deliver the desired results. (See the box on page 2 for the top 10 challenges of implementation.)

The most startling discovery from the list is that the number one challenge facing managers today in implementing strategy is 'gaining support and action' from the people in the organisation. This has replaced the challenge of gaining 'support from senior management', the lack of which was for so long the number one reason change management failed. Hence either senior management has finally taken to heart that its support is critical, or that continuing challenge has nevertheless been superseded by the need to gain support, communicate the change and overcome resistance.

We rarely, if ever, hear the CEO announce that a strategy failed. Instead, the bar of expectations gets lowered or a new strategy gets quickly adopted – covering up the lack of success until a scapegoat is found.

continued on page 2

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Tomorrow, strategy implementation will be the differentiator

But the obfuscation needs to stop. It is now time to put the focus on strategy implementation, because it will be the next competitive edge. Take a look at recent history:

- in the 1960s, we focused on the product – ‘build a better mouse trap and customers will beat down your door’;
- in the 1970s, we addressed processes – it was all about time-motion studies;
- in the 1980s, we leveraged customer service as a differentiator – hence ‘the customer is always right’;
- in the 1990s, the technology revolution took over – the message was ‘faster, faster, faster’;
- in the 2000s, we are using innovation and creativity – the instruction is ‘think outside the box’.

Yet in the 40 years since change management became a business topic, ironically the only thing that has not changed is our approach to change management itself. Change management does not work as we apply it today: if it did, we would not have so many (albeit unspoken) strategic failures.

It is time to go beyond change management and focus on strategy-imple-

Top 10 challenges

Bridges spent five years interviewing managers from a range of companies on the challenges of implementation. The leading challenges these managers cited are listed – in order of priority – below:

- gaining support and action;
- communicating the change;
- overcoming resistance from staff;
- support of senior management;
- aligning processes;
- tracking success of implementation;
- changing rewards and recognition;
- acquiring customer feedback;
- implementing new technology; and
- acquiring budget.



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mentation – an area whose importance managers generally underestimate. Most of their time, energy and focus go into setting the vision and creating the strategy. When this is accomplished, they believe the hardest part is over. In reality, they have only completed one third of the journey.

Learning to set the vision and strategy is a tough enough challenge, but it is supported by plenty of books, consultants and tools such as SWOT, PEST and Five Forces. When it comes to implementation, however, managers are generally left with no real or effective guidance.

Few books and even fewer consultants will stay the implementation course with the company. Leaders are left to wander aimlessly through an implementation maze, when what they urgently need is a framework and guidelines. Even then, to make implementation come alive, they must at least double the time and effort they spent on creating the strategy.

To implement strategy successfully, these leaders must understand better the complete implementation challenge, in particular the need to impose the structure and discipline that is generally missing today.

Kevin Rollins, explaining why other companies cannot copy Dell, despite its approach being well known (*Fortune*, March 2005), said. “[For] the same reason that Kmart can’t imitate Wal-Mart. What Wal-Mart does isn’t rocket science – it’s retailing. Why can’t everybody be Wal-Mart or JetBlue or Samsung or whatever the best company in their industry is? Because it takes more than strategy.”

As he continued, "It takes years of consistent execution for a company to achieve a sustainable competitive advantage. So while Dell does have a superior business model, the key to our success is years and years of DNA development within our teams that is not replicable outside the company. Other companies just can't execute as well as we do."

Vision is the dream, strategy is the driver, but implementation ensures delivery

Implementation involves not a single event such as a CEO speech but a cluster of structured activities. You and your organisation are, however, unique, and your implementation will be different from anyone else's.

Fortunately there are some common components present when organisations implement strategy. These eight components can be encapsulated in something called the 'implementation compass' (Figure 1, below). This is a generic tool – applicable to both large and small companies – which will guide you through today's implementation challenges and help you to embed your strategy. It allows you to:

- fully understand what it takes to implement your strategy;
- assess your current strengths and weaknesses;
- journey through the implementation maze;
- adopt best practices; and
- ensure longevity of your implementation.

The new language of implementation

The study of implementation is a relatively new field and as such there are some new phrases and acronyms that have appeared. Some may even be familiar!

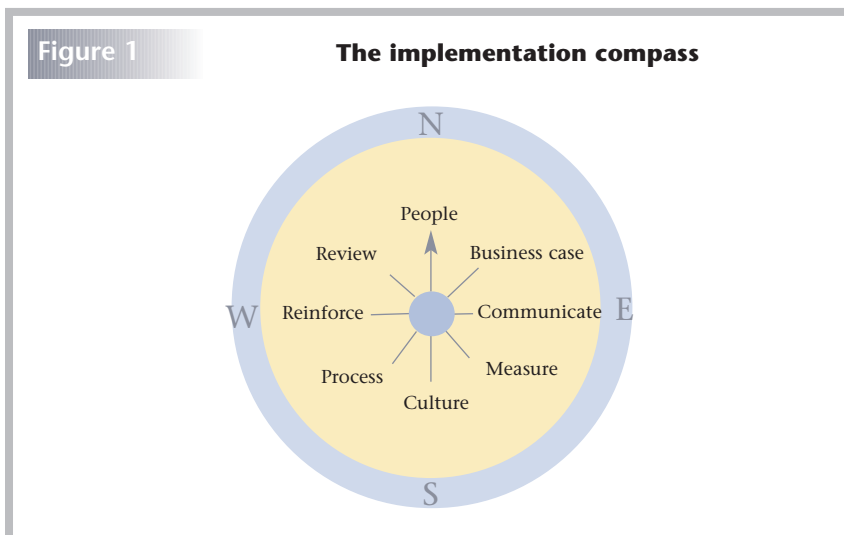
- **WII-FM** – *what's in it for me?* – a question every staff member will ask that leaders must have the answer to.
- **WEX-FM** – *what's expected from me?* – this is a question that leaders in the past have not answered and therefore staff members are left wondering what the right action is or simply what action to take.
- **KICC** – *keep it complicated and confusing* – this is a practice to be avoided! When communicating the strategy, leaders' messages should follow the guideline of **KISS** (*keep it simple, stupid*). Instead most leaders confuse the message and baffle the audience.
- **BOHICA** – *bend over here it comes again* – an unfortunate expression that has arisen from staff members who suffer from change fatigue.
- **NATO** – *no action, talk only* – how most staff members feel about many implementations.
- **SSDD** – *same s***, different day* – another phrase employed by beleaguered staff.
- **TINA** – *there is no alternative* – yet another expression from frustrated staff members.

The implementation compass works for both small and large organisations and allows you to assess your current status in preparing to implement.

The compass guides leaders through the eight critical components. The degree of importance of each component varies for each organisation. For example, one organisation may spend more time on measurement while another focuses more on communication. The compass helps your organisation maintain momentum throughout its journey.

The eight critical components

- **People** – it is not leadership that implements strategy but people. Questions to consider: do you have the right calibre of people? Do they have the competencies to execute the new strategy? Are they motivated to do so?
- **The business case** – the emotional and numerical rationale for adopting the strategy. Questions to consider: why is the strategy centre stage? Do your staff members know what to do differently on the Monday morning after implementation is announced? Do they have the right tools and techniques to implement the strategy?
- **Communication** – people can only adopt a strategy if they know about it and understand it. Questions to consider: do all your staff know what the new strategy is and why it has been adopted? Is the strategy communicated in a way that it comes alive?
- **Measurement** – 'you must inspect what you expect.' Have the right measures in place. Questions to consider: do you have the right measures for the new strategy? Are the measures being leveraged to guide the implementation?
- **Culture** – you must change the day-to-day activities of your staff



members and have a culture that supports and fosters change.

Questions to consider: what needs to change in the fundamental way you are working so as to encourage the adoption of the new culture? Are you using the language of the new strategy?

- **Process** – there must be congruence between what you say you are going to do (strategy implementation) and what you are doing (the process).

Questions to consider: do your processes support or hinder the new strategy? Where can you redesign the process so it is more supportive and effective?

Leaders can identify the actions needed

- **Reinforcement** – you must reinforce the expected behaviours so that they are continually repeated.

Questions to consider: when staff members step in to the unknown and demonstrate the new behaviours, are they recognised and rewarded? Does the reinforcement encourage them to continue to demonstrate the desired new behaviours?

- **Review** – this is leaders' weakest area within the eight components. You must constantly review to make sure the right actions are being taken to deliver the right results.

Questions to consider: do you know if the actions being taken are producing the right results? Do you know what has been learned from the implementation in the last 90 days? Do you know what you need to start doing differently from today?

By paying attention to all of these areas and assessing the organisation's strengths and weaknesses against each one, the organisation can prepare itself with a realistic perspective of the challenge ahead and leaders can identify the actions to take to deliver the new strategy's anticipated results. **F&M**

This article is based on 'Bricks to Bridges', Robin Speculand's guide to what makes strategy come alive. ISBN 981-05-0271-0, £14.99.

CORPORATE GOVERNANCE

Keeping your board's focus in the new era

Research shows boards now struggle to stay focused on the 'big picture', amid investor short-termism and 'good governance' demands.

John Roberts of the Judge Business School, Cambridge, and consultant **Don Young** explain their findings, and suggest some remedies.

In recent years the focus of much regulatory change has been largely defensive. Following Enron, Worldcom and Tyco in the US and Parmalat in Italy as well as the crises at Marconi and Equitable Life in the UK, the concern has been with whether the boards of large companies are fulfilling their governance role as guardian of the interests of shareholders.

But what about the more positive role of the board in creating value for shareholders? Our research* into the role of the board in creating a high-performance business offered an opportunity to look beyond the defensive view of corporate governance and explore the positive role of the board in creating value for shareholders. It also allowed us to explore the state of UK boards two years on from Higgs and Sarbanes Oxley.

In investigating the board's role in value creation we interviewed 37 chairmen, chief executive officers (CEOs) and directors of large quoted companies holding, between them, more than 100 directorships. Half of the companies concerned were in the FTSE 100 and 250, including 10 ranked among the 30 highest FTSE 100 performers.

150% increase in time spent with investors

All those we interviewed agreed that since the early 1990s there had been a

huge increase in both competitive pressures and investor demands for delivery of short-term financial performance and 'good' governance.

For executive directors the most obvious manifestation of this growing investor power has been the increased attention and time they give to investor relations.

Indeed, research (Pye 2003) indicates that between 1990 and 2000 the amount of their time chief executives and finance directors devoted to meeting their investors rose from 10% to 25% – a staggering 150% increase – resulting in a typical 50 to 60 meetings a year.

The last decade has also seen the rise of shareholder activism with organisations such as PIRC and Hermes targeting governance issues, in particular demanding that companies address perceived executive abuses or under-performance.



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**The research for 'The role of the board in creating a high-performance business' was commissioned by the Performance and Reward Centre and Careers Research Forum – enquiries@parcentre.co.uk and enquiries@crforum.co.uk.*