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CEO Message: Reparations Costing: An Emerging Role for Management Accountants

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Recently, in May 2015, I watched a rousing debate at the Oxford Union; on the subject *'Does Britain Owe Reparations?'*

Reparation is not a new word in the dictionary. The giving of money to compensate the wrong doings by someone or something, the act of taking responsibility for that and to give a token of feeling sorry is what the word "reparations" stands for. In a global context, 'Reparations' is a term used when one country is asked for compensation to repair damages it has caused in the past to another country.

In researching the issue I found that it has become quite a hot political topic in many diverse arenas. In fact when the Caribbean Community (CARICOM) Heads of Government gathered for their 36th Regular Meeting recently, they continued to "flesh out" the initiatives that have to be taken to push the 'reparations agenda' forward. What CARICOM wants is reparations for native genocide and slavery by the former slave trading countries of England, France and Holland. CARICOM is currently working on a landmark legal case to sue European countries for reparations.

CARICOM is of the view that the effects of slavery continue to be felt in the region and that it had affected the economies and societies. Prime Minister Freundel Stuart of Barbados says,*"The configuration of slavery is still evident in a few Caribbean countries, where you have a sociological minority being at the same time an economic majority and the numerical majority being an economic minority. These are facts that result from slavery and colonialism."*

The money from the slave economy became the basic source of income for England's Victorian era families. When slavery was abolished, compensation of about 20 million pounds was paid (at that time) to the families who had lost their "properties" (the slaves) and not to those poor souls who had to give everything and lost everything during the time slavery was ongoing.

'Reparations' are being demanded for many reasons. Although many countries are demanding that the USA and England amongst others should pay heavily for profits earned via the slave trade; slavery is not the only issue. Today, with the Greek economy in shambles, Greece is asking Germany for World War 1 (WW1) reparations that could be close to €9 Billion. This will solve the Greek Debt problem!

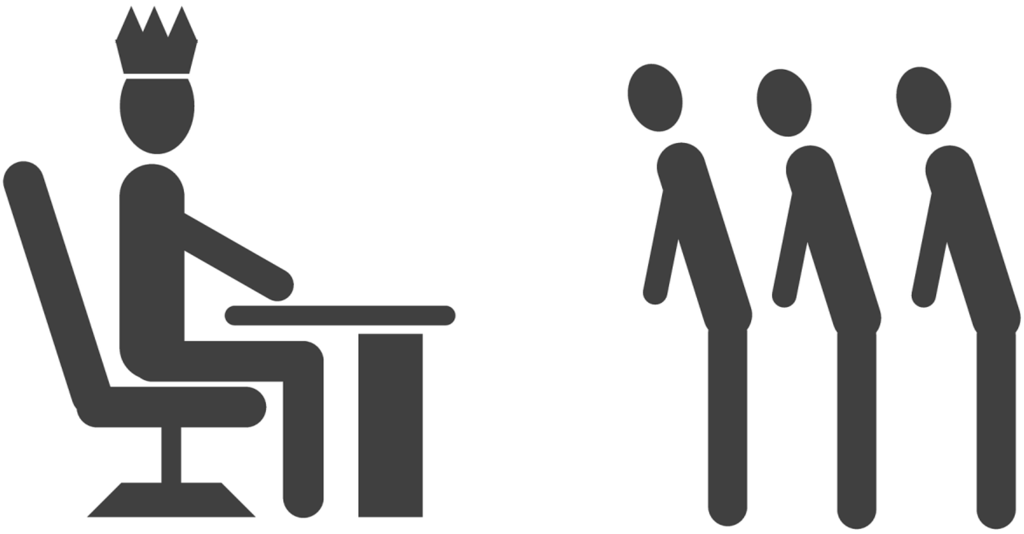
In the light of this, particularly interesting were the points raised by *Dr Shashi Tharoor*, the Indian former Under-Secretary General of the UN, at the Oxford Union Debate mentioned earlier, who provided some surprising facts about British colonialism in India. Seehttps://youtu.be/f7CW7S0zxv4

The first point he raised was on how being a colony affected the economy of a India. India's share of the world economy before she became a colony of the British Empire was 23 %, and after the Independence it came out to be below 4%. He stated that the rise of the British Empire was built on the very foundation on which it suppressed India. The very concept of industrialisation in England came into reality when they "de-industrialised" their own colonies.

Before the British merchants became their rulers, India's weavers used to enjoy a very high reputation for quality; one never matched by anyone else. When the British came, they conquered and smashed the tools of those weavers, took away their livelihoods, and imposed cruel taxes on those still functioning. The reason was simple – the British did all that, so that, far across from India, the British Empire could prosper as the world's leading exporter of finished cloth. And as a consequence, India was forced into becoming the biggest importer of the products from them. By the end of the 19th century, India became a "cash cow" for Britishers; who just kept on milking its resources. The result – there was nothing left for India's own children. Meanwhile, Britain continues to benefit from the financial capital it amassed from the natural resources of other countries when it had an Empire.

An interesting point raised by Dr Tharoor, was that England as a colonial power not only started a regime of cruelty and inhuman behaviour in their colonies; they were also the cause of many man induced famines. The Bengali famine of 1943 (during the World War II), is the best example to study how these powers had cared almost nothing about the chilling cries of the empty stomach.

Dr Tharoor says that the famine, which caused the death of around 4 million Bengali Indians, could have been averted. There is historical evidence to show that Winston Churchill, the British Prime Minister, deliberately diverted food and other supplies from Bengal to Britain to feed their own people, including its soldiers; and just let the Bengali people die of starvation in their own filth. Even after some conscious British Government Civil Servants tried to bring the seriousness of matter in front of Churchill, he replied to them by saying that *"Why is Gandhi still alive?"*. The fact is that the Colonial powers just cannot brush aside the starvation problem they have created in the colonies by blaming it on its people. If you 'loot' a country of its resources, then you are responsible for the resultant starvation.



Although countries such as England, France and Holland provide some aid in developmental, educational and health issues; the view is that these countries can contribute a lot more. Dr. Tharoor says that the aid given by Britain to India is 0.04% of India's GDP. The nation itself invests more than the given aid on the fertilizer subsidies.

Have the rulers repaid in other ways? Former colonial powers have argued that if not for them, their colonies would never have enjoyed the emerging technologies. For example, the British built railways and roads. But Dr Tharoor says the railways and roads developed were not meant for the people living in the colonized country, but for those rulers who just wanted a means to transport their goods from ports to the industries. *"Many countries have built railways and roads without having had to be colonized."*

Today, Americans say they are giving 'Democracy' (often in exchange for oil) to countries they occupy (with a UN mandate or not). The British also take credit for making India democratic. However, it is important to note that India's democracy was not given; it was snatched from the rulers. Dr Tharoor claims, "*It's a bit rich to enslave, maim and torture people for 200 years and celebrate that they're democratic at the end of it."*

Can we quantify the amount of damages to be repaid? Many countries and political groups such as CARICOM are of the view that they are not in a position to quantify damages in term of an overall monetary figure, and that this is for the Law Courts to determine. It is also important to note that reparations go far beyond cash payments. They also include recognising past injustices and redressing the moral imbalance brought on by colonisation.

Management accountants who are well versed in Environmental and Social Management Accounting (ESMA) have the tools and techniques of providing courts with such quantitative calculations. The approaches in undertaking 'stakeholder audits' and 'contingent valuations' are all familiar to management accountants. Today approaches to quantifying the extent of damage to both the environment and to society of a man made (Fukushima nuclear power plant) or natural (Nepal earthquake) disasters are available. These techniques could be utilised to value reparations.

For example, Dr Tharoor says that in WW1, a sixth of all British force were Indian; 54,000 Indians lost their lives; 65,000 were wounded; and there is no information on other 4,000 Indians. At that time, the Indians had to generate the tax amount of 100 million pounds to satisfy the war needs of their rulers. In fact, 1.3 million personnel served in the war which was not even their war. Now these are numbers that management accountants could work with in arriving at a value for reparation. In fact, some crude accounting calculations have already been done, including using concepts of the time value of money. These calculations show that the amount that Britain owes India for both the World Wars comes to several billion pounds. Not a single cent has been repaid to date.

If CARICOM wins its landmark legal case of suing European countries for reparations then there will be significant work for management accountants to provide the base calculations for the Courts to determine the extent of damages. India's Prime Minister Narendra Modi has already signalled that he agrees with the claims made by Dr Shashi Tharoor. It is going to be an interesting time in the future, if the former colonies sue Britain for reparation. Some say it will be *'karma'* for both the colonists and the colonised!

Professor Janek Ratnatunga, CMA, CGMA

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Status Anxiety & Its Impact on Our Careers

Do you suffer from status anxiety?

Alain De Botton has done a terrific job in his book 'Status Anxiety' explaining how and why most of us are 'consciously or unconsciously' status orientated in life and work. As the excerpt below from his book clarifies so succinctly.

"This is a book about an almost universal anxiety that rarely gets mentioned directly: an anxiety about what others think of us; about whether we're judged a success or a failure, a winner or a loser. This is a book about status anxiety. We care about our status for a simple reason: because most people tend to be nice to us according to the amount of status we have (it is no coincidence that the first question we tend to be asked by new acquaintances is ' What do you do?')."

My interest is how status anxiety relates to our careers – our worklife in fact. I think it starts with our parents. They can have a huge influence over our careers and how we view career status. As adults we tend to hear our parents engaging in job title status related discussions with their friends about how well X,Y, and Z are doing in their careers. There is nothing worse than having to listen to your parents tell you how well your contemporaries are doing on the work front and or their partners! Worse still when you are unemployed! Many parents seem to want to show how 'successful' their children are and having status orientated job titles and jobs seems to be an effective way of doing this. Unfortunately a great sounding job title does not equal job happiness – and when do you parents brag to others about your job happiness?

While job titles are not all bad, a negative aspect is that they are a label and labels can be misleading. They can also lead to segregation and all sorts of other negative associations. Job titles can be truly un-helpful in our careers as people may not look too much into the content of the job but rather be swayed by the job title. From resumes to job ads to workplaces – a great sounding job title seems to give you a lot more status and career progression. The content of the job seems to play second fiddle to the title!

While I don't expect this to change anytime soon, I do believe there are a few ways to manage status when it comes to job seeking.

What is behind the job title?

It begins with looking beyond the job title when job seeking and looking at the content of the job ad and position description (if available). Don't be fooled by a great sounding job title or put off by a lame one. Sometimes people don't apply for their dream job because it has been mis-labelled and they think they are over or under qualified. I have seen this occur on a regular basis. If you are not sure, do as much due diligence as you can on and offline around the job. A good place to start is ONet if you are not sure about certain job types and titles.

Selling your achievements

When job seeking your job title can hold a lot of weight and in those instances when your job title does not reflect the core job and what you have achieved, it is important to include relevant achievements stories. While listing your responsibilities is good, achievement stories have a much greater impact on the reader. If you can flesh out your transferable skills that are aligned with the job you are targeting and demonstrate these in achievement stories it can help position you better.

Job titles

I certainly don't advocate making up jobs you have done however if your employer has given you a completely obscure or irrelevant job title that is not relevant to what you do, then it is fair to change this to be more aligned with what the general market uses. An ill-fitting job title means that recruiters may overlook your experience. So if for example your job title is Accountant and only a small part of what you do is the actual accounting work and the remainder is more operations and staff management, you may be better for example to have either, Operations Manager or a combined Accountant / Operations Management. You could even try to get your employer to change your job title if you have a good business case to do so.

Networking

Networking is important in the job search as a resume cannot do justice to your career to date and where you want it to go and why. This comes through best when you meet with people face to face and they can see your passion and listen first hand to your story. Putting yourself in networking situations that are relevant to what you are targeting on the job front is a must. It avoids the focus being so much on what your current job title is and enables you to talk about what you want to be doing in your next role and what you bring.

At different times throughout our careers, job titles can have both a positive and a negative impact. In those instances where your job title is not working for you (as highlighted above) there are a few things you can do to better position yourself and your career.

About the Author

Kelly Magowan has built a reputation as a thought leader in the careers space for professionals and executives. She regularly has her work published and is sought to speak at events and in the media about career related topics. For more information visit her site.

Disrupting beliefs: A new approach to business-model innovation

Let's face it: business models are less durable than they used to be. The basic rules of the game for creating and capturing economic value were once fixed in place for years, even decades, as companies tried to execute the same business models better than their competitors did. But now, business models are subject to rapid displacement, disruption, and, in extreme cases, outright destruction. Consider a few examples:

- Bitcoin bypasses traditional banks and clearinghouses with blockchain technology.
- Coursera and edX, among others, threaten business schools with massive open online courses (MOOCs).[1]
- Tencent outcompetes in Internet services through microtransactions.
- Uber sidesteps the license system that protects taxicab franchises in cities around the world.

The examples are numerous—and familiar. But what's less familiar is *how*, exactly, new entrants achieve their disruptive power. What enables them to skirt constraints and exploit unseen possibilities? In short, what's the *process* of business-model innovation?

For incumbents, this kind of innovation is notoriously hard. Some struggle merely to recognize the possibilities. Others shrink from cannibalizing profit streams. Still others tinker and tweak—but rarely change—the rules of the game. Should it be so difficult for established companies to innovate in their business models? What approach would allow incumbents to overturn the conventions of their industries before others do? Our work with companies in telecommunications, maritime shipping, financial services, and hospitality, among other sectors, suggests that established players *can* disrupt traditional ways of doing business by reframing the constraining beliefs that underlie the prevailing modes of value creation.[2] This article shows how.

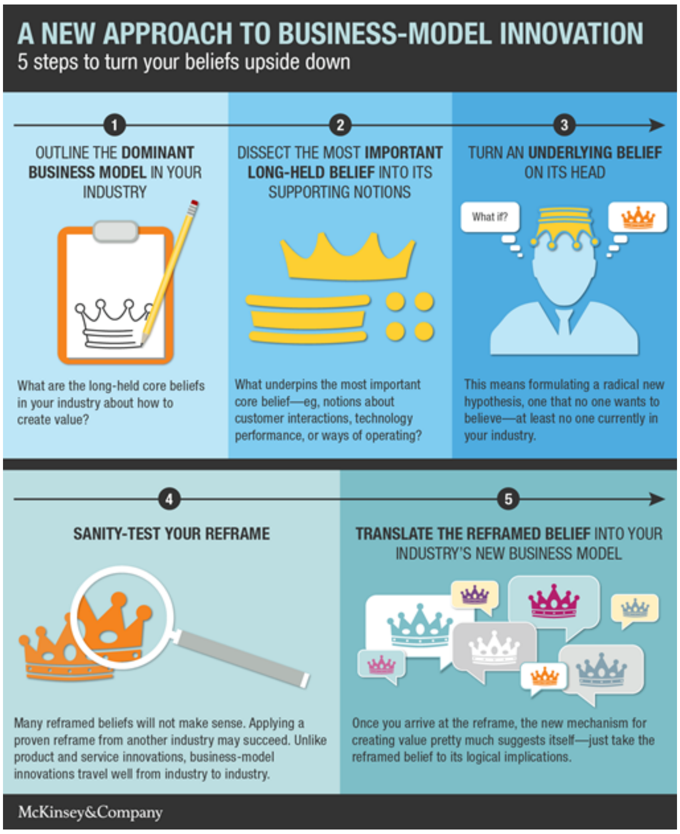
Reframing beliefs

Every industry is built around long-standing, often implicit, beliefs about how to make money. In retail, for example, it's believed that purchasing power and format determine the bottom line. In telecommunications, customer retention and average revenue per user are seen as fundamental. Success in pharmaceuticals is believed to depend on the time needed to obtain approval from the US Food and Drug Administration. Assets and regulations define returns in oil and gas. In the media industry, hits drive profitability. And so on.

These governing beliefs reflect widely shared notions about customer preferences, the role of technology, regulation, cost drivers, and the basis of competition and differentiation. They are often considered inviolable—until someone comes along to violate them. Almost always, it's an attacker from outside the industry. But while new entrants capture the headlines, industry insiders, who often have a clear sense of what drives profitability, are well positioned to play this game, too.

How can incumbents do so? In a nutshell, the process begins with identifying an industry's foremost belief about value creation and then articulating the notions that support this belief. By turning one of these underlying notions on its head—reframing it—incumbents can look for new forms and mechanisms to create value. When this approach works, it's like toppling a stool by pulling one of the legs.

Exhibit



The fuller process and the questions to ask along the way look like this:

1. Outline the dominant business model in your industry. What are the long-held core beliefs about how to create value? For instance, in financial services, scale is regarded as crucial to profitability.

2. Dissect the most important long-held belief into its supporting notions. How do notions about customer needs and interactions, technology, regulation, business economics, and ways of operating underpin the core belief? For instance, financial-services players assume that customers prefer automated, low-cost interfaces requiring scale. Because the IT underpinning financial services has major scale advantages, most of a provider's cost base is fixed. Furthermore, the appropriate level of risk management is possible only beyond a certain size of business.

3. Turn an underlying belief on its head. Formulate a radical new hypothesis, one that no one wants to believe—at least no one currently in your industry. For instance, what if a financial-services provider's IT could be based almost entirely in the cloud, drastically reducing the minimum economic scale? Examples of companies that have turned an industry belief on its head include the following:

- **Target:** What if people who shopped in discount stores would pay extra for designer products?
- **Apple:** What if consumers want to buy electronics in stores, even after Dell educated them to prefer direct buying?
- **Palantir:** What if advanced analytics could replace part of human intelligence?
- **Philips Lighting:** What if LED technology puts an end to the lighting industry as a replacement business?
- **Amazon Web Services:** What if you don't need to own infrastructure yourself?
- **TSMC:** What if you don't need to develop your own process technology or invest in your own infrastructure?
- **Amazon Mechanical Turk, TaskRabbit, and Wikipedia:** What if you can get stuff done in chunks by accessing a global workforce in small increments?

4. Sanity-test your reframe. Many reframed beliefs will just be nonsense. Applying a reframe that has already proved itself in another industry greatly enhances your prospects of hitting on something that makes business sense. Business-model innovations, unlike product and service ones, travel well from industry to industry: Airbnb inspires Uber inspires Peerby. So look again at the reframes described in step three above. All of them have broad application across industries.

5. Translate the reframed belief into your industry's new business model. Typically, once companies arrive at a reframe, the new mechanism for creating value suggests itself—a new way to interact with customers, organize your operating model, leverage your resources, or capture income. Of course, companies then need to transition from their existing business model to the new one, and that often requires considerable nerve and sophisticated timing.[3]

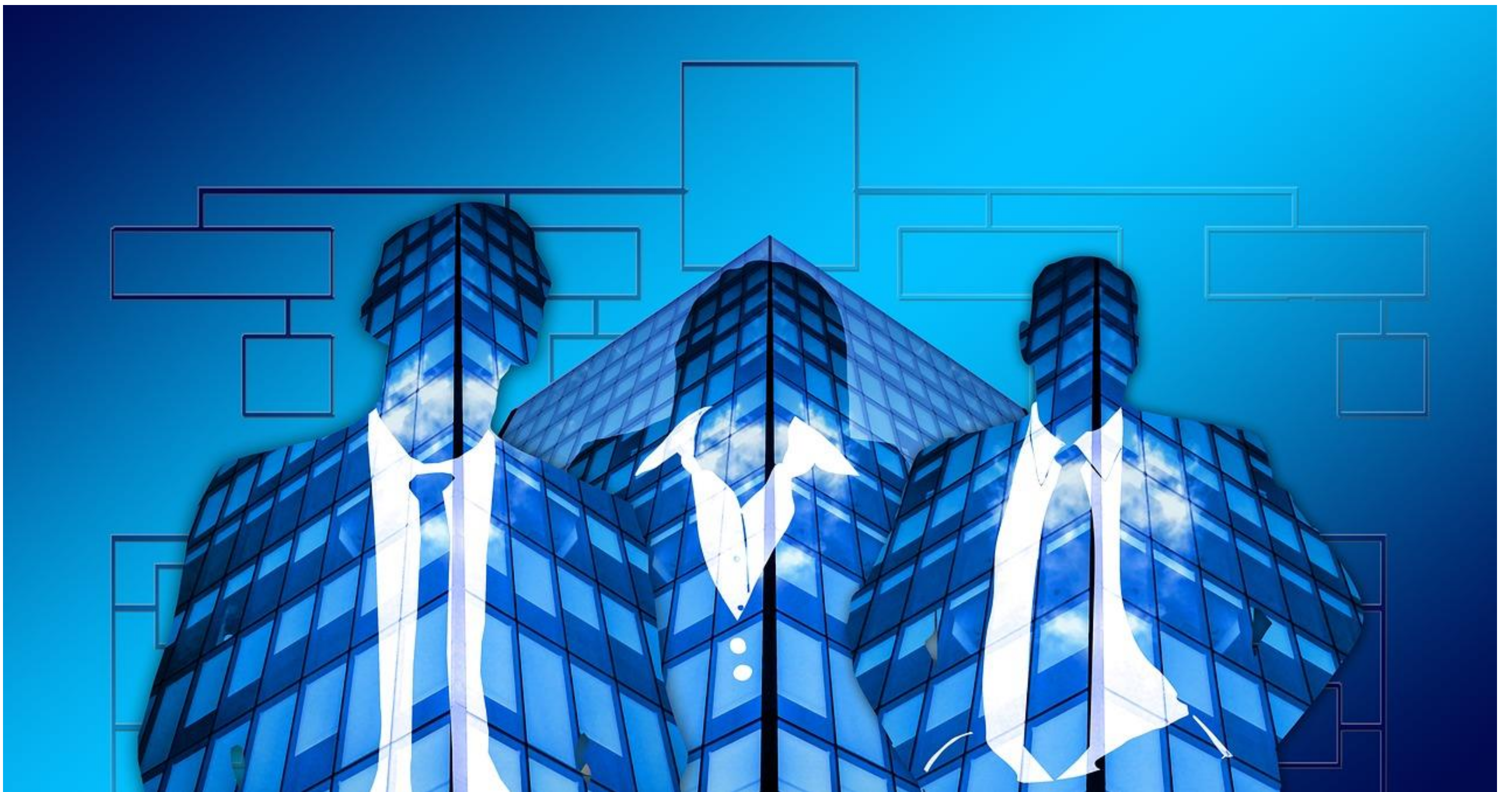
Four places to reframe

Executives can begin by systematically examining each core element of their business model, which typically comprises customer relationships, key activities, strategic resources, and the economic model's cost structures and revenue streams. Within each of these elements, various business-model innovations are possible. Having analyzed hundreds of core elements across a wide range of industries and geographies, we have found that a reframe seems to emerge for each one, regardless of industry or location. Moreover, these themes have one common denominator: the digitization of business, which upends customer interactions, business activities, the deployment of resources, and economic models.

Innovating in customer relationships: From loyalty to empowerment

Businesses should strive for customer loyalty, right? Loyal customers tell their friends and contacts how good a company is, thereby lowering acquisition costs. Loyal customers stick around longer, keeping the competition at bay. Loyal customers provide repeat business, a bigger share of wallet, and more useful feedback about problems and opportunities. No wonder companies in so many industries emphasize locking in customers by winning their loyalty.

But the pursuit of loyalty has become more complicated in the digital world. The cost of acquiring new customers has fallen, even without loyalty programs. Customers—empowered by digital tools and extensive peer-reviewed knowledge about products and services—now often do a better job of choosing among buying options than companies do. Switching costs are low. Most



significant, the former passivity of customers has been superseded by a desire to fulfill their own talents and express their own ideas, feelings, and thoughts. As a result, they may interpret efforts to win their loyalty as obstacles to self-actualization.

Instead of fighting that trend, why shouldn't companies embrace the paradox that goes with it: the best way to retain customers is to set them free. The invention company Quirky, for example, lets the ideas and votes of its online community guide the products it designs and produces. MakerLabs, an interactive design–build collective, provides its members with the tools and expertise they need to build what they want.

Established companies can also make the switch from loyalty to empowerment. Consider the pension and insurance industry, long governed by the belief that complex investment decisions are best made by experts (companies or intermediary financial advisers) on behalf of account holders. A multinational insurance and pension provider reframed that belief by proposing the opposite: what if customers preferred to make their own investment decisions, even if they didn't have the credentials of investment professionals? The company now provides customers with web-based investment information and decision-making tools, along with appropriate risk warnings. These enable customers to invest a percentage of their funds directly in businesses of their choice. This effort is in its early days, but customer pick-up and the profitability of products are promising.

Innovating in activities: From efficient to intelligent

One of the most dominant beliefs governing today's big companies is that improving efficiency is the most reliable way to increase profits. Especially if market requirements change only gradually, companies have plenty of time to minimize the production costs of their existing products. Today, of course, constant efficiency improvements are a prerequisite for a healthy bottom line.

They may be necessary, but they're not sufficient. In today's rapidly changing markets, many products become obsolete before they have been "leaned out," so managers get less time to optimize production processes fully. Companies are therefore building flexibility and embedded intelligence directly into the production process to help them adapt quickly to changing needs. Embedded intelligence can, over time, help companies to improve both the performance and the value-in-use of products and services and thus to improve their pricing. In essence, digitization is empowering businesses to go beyond efficiency, to create learning systems that work harder *and* smarter.

Consider how a web-based global hotel-booking platform used quick feedback cycles to reframe the focus of its business model from efficiency to user satisfaction, thereby opening new revenue opportunities. The hotel-booking industry's central belief has been that success depends on two things: negotiating power with hotels and a reliable web interface for customers. The company reframed this dominant belief by asking if customers booking a hotel room might look for more than convenience, speed, and price. It tested this reframe through a series of iterations to its website. Even minor changes—such as the use of photographs, a warmer (or sometimes cooler) tone for the site's text, and the inclusion of testimonials from happy customers—raised the click-through rate. This insight confirmed the reframe: a booking site is more than just a functional service; it can also become an engaging customer experience.

As a result, the company has integrated constant feedback loops and daily experiments into its key activities, creating a true learning system. Now it improves and adjusts its site daily to boost customer engagement and increase revenue. It may well be on its way to becoming the industry's global standard.

Innovating in resources: From ownership to access

One widespread premise in business is that companies compete by owning the assets that matter most to their strategy. Competitive advantage, according to this belief, comes from owning valuable assets and resources, which tend to be scarce and utilized over long time periods, as well as firm and location specific. Thus ownership (rather than, say, leasing) frequently appears to be the best way to ensure exclusive access.

But what if assets are used infrequently or inconsistently? In these cases, digital technology, by increasing transparency and reducing search and transaction costs, is enabling new and better value-creating models of collaborative consumption. As a result, ownership may become an inferior way to access key assets, increasingly replaced by flexible win-win commercial arrangements with partners. On the consumer side, the examples include Peerby, an app that allows neighbors to share tools and other household items that would otherwise sit idle in garages, and Uber, which allows any driver with a qualified vehicle to provide taxi service. House- and room-sharing programs apply the same thinking to underused real estate. In every case, consumers opt to access rather than own these assets.

Big companies are following suit—for example, by reducing sourcing costs through "cradle-to-cradle" approaches that collect and repurpose what they previously considered waste.[4] Instead of buying (and thus owning) the raw materials needed for products, companies access these materials in previously sold products and repurpose them. Similarly, the global sourcing firm Li & Fung limits risk, increases efficiency, and enhances flexibility by using broad networks focused on access to (rather than majority ownership of) suppliers. The software maker Adobe Systems no longer licenses new versions of its products to customers through one-time sales; instead it provides access to them through monthly subscriptions. (For more on Adobe's transition to its new business model, see "Reborn in the cloud.")

The move from ownership to access mirrors a more broadly evolving societal mind-set toward open-source models. For example, in 2014 the electric-vehicle company Tesla made all of its intellectual-property patents freely available in an effort to encourage the manufacture of clean vehicles.

These possibilities penetrate deeply into traditional industries. Consider how a big European maritime port embarked on a large-scale land-management program. The industry belief reframed by the port was that large liquid-bulk-load ships valued private access to storage tanks. The underlying assumption was that shipping companies wanted the ability to deliver their bulk loads anytime and therefore required entry to their tanks at close range.

In response to this perceived need, most maritime ports have developed jetties to which they provide individual shipping companies private access—essentially the equivalent of "ownership." As a result of each company's varying schedules and traffic, many jetties ended up being mostly unused, but others weren't sufficient for peak times. Seeing this problem, the port's management reframed the industry belief by asking if customers cared more about access on demand than exclusivity. The port now intends to help all customers use any jetty to access any fuel tank, by developing a common-carrier pipe connecting them. Just as Peerby in effect shifts a neighborhood's "business model" by increasing the utilization of underused assets, so the maritime port is making more of underutilized jetties and storage tanks by shifting the business model so that shipping companies pay for access to jetties and storage rather than the exclusive use of them. In the future, this model may evolve into a dynamic multiuser slot-booking system that matches the real-time availability of jetties with demand for liquid-bulk-carrier ships.

Innovating in costs: From low cost to no cost

According to historian Peter Watson, humans have been trading goods and services for more than 150,000 years. During that time, we've always believed that to sell more of an offering you had to produce more of it. The underlying notion was that a single unit of a given product or service could be used only by one customer at a time. Any increase in production therefore required a commensurate increase in labor, resources, and equipment. While volume advantages did translate into lower average costs per unit, economies of scale could never get the average cost down to zero.

Digitization is reframing this ancient belief in powerfully disruptive ways. In fact, of all the reframes discussed here, this one has had the most devastating effect, since it can destroy entire industries. What's driving prices to zero is the reframe that multiple customers can simultaneously use digital goods, which can be replicated at zero marginal cost. Massive open online courses, for example, provide a nearly zero-marginal-cost education.

Consider the implications for telecommunications, where the dominant belief has been that value is best captured through economies of scale—the more telephone minutes sold, the lower the unit cost. As a result, the larger the mobile-phone plan, the lower the cost per minute. One telecommunications company is upending this belief by making customers an "all you can eat" offer. It realized that unlimited use of voice and texting units comes at no additional cost to itself, so it can compete against emerging voice-over-IP competitors. As a result, the telco started to offer unlimited texting and voice plans by focusing its economic model on making money from data usage and from its investments in a huge data network and storage capacity. Such plans eliminate confusion among customers and increase their satisfaction. As soon as the network has reached its planned return on investment, incremental data service will also be free.

Big companies have traditionally struggled to innovate in their business models, even as digital technology has brought business-model innovation to the forefront of the corporate agenda. Yet big companies can be disruptive, too, if they identify and overcome common but limiting orthodoxies about how to do business.

About the authors

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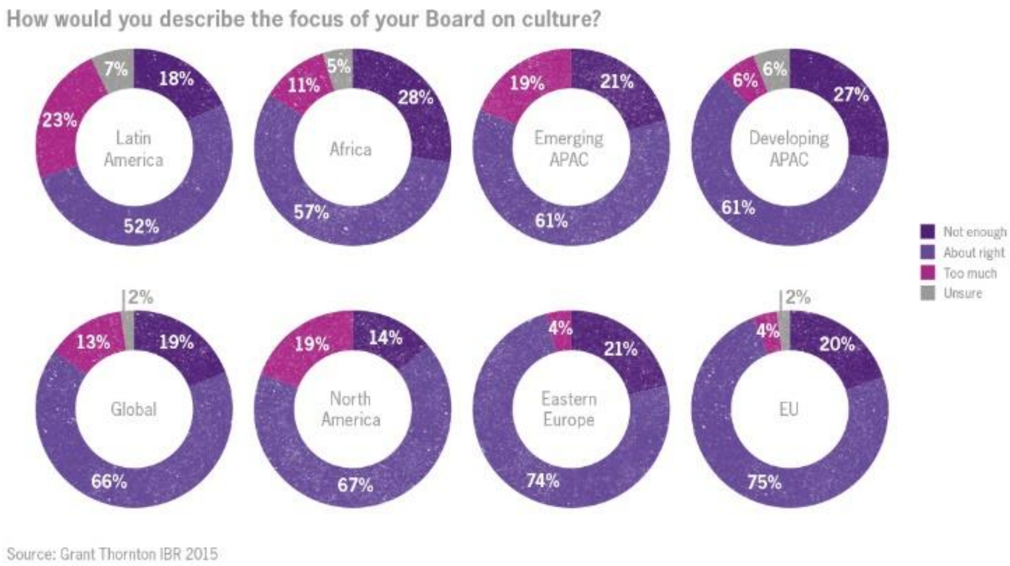
Source: McKinsey

Corporate Governance: tone from the top

Culture, diversity and strategic planning

In light of growing international interest and scrutiny of corporate practices we set out to explore how three major aspects of governance – the role of culture, board composition and strategic planning – are affecting businesses around the world. Corporate governance: The tone from the top draws on 1,865 telephone interviews with business leaders in 36 countries through our International Business Report (IBR), and 86 in-depth interviews with board directors in eight countries to answer five critical questions in corporate governance today.



1. Whose responsibility is culture?

The definition of business culture varies between countries but nine in ten business leaders believe culture is important to a robust governance framework and board members generally agree that it is the board which needs to build and foster this culture. Regulators are also becoming more vocal on the role of culture and expectations for boards. One in five business leaders said that their boards do not spend enough time focusing on culture.

- Boards should work proactively with business management teams to foster a corporate culture of effective governance. While regulators can encourage the importance of culture as the cornerstone of good governance, it can be too intangible to mandate action.

2. How can boards foster a culture of good governance?

A good governance culture directs how a company behaves, shaping the signature behaviours which bring corporate codes of conduct to life. There is no standard empirical method of measuring culture, but two-thirds of business leaders around the world believe the amount of time their boards spend looking at the broader issue is 'about right' although some board members indicated that boards focus on culture only in response to compliance issues. Board members also cited integrity and transparency as the principles that should underpin every action a business takes, which might be harder when the company is facing tough challenges.

- Boards should encourage the company to pause and reflect on what its real (or original) purpose is to understand whether some of this has been lost sight of in the pursuit of (short-term) profitability. A good governance culture is critical to a company's longevity but we found worrying evidence that 'culture' does not receive the blanket support that might be expected.

3. What does 'diversity' really mean and how can it be encouraged?

There are many different forms of diversity but two thirds of business leaders surveyed believe their boards are effective in encouraging it (with those in listed businesses more satisfied than their privately held counterparts) but just a sixth of directors globally are women. Board members agree that there is a lack of diversity on boards which makes 'groupthink' a bigger danger. They want to look beyond gender to also seek diversity of culture, background, knowledge and thought.

Gender diversity on boards still low

Source: Grant Thornton IBR 2015

- Board members should encourage bringing new perspectives onto boards so their businesses can tackle problems from different angles. This creates an open, inclusive mind-set which should cascade down the organisation. Businesses not encouraging diversity risk being left behind in a slow economic recovery.

4. What skills do boards need now and in the future?

Succession planning on boards – to ensure consistency but also to better adapt to new developments in the business environment – has risen up the corporate agenda. Business leaders want their board members to have current industry knowledge, whereas board members themselves indicated more interest in their peers bringing new ideas to the table and having the time available to contribute effectively. A particular concern is technology and whether boards have sufficient current knowledge of the digital space to appropriately advise their management teams.

- Conducting periodic assessments of board skills should form part of a board effectiveness review, along with considering the criteria used for selecting new board members. Relevant experience is an important asset and boards without sufficient knowledge of modern business practices cannot provide sufficient direction to their management teams.

5. Is there a conflict of interest between short-term profits and long-term growth?

Different industries operate to different planning horizons – for example, mining and utilities need to take a much longer-term view than technology companies – and electoral cycles can also play a significant role. Almost three-quarters of the businesses globally operate under a planning cycle of three years or less. Most board directors believe this is an appropriate planning horizon although some would like to see CEO compensation linked to longer-term performance to avoid operational decisions being driven solely by quarterly reporting.

What period does your strategic planning cover?

Source: Grant Thornton IBR 2015

- Companies need to consider whether their strategic planning process encourages decision's to be made with an appropriate balance of short and long-term objectives, and whether executive management compensation is aligned with the company's strategic goals.

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Most desirable attributes in board members

Source: Grant Thornton IBR 2015

One Way to Stay Focused on Growth: Outsource Accounting

Meet Scott Wenhold, CFO of Synergis Education, a $75 million company whose entire on-payroll finance team consists of himself and three financial analysts.

Scott Wenhold, CFO, Synergis Education

GAAP reporting, general-ledger accounting, accounts payable (AP), accounts receivable (AR), internal audit and other core finance functions are handled by a controller at headquarters in Mesa, Ariz., and a seven-person group of accountants and auditors in India. They all work for Consero Global, a finance-services outsourcing company based in Austin, Texas.

If you think there's something unusual about this arrangement, you're right. "It's not common at all for a company of Synergis' size to outsource finance and accounting," acknowledges Consero's finance chief, Kiran Janannath. "It's relatively common for companies smaller than $5 million to outsource a full suite of functions, and for those larger than $1 billion to outsource some transactional work, but companies in between very rarely do it."

At the time Synergis started working with Consero, it was in that smaller size group. In fact, the partnership began a month before the company — itself an outsourcing firm that markets to potential students on behalf of its client colleges and universities — began generating revenue in September 2012.

"We're a venture capital-backed startup, so capital was very tight," says Wenhold. "When you're a brand-new company, you may need a general-ledger accountant and AR and AP expertise, but you may not need them full time. And when cash is dear, and you've got a full-time head doing a 50% job, it's painful. Consero can put in a 50% person until you grow into [the need for a full-timer]."

For the same reason, Wenhold wanted to avoid the expense of an ERP system and other technology that would be needed to support an internal staff. Consero uses cloud-based financial-management and accounting software provided by Intacct.

Now, a short two years and $75 million in annual revenue later, all eight Consero employees that work on the Synergis account are dedicated to it full time. But Wenhold has no intention of ending the outsourcing arrangement, even though some of the company's client contracts are fairly complex and the recognition of revenue for its services tends to be "extremely" complex. He says he gets timely reports, has complete visibility into the numbers down to the transaction level, and has no concern about the integrity or accuracy of the information, "to whatever level of certainty any CFO can ever have."

Maybe, he allows, if he'd come up through the controllership path, he'd be more sensitive to those kinds of issues. "I came up on the strategic side of finance: treasury, corporate development, capital markets, planning," he says. "But that also perhaps allows me to think more open-mindedly. I want the heads we add to our staff to be geared to revenue generation as opposed to underlying support."

According to Wenhold, the only standard finance function Synergis lacks is costing. But he doesn't miss it much. "You're not going to find a bunch of cost accountants walking around Synergis, calculating everything to the ninth decimal point," he says.

Meanwhile, the company has an interesting business model. Its outsource services comprise a four-legged stool. One leg is the marketing service. Synergis works with school leaders to design multimedia campaigns aimed at potential students. Second, the company will fund the campaign, if the school wishes. It recoups that outlay by getting a percentage of tuition revenue generated by students the school picked up from leads provided through the outsourced marketing.

Third, Synergis will keep and run the books related to student marketing and enrollment. At the end of each month the company delivers an accounting upload to the client school for whatever general-ledger system it uses. Finally, the company provides curriculum-development services, for either new or existing degree programs, by a team of academics. The service includes technology for offering online courses and training on that system for professors.

The fact that Synergis is an outsourcing company may make it more inclined to use outsource services itself. "It would probably be a little hypocritical if we didn't," Wenhold says. "Our cultural foundation has a natural bent toward outsourcing. I've never sat in a meeting where we discussed it like that, but it's there, even if on a subconscious level."

Record wave of finance professionals looking to move jobs

Fierce competition and growing salaries for skilled finance professionals is encouraging them to start looking for a better job at rival firms, according to recruiter Morgan McKinley.

The firm had a record number of jobseekers on its books in July, with over 15,000 looking for an alternative role, double the amount of jobseekers from July 2014.

Those who moved to a new job in July saw their pay rise by an average of 22 per cent, which has led to other workers to look to move jobs.

The strong rise also contrasts the average 2.4 per cent wage increase across the whole economy according to the latest official data.

Specialised skills are in very high demand, with banks and other finance firms happy to splash out on staff for their risk management and regulatory compliance departments, which is part of the reason for the increase in finance wages.

With more workers responding to this demand and re-train in the relevant areas, more are also looking to move to increase their pay for the new skills. Digital marketing jobs are also increasing in wages as finance firms adapt to the online economy.

Morgan McKinley's Jo Stone told the Telegraph:

"Those Marketing Directors and Heads of Marketing Communication functions who are able to command the highest packages are those combining a strong traditional marketing skills set with broad knowledge of digital marketing tools."

"For years, banks and insurance firms have gradually been growing out their digital marketing teams, but now their asset management cousins have joined the party, resulting in a significant skills gap.Those with a CV that includes digital and social media marketing experience, combined with a broad knowledge of digital marketing tools and platforms, can command higher salaries."

"Hiring managers seem to feel that there is no hurry during the holidays," said the recruitment firm's operations director Hakan Enver.

"Slow employers are being hit, because by the end of the summer they will find that the best talent has already been scooped up by competitors.

The 4 Least Productive Responses You Can Have When There's a Lot on Your Plate

The *manager's dilemma* is a phenomenon that affects roughly 80 percent of all managers. It is triggered when you fall into that precarious place where your demands and responsibilities increase, yet the resources you have available to meet them do not.

The problem with this inverse equation is that, when the demands you face outpace the resources you have available to address them, you end up negotiating with yourself about which fire of the day you will put out — while others are painfully neglected.

I call this set of imperfect choices the "manager's dilemma" because it is truly a no-win situation without an obvious solution. If you manage people, priorities, and projects, then the chances are good that you have encountered the dilemma at some point or may even be struggling with its consequences right now.

Unfortunately, the most common reactions to the manager's dilemma are often unproductive and tend to make matters worse. To avoid digging yourself into a deeper deficit of time, energy, and resources, avoid the pitfalls of these counterproductive response patterns.

1. The *Hero* Wants to Conquer the Dilemma

They have a resilient mindset, which means they believe that bad news isn't permanent and they can take ownership in the situation to make things better. The strong hero is often a high performer, so they may initially think, "The rules don't apply to me!"

To match their "bring *it on"* attitude, the tools they use to try to get everything done all come down to brute force. They exhaust all of their available time, energy, resources, and focus in an effort to overcome the challenges they face.

Once they deplete their margins and eventually begin to burn out, *heroes may become evaders.*

2. The *Evader* Wants to Outsmart the Dilemma

Believing that they can find a creative way to "get around it," the evader takes a conservative approach to using their available time, energy, resources, and focus. They'd rather avoid a confrontation with the brutal effects of the dilemma, so they search for tools and tactics to sidestep the brunt of their overflowing plate of responsibilities.

They, too, maintain an optimistic mindset, which enables them to confidently believe that they can stay one step ahead. However, when they finally exhaust all options, *evaders may become survivors.*

3. The *Survivor* Hopes to Outlast the Dilemma

Survivors have "seen it all before" and recognize that organizational life flows in cycles. When work is overwhelming, they intend to hunker down as best they can until the latest storm blows over. They are willing to use their available time, energy, resources, and focus; however, their pessimistic mindset causes doubt that any of their efforts will make much of a meaningful difference.

As survivors hang back, they engage or disengage as needed for self-preservation and hope that their efforts to triage challenges will buy them enough time.

When they finally run out of options, *survivors may become deserters.*

4. The *Deserter* Wants to Avoid the Whole Thing

In some instances, it is a quiet surrender, evidenced only by their steady lack of engagement and decline in performance. In other instances, they may vocalize the terms of their defeat and express their deep frustration with and dissatisfaction about the circumstances in an effort to take others with them. Either way, the deserter gives up on any realistic hope of successfully meeting the demands they face. Makin no effort at a constructive response, the deserter often poisons the well by sapping the motivation and hope of others.

While each of these four responses is understandable, they are also all damaging because they play right into the dilemma's core problem. In different ways, the reactions not only leave you with the original lingering challenges associated with the *inverse equation*, but there is also always ongoing baggage from the ineffective response itself. In order to escape the dilemma's draining effects, you need a better response pattern — one that faces facts and goes all in.

For the heroes, take off the cape. For the evaders, know that you cannot run forever. For the survivors, surrender now and live to fight another day. Finally, for the deserters, you can be re-empowered, but there is a lot of work to be done.

The first and best response to your manager's dilemma is to accept the situation for what it is and to focus all of your available time, energy, resources, and focus in a concentrated effort to balance the equation. To pinpoint the precise areas you need to focus on, take a free self-assessment.

CFO Compensation Rises 6.7% At Large Firms

Cash compensation for CFOs at large companies increased a median 6.7% in 2014, reflecting strong corporate results that boosted performance-driven bonus payouts, according to a Mercer survey released Monday.

Mercer's latest analysis of compensation for CFOs at 159 companies in the S&P 500 shows that all pay elements increased last year. Short-term incentives led the way with a median increase of 8%, followed by long-term incentives and base salary at 7.2% and 3.2%, respectively.

Median base salary increased to $624,000 while the median for CFOs at S&P 100 companies rose to nearly $800,000. In 2013, total direct compensation increased a median 5.6%.

"Bonus payouts for the CFO and other top executives at most organizations were largely based on corporate results," John Cummings, a principal with Mercer specializing in executive compensation, said in a news release. "Companies and investors are paying significant attention to ensuring that payouts are aligned with corporate performance levels that boost share prices."

The pay gap between CEOs and CFOs continued to shrink in 2014, according to Mercer. As a percentage of median CEO pay, compensation for CFOs increased to 35% in 2014 from 32% in 2012.

"A number of factors are likely at play, but the chief impetus may be pressure on the CFO position due to increased regulatory requirements and focus on financial risk," said Ted Jarvis, Mercer's global director of executive compensation data, research and publications.

"To a lesser extent, proxy advisors' scrutiny of CEO pay doesn't extend to CFO pay, which may fly below the radar," he added. "Thus, demand for qualified CFOs pushes up their compensation while scrutiny by governance watchdogs tends to curb that of CEOs."

The narrowing gap may also reflect an elevation in the CFO's status, as the role is viewed increasingly as a strategic one rather than simply tactical, Jarvis said.

"I don't predict there will be pay parity between the roles, but the prestige of the CFO role has risen since the onset of the current economic recovery," he said.

Can a Company be Good and still make a Profit?

By Prof Janek Ratnatunga

I would like to point CMA members to an excellent article by Bill Saporito in the TIME magazine titled *"Making Good, Plus a Profit: A new type of company lures activist entrepreneurs"*

Saporito talks of companies that are becoming B Corporations, short for "benefit corporation." This fast-growing business structure reorders the traditional hierarchy, which dictates that investor returns must come first. In B corporations, profits still matter, but employees, suppliers, the community and the environment can be on equal footing with owners or shareholders.

B Corp companies represent a genre of capitalism whose mission includes attacking social and environmental problems. "Consumers, investors, entrepreneurs and policymakers have recognized that business is the most powerful man-made force on the planet and it can be used as a powerful force for good," argues Jay Coen Gilbert, a former sneaker entrepreneur and a co-founder of B Lab, a nonprofit that certifies benefit corporations. "It can marshal talent and resources at scale and with speed unlike other sectors."

For example, in Oregon USA, a company called *A to Z wineworks* became a B in 2014. For A to Z, being a B means that the grape growers it contracts with are guaranteed fair prices in both good years and bad; and that its distributors aren't squeezed for every last penny. Employees are paid 43% over the local living wage, and the business is run on a sustainable basis. And yes, A to Z is profitable; this year it will produce 365,000 cases of wine.

Saporito says that unlike most for-profit corporations, called S corporations in the USA, a B Corp is not structured for a particular type of tax treatment; instead, the label is more analogous to a food producer's organic certification. While the idea of socially focused companies certainly isn't new, the fact that there's now a legal structure backing the concept (in the USA) makes it more attractive. There are more than 1,200 certified B Corp entities, the majority in the U.S. They are regulated in 26 states, the latest being New Hampshire and Delaware. The blessing of Delaware, the legal home of many large U.S. corporations, is the most vital endorsement yet for making benefit corporations mainstream. Legislation is pending in 10 other states. Members range from large outfits such as Plum Organics (baby food) and Method (cleaning products) to utility Gree n Mountain Power of Vermont.

Can an electric utility become a B Corp? Yes, says Saporito, because the company, a wholly owned subsidiary of Canada's Gaz Métro, generates most of its power with renewable energy such as hydroelectric and wind power. Green Mountain gets no credit for the 38% of its power generated by nuclear and fossil fuels. But it ticks other boxes: it pays more than 25% above the living wage and covers 80% of employee health care premiums. In a male-dominated industry, more than 25% of its managers are women or minorities. Workers also get paid hours to do volunteer work in their communities.

B Corp owners say their status is a competitive edge. “We’re really after a niche,” says Deb Hatcher, a co-founder and the head of marketing and sales at A to Z. “After Sideways [a film that romanticized pinot noir (a red wine)]; it’s become quite a crowded field. We see ourselves as leaders. We want to model best practices.” A to Z believes, for instance, that if it can train its grape suppliers to become sustainable growers, it will improve their soil, the environment will benefit, and the company will get higher-quality fruit.

But becoming a B Lab–certified benefit corporation isn’t simple, says Saporito. Companies seeking the status must undergo annual audits for B-worthiness in areas like governance, employment practices, community performance and environmental stewardship, measured on a 200-point scale. A to Z scored high on community performance and environment, less high on governance. Companies must score a minimum of 80 to qualify. This can further complicate the process and costs of starting and running a small firm.

Still, entrepreneurs say B status is about more than how they market themselves. It keeps them honest. Consider Biomimicry 3.8, which helps Fortune 500 companies create products based on nature’s designs–for instance, a carpet tile with a pattern that mimics the forest floor, making the replacement of worn tiles unnoticeable. Managing director Nicole Hagerman Miller says undertaking the annual B Corp audit keeps her company on mission. “It does hold us true to this commitment. It helps us go further, even though we feel we’re progressive.”

Bill Saporito (2015), “Making Good, Plus a Profit: A new type of company lures activist entrepreneurs”, TIME magazine, Briefing-Business, March 23, p.12

Dubai, U.A.E. Branch Activities

The 17th CMA program was conducted by Wisdom Institute in Dubai in June 2015. The program was again facilitated by Professor Janek Ratnatunga, the CEO of ICMA Australia. It was a lively 7-days of intensive leaning on the strategic issues of management accounting. Once again, the participants were extremely senior professionals from leading companies in the Gulf region. There were also participants from Malaysia, and Sudan.

The picture below is the student group with Professor Ratnatunga celebrating the end of 7-days that many said gave them *"practical insights that could be immediately implemented in their organisations"*.

APMAA 2015 ICMA Co-Sponsored Conference

The APMAA 2015, its 11th Annual Conference, will be held on October 26-29, 2015. The venue will be on Udayana and Warmadewa University, in Bali, Indonesia. The theme of the APMAA 2015 is ***"Management Accounting For Sustainable Development".*** Paper submissions in any areas of accounting are welcomed.

The deadline for full paper submissions is July 15, 2015. To submit a paper, go to the CMT conference submission site at **https://cmt.research.microsoft.com/APMAA2015/**

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What's On in the World of the CMA?

- August 2015: CMA Intensive Program (Hanoi), AFA Research and Education, Vietnam (in Vietnamese).
- September 29, 2015: ICMA Graduation Convocation, Colombo, Sri Lanka.
- October 17-24, 2015: CMA Preparatory Program, Wisdom Institute, Dubai, UAE.
- October 26-29. Asia Pacific Management Accounting Association (APMAA) seminar in Bali, Indonesia. Co-sponsored by ICMA and JAMAR. Keynote speaker, Prof Janek Ratnatunga.
- November 2015: CMA Intensive Program (Ho Chi Minh City), AFA Research and Education, Vietnam (in Vietnamese).

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