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CGMA MAGAZINE

Issue 1 – 2016

GETTING THE MOST FROM YOUR TEAM

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The world appears to be in the midst of an employee engagement crisis. Only 13% of the worldwide workforce is considered engaged in their jobs, according to polling firm Gallup. Workers seem to have checked out, and human resources executives are puzzled about how to reverse the trend.

But in some corners of the world, including on a verdant, sprawling campus in the south-eastern US state of North Carolina, no such crisis exists. At SAS, a global provider of business analytics software, employees rarely leave the company. SAS, which employs about 14,000 people around the world, offers more than perks to its global workforce. The company offers flexibility and challenging work to keep staff engaged.

By Neil Amato

5 WAYS TO WIN ENGAGEMENT

Software provider SAS offers more than perks to its global workforce. The company offers flexibility and challenging work to keep staff engaged.

By Neil Amato
world, has been investing heavily in workers’ wellbeing since the 1970s – well before the term employee engagement gained popularity.

And now, with employee engagement on the minds of executives the world over, SAS continues to set a high bar, regularly appearing on exclusive best-places-to-work lists. SAS, at one point known for the M&M’s it distributed to employees each Wednesday, is today known as a major player in the analytics field, with 40 consecutive years of revenue growth, a customer list that includes 91 of Fortune’s top 100 companies, a turnover rate well below the software industry’s norms, and an almost too-good-to-be-true list of employee perks.

What makes SAS, the world’s largest privately held business analytics software company – with $3.16 billion in revenue in 2015 – a company worth emulating? Start with the shiny buildings, impressive sculptures, soccer pitches, and walking trails. Google officials visited SAS headquarters in Cary, North Carolina, for ideas when they were designing the Googleplex in Mountain View, California.

Here are five ways SAS does employee engagement better than many other organisations:

**MAKING A NEXT-LEVEL COMMITMENT TO EMPLOYEE HEALTH**

SAS allows employees unlimited sick days, but the average employee takes three days per year. SAS has an on-site health-care centre and pharmacy for the 5,610 employees at its headquarters, with four doctors, 11 nurses, and ten nurse practitioners. Visits to the centre are free to employees and their families covered by the company medical plan. When a specialist is needed, SAS pays 80% of the employee’s cost after a low, out-of-pocket deductible is met.

The company estimates it saves more than $3 million a year because employees aren’t filing as many insurance claims. Employees are more likely to visit the convenient, nearby, free doctor, meaning less overall sickness and less time away from their desks, which saves the company almost $4 million annually in employee time. SAS said that for every $1 it costs to operate the health-care centre, it saves $2.49.

Jean Davidson, CPA, CGMA, an international controller at SAS, previously suffered sinus infections caused by allergies, the kind of nagging health issue many people might have let fester in the traditional corporate health-care model. The hassle of scheduling appointments, travelling to the doctor’s office, sitting in the waiting room, and working out insurance and payment for each visit would have been too big an obstacle.

Davidson took the short trip to the SAS health-care centre, getting allergy medication once a week for three years. In a half-hour, Davidson could get the required shot, wait 15 minutes to ensure there was no adverse reaction to the medication, and get on with her day. She could go back to her office, eat lunch at one of several cafeterias, ship a package, or visit the free on-site fitness facility – all in minutes and without leaving the campus.

She felt better and took fewer sick days after the treatment.

Fitness opportunities at SAS headquarters include classes in the 66,000-square-foot Recreation and Fitness Center.
In addition, the company offers assistance arranging care for workers’ parents. Instead of asking employees to put aside distractions during the workday, SAS aims to eliminate as many distractions as it can. It has a committee that weighs up benefit suggestions by the employees each year.

The emphasis on work/life balance is one way SAS has differentiated itself in the software world, where turnover can be as high as 20%. SAS’s low turnover rate, estimated recently at 5%, could save the company $100 million a year in training and recruiting costs, according to Jeffrey Pfeffer, a Stanford University business professor.

SAS is not a get-rich-quick destination: It does not have stock, so there are no stock options, and it has been reported by *Fortune*, in a profile of SAS as a top place to work, that the company is not known for paying the highest salaries in its

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**Drivers of motivation**

A worker’s level of responsibility appears to influence his or her level of motivation.

Just 39% of workers with no employees to manage described themselves as engaged, compared with 69% of senior managers and department heads, according to a survey of 2,006 UK employees conducted by Red Letter Days for Business. And perhaps there is such a thing as too much responsibility; the figure falls to 47% amongst CEOs, managing directors, and divisional heads.

So there’s a delicate dance organisations must do to ensure that employees are engaged. Here are takeaways and tips from Red Letter Days and other organisations:

- **Focus on development.** Training opportunities, whether directly job-related or for personal skills, are crucial to fostering engagement. Having a manager or mentor take an interest and encourage an individual’s development is also critical. Managers should regularly talk with employees about how their current role is making them more marketable as they build skills and capabilities they need to advance in their careers.

- **Communicate career opportunities.** Today’s flatter organisational structures can leave employees dissatisfied with career opportunities, according to consultancy CEB. Companies should work to provide new experiences and enable other types of employee movement across the organisation. Managers should set clear expectations with employees and let them decide how they want to commit to the organisation. Employees who decide to leave create opportunities for others to move across the organisation.

- **Give praise.** Employees are more motivated when they feel that their role ties in to the overall purpose of the business and that their opinions are being heard. Recognition of good performance, whether verbal or in the form of a reward, features among the differentiators of highly engaged workplaces. The most common forms of recognition, according to Red Letter Days: an individual cash bonus (received by 33% of highly engaged employees); a gift voucher (24%); being verbally thanked by a manager on a regular basis (24%); and receiving a thank-you card or email from a manager (11%).

A lack of praise can lead to a lack of loyalty, which increases the likelihood that an employee will leave for another job. A survey by the American Management Association showed one key impact of dwindling employee loyalty was high turnover. And a survey of UK workers by the Institute of Leadership & Management showed that 25% of those planning to pursue other work are doing so because they feel underappreciated.

—By Samantha White and Sabine Vollmer
industry. Pfeffer said workers who come to SAS understand that the whole package is about far more than salary: “They pay a competitive salary, but if you want to make a ton of money, that’s not the place.”

EMPHASISING AN OPEN CULTURE
Because it is private, SAS does not have to worry about impressing Wall Street with short-term earnings. For 2015, SAS said, it devoted 25% of revenue to research and development, a figure well above industry norms.

The culture that permeates some public companies, where any sniff of a downturn can lead to layoffs or the fear of layoffs, is absent at SAS, according to Pfeffer, who has studied the company extensively.

“With fear, people are afraid to tell you the truth, they’re afraid of mistakes, and so oftentimes in fear-based organisations, a lot of stuff gets hidden under the rug, and people are trying to cover for each other,” Pfeffer said. “At SAS, because they don’t have fear, and everybody feels pretty secure in their jobs and in their relationships with each other, there’s a lot more honesty. That’s a much more effective way to run a business.”

PROVIDING CHALLENGING, MEANINGFUL WORK
All the perks in the world will not keep a worker excited if the job seems like drudgery. That is why SAS tries to offer challenging work that matters. Its software helps in efforts to detect bank fraud, improve child welfare, research cancer, and track climate change. It helps professional sports teams determine which players to sign and which to let go.

Not every employee at SAS is developing new software, but the company makes a point of giving workers purpose. For example, the landscaping crew isn’t assigned a task such as trimming grass. Each landscaping staff member gets an individual area to manicure, providing a sense of ownership.

OFFERING FLEXIBILITY
SAS emphasises an open management style based on trust. Employees are trusted to do their jobs well and are empowered to make decisions. They are trusted to do their jobs from home, if circumstances dictate it. They are given the flexibility to work outside traditional job duties to solve a problem. Maybe they team up with a member of another team to develop a new product. Or maybe they explore a new role for themselves.

Davidson did just that, about ten years into her time at SAS. She was “pure accounting and reporting,” reporting to Lorie Durham, CPA, CGMA, a director of finance. Davidson now serves as an international controller, along with a colleague in Hungary, supporting the financial systems for the company’s European operations.

“After serving as an interim, remote controller for a country and learning how our systems worked, I approached Lorie about taking on more of a systems support role for this region,” she said. “Based on prior performance and my interest in systems, I was supported in that cross-functional experience.”

Even workers who do not get a sense of staleness in their jobs are encouraged to explore other divisions. A member of the landscaping crew from 28 years ago decided she wanted to consider other work at SAS. She was given the freedom to do so. Today, that former landscaper is the company’s director of pricing.
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Companies that share information with employees find that transparency makes everyone more visionary.

By Neil Amato
On the surface, Tasty Catering is similar to many of its competitors in the Chicago area: It offers a wide variety of salads, sandwiches, and snacks for weddings and corporate events.

But what you can’t tell while munching on its Waldorf salad or herb-crusted pork loin is something that makes the company radically different: It’s an open book, financially speaking.

In 2011, the company opened its books to employees, choosing to share detailed financial information previously reserved for owners. The thinking: Treat employees like owners, and those employees will act like owners. They will think about ways to save money and how to spend it as if it were their own.

It’s one of the principles of open-book management, a concept that has been slowly embraced by organisations around the world. And in the years since introducing it to its employees, Tasty has saved tens of thousands of dollars.

“They’re thinking of better ways to serve our customers, and they’re constantly thinking about things from an owner perspective,” co-owner Kevin Walter said.

Take the example of one Tasty Catering delivery driver. The driver was assigned to monitor one line of the company’s profit-and-loss statement: fuel costs. He began charting the price of petrol over the course of several months in early 2012 and found that Tuesdays and Wednesdays were the days it was cheapest. The company began fuelling its fleet of 18 delivery vehicles midweek, saving more than $20,000 per year.

THE ROOTS OF OPEN-BOOK MANAGEMENT

Open-book management is a concept credited in part to Jack Stack, a business owner in the mid-western US state of Missouri. Stack was a plant manager at Springfield Remanufacturing Co. (SRC) beginning in 1979. He was sent there by parent company International Harvester because the unit was losing money. Stack led a turnaround by sharing the financial information with employees and getting them to play a game with those numbers, a process detailed in his book The Great Game of Business.

He and 12 other employees bought SRC from International Harvester in 1983. Today, Stack is the CEO of SRC Holdings Corp., which is owned by its 1,400 workers. The company operates 31 businesses using the principles of open-book management.

The game is based on three principles: business transparency and education, high-involvement planning, and “the critical number”, a financial or operational metric that becomes the focus of the organisation’s game. If employees play the game well, they have a better chance of being rewarded financially and recognised for their success.

Interest in sharing information, and ownership, with employees is growing.

Revenue for The Great Game of Business, a division of SRC Holdings that offers corporate training and education on open-book practices, has more than doubled in the past three years. The number of US workers participating in employee stock ownership plans (ESOPs) grew from 6.3 million in 1996 to 13.5 million in 2014, according to the National Center for Employee Ownership (NCEO).

The number of workers at majority-employee-owned companies in Europe has grown from 373,000 in 2006 to 445,500 in 2015, according to the European Federation of Employee Share Ownership.

And a report by Robert Half Management Resources in 2012, the most recent data available, showed that 7% of US private companies shared financial information with all employees. Tim Hird, executive director of Robert Half Management Resources, said open-book practices, even among companies that aren’t employee-owned, have continued to grow, but the evidence is anecdotal.

Naturally, many companies that open the books to employees are employee-owned. But companies that aren’t employee-owned can learn from those that are. Employee-owned companies tend to perform better than those that aren’t employee-owned, in part because of the transparency.

ESOP companies have 25% higher job growth than comparable, non-ESOP companies over a ten-year period, according to the NCEO, and ESOP companies also experienced increases in sales, productivity, and return on assets. Research detailed in Harvard Business Review in 1987 showed that 73% of companies that instituted ESOPs significantly improved their performance.

Hird said workers are seeking more openness from companies that have the best retention and morale, they’re talking about more than the numbers.”

— Tim Hird, executive director of Robert Half Management Resources
companies, and those companies that oblige can have a more engaged workforce and better employee retention. But it’s more than financial information that employees are seeking. They want insight into the strategic direction of the organisation. “Companies that have the best retention and morale, they’re talking about more than the numbers,” Hird said.

Data support what Hird is saying. A Harvard Business Review Analytics study showed that executives view effective communication as one of the most critical factors to success. And US and UK workers seem put off by managers who don’t share information, according to a survey by Geckoboard, a UK provider of data communication tools such as dashboards. In a 2015 survey, 76% of workers said they did not trust bosses who failed to share company data. Eighty-one per cent of workers want more information related to the business, and that includes bad news: 94% said they would rather hear negative results than hear nothing.

THE POWER OF EMPLOYEE INPUT
When New Belgium Brewing Co.’s CEO and majority owner announced she had sold the company, employees summoned to a meeting at headquarters in Fort Collins, Colorado, were told to open envelopes placed under their chairs. The envelopes were to reveal the identity of the new owner. Inside the envelopes, they found mirrors.

In a 2015 survey, 76% of workers said they did not trust bosses who failed to share company data.

New Belgium’s employees — referred to as co-workers — were thinking like owners before co-founder Kim Jordan made that announcement in January 2013. Two such employees, Marc Finer and Don Rich, proposed in 2008 that New Belgium eliminate cardboard dividers in its 12-packs of bottled beer. The dividers were to keep bottles upright — and keep them from breaking as trucks shipped beer to most US states.

Danielle McLarnon, CPA, CGMA, the CFO of New Belgium Brewing Co., says information should be provided to employees in an easy-to-understand format.
The employees saw other beer companies eliminate the dividers and thought New Belgium should try it. The company had a committee for considering such ideas, and the committee approved a trial of the suggestion. By shrinking the outer cardboard package, the bottles fit tighter and didn’t need dividers. The move saved New Belgium $280,000 and eliminated the use of 150 tons of cardboard. It also increased the co-workers’ share of profits that year.

“Everybody was high-fiving them in the halls,” said Katie Wallace, New Belgium’s assistant director of sustainability.

New Belgium has since eliminated the dividers on packs of 24 beers as well as packs of 22-ounce bottles. Wallace said the annual savings are 360 tons of cardboard and about $1 million. That number doesn’t include savings from shipping more beer per truck because the cardboard cartons are smaller. And the company eliminated the No. 1 reason for downtime on the bottling line: The cardboard flaps sometimes got stuck.

“We were able to use our equipment to a greater efficiency level,” Wallace said.

Sharing ideas is part of the culture at New Belgium, a company that also shares financial information with the employee owners at monthly staff meetings. The sharing starts with basic education on financial terms and is part of the orientation process for new hires, according to CFO Danielle McLarnon, CPA, CGMA. “We don’t want them to have to create a P&L, but we do want them to understand what a P&L is,” she said.

That desire to share and educate ties into New Belgium’s core values, one of which reads: “Trusting each other and committing to authentic relationships and communications.”

“If we want our co-workers to understand how they personally can impact the purpose of the company and the financial results of the company, they need to understand this process,” McLarnon said. “We need to be authentic. We need to be real. And we need to be timely with our information.”

A SUCCESSFUL PARTNERSHIP

Employees have a similar mindset at the John Lewis Partnership, UK owner of John Lewis department stores and Waitrose supermarkets. In 1929, John Spedan Lewis, the son of the company’s founder, signed a trust settlement, which led to the co-ownership of the company by its employees, reasoning that employee ownership was a better way to do business. Today, JLP employs more than 90,000 “partners”, its word for the workers who receive a percentage of company profits in the form of an annual bonus.

“When you own something, you take more

A large whiteboard displays profit-and-loss information for all employees to see at Tasty Catering.
Employee-owned companies tend to perform better, in part because of the transparency.

‘PEER-TO-PEER PRESSURE’
At Tasty Catering, delivery drivers and cooks are seen as shareholders and entrepreneurs. Good ideas can come from anyone, which is one reason the company shuts its doors and turns off its phones each day at 12:30 p.m. for an all-staff lunch. On Wednesdays, profit-and-loss information is shared on a large whiteboard. Green markers are used for positive numbers, red for negative. The numbers affect each employee’s bonus amount.

“It’s peer-to-peer pressure to do the right thing,” Walter, the co-owner, said.

Hugo Rios, an employee in charge of van maintenance, found annual vehicle repair costs to be $56,000. He estimated that by scheduling regular checkups for the vehicles, the cost could be cut to $37,000, leaving some room for the costs to address unforeseen breakdowns. Even though that goal wasn’t reached, the company cut repair costs to $42,000.

“We saved $14,000 on one line of our P&L just because we were more proactive with maintenance,” Walter said.
How to be more open

Transparency and open-book management can yield big savings for companies. Here are a few ways organisations can be more open.

- **Start with education.** Outside the accounting department, there is often little understanding of finance basics. So, employees will be more conversant about finance if they have more knowledge. Lisa Cvecko, CPA, CGMA, the vice president of finance at Evergent Group, a Northern California staffing firm, required that her company’s leadership team take an in-house course on financial literacy before members of that team participated in meetings about finances. “Financials are only as good as your understanding of them,” Cvecko said. “Gross margin, operating expenses, cost of sales — people don’t understand those terms, so I wanted to give them some background.”

  Danielle McLarnon, CPA, CGMA, the CFO at New Belgium Brewing Co., said her company offers two accounting sessions at its annual retreat: basic and beyond basic. They are part of the company’s overall business acumen sessions that can help the staff understand the business better — and understand their role in making it more profitable.

- **Don’t be too technical.** Cvecko and McLarnon recommended offering information in an easy-to-understand format. Charts and graphs are better teaching tools than spreadsheets and income statements, at least for those new to finance and business concepts.

- **Don’t be afraid to share bad news.** Cvecko said that tough times are the best time to share information. “That’s the time that you can really engage your employees to help make a difference, to help you find the solutions and the answers that the business needs, as opposed to upper management, which doesn’t touch the day-to-day stuff, trying to make the difference themselves.”

  Louisa Hosegood, FCMA, CGMA, the head of assurance, operations at John Lewis Partnership, said not to hide bad news; employees will learn about it soon enough anyway. At John Lewis, when profit seems on pace to fall below projections, the company begins the conversation with employees well before year end, so that they are not surprised on the day annual results are announced.

- **Tell the story behind the numbers.** Hosegood recommended providing context with all data shown to employees. For instance, if a sales team has sold more goods than the previous year, the sales team might assume a higher commission or bonus is coming its way. But if the cost of those goods has risen, and margins are lower, the bonus might be lower.

  “You can give people information, but if they don’t know what to do with it or why it’s there, they’ll struggle with it, or they’ll ignore it, or they’ll take it the wrong way,” Hosegood said.

  When Cvecko’s company shared its information, employees came up with an idea to reduce costs. Changing standard contract terms from 30 days to ten days, Cvecko estimates, has saved the company $60,000 annually in interest since 2014.

- **Set ground rules.** Not every decision or policy in a company should be up for debate, even among companies that consider themselves transparent. Hosegood recommended that management be clear with employees about what can be debated and what can’t. There is a difference between being given information and being able to make a decision about the information.
Traditional employee performance appraisals have been called outdated and arbitrary. Here’s how to fix them.

By Andrew Kenney
If anybody knows the ins and outs of employee performance assessment, it’s Kathleen Fitzpatrick, CPA, CGMA. As the former human resources director for Johnson & Johnson, she was responsible for the corporate wellbeing of more than 125,000 employees, helping the multinational corporation unify HR practices across roughly 250 companies.

Yet she can trace much of her perspective on performance reviews — a pressing topic for business leaders lately — to the experience with just one person.

Early in her career at the medical products manufacturer, she had learned that one employee wasn’t working well with others. Her direct report seemed to be faltering under the pressures of the job, an issue that Fitzpatrick knew she would need to address in her first performance appraisals with her new team.

The conversation happened in Fitzpatrick’s office. She delivered a score on a 9-point scale and an evaluation of the employee’s issues, per protocol.

The reaction? “A breakdown, right away,” she said.

“Denial. Shock.”

The issue: It was the only major assessment that the employee had received that year. The meeting delivered months of feedback in one unbearable load to an employee who was feeling stressed and vulnerable already. The human brain doesn’t operate by the year — whether calendar or fiscal — especially when business roles can change by the day. So Fitzpatrick vowed to make a change.

“I’ll never surprise a person again,” she told herself as the devastated employee fled her office. She decided that from then on she would watch and instruct her team with the tenacity of a sports coach. She embraced constant communication.

Fitzpatrick’s experience is just one instance in a body of anecdotes and research foreshadowing significant changes in how companies evaluate and develop their employees.

The uncomfortable ritual of the infrequent or impersonal employee performance assessment is dying, or at least shrinking. In recent years, the performance review has been maligned as an outdated and arbitrary system that
attempts to compress people into just a handful of variables, while ignoring factors that may be limiting or benefiting them.

Its most trenchant critics say there’s no purpose in ranking employees at all. At the least, companies are trying to make performance assessment a friendlier process. Giant after giant – Accenture, Adobe, Microsoft – has announced major changes, in some cases eliminating numerical ratings and increasing the frequency of communication in an effort to retain employees and meet the demands of an information-hungry new generation.

About 43% of respondents to a recent CGMA Magazine survey said that their employers had instituted major changes to performance reviews in the past three years or were in the process of doing so. They most commonly reported that reviews were becoming more frequent, with more self-evaluation, more peer evaluation, and a greater number of automated systems for tracking metrics. Still, some 55% said the reviews they received were not serving them well.

“Until recently, business leaders haven’t really been expected to be as rigorous about human capital issues,” said John Boudreau, professor of management and organisation at the University of Southern California’s Marshall School of Business, who has published extensive research on performance management.

“With increased volatility and uncertainty, there are lots of experiments today. But what’s consistent is this idea of empowering employees to make decisions themselves — to understand the connection between what they do and what motivates them.”

FIND THE ROOTS OF DISCONTENTMENT

Businesses have been trying for at least a century to distill the rules that will select and advance their best employees. At the dawn of World War I, industrial psychologist Walter Dill Scott brought scientific rigor, in the form of intelligence and aptitude tests, to the hiring processes of companies such as the American Tobacco Co.

Scott’s “man-to-man” scale, developed first for salesmen, came to widespread use by the US Army during the Great War. By the end of the war, a team of 7,000 analysts had interviewed and ranked more than 3 million troops on a slate of five metrics, from physical fitness to leadership qualities, according to an article published by Harvard University’s Business History Review in 1962.

Even then, the researcher saw his ratings as a way for companies to engage their employees. As the Harvard periodical described his philosophy: “The important thing was for the employer to have a sincere interest in the welfare of his men and to make each employee feel that his job was essential and worthy of his best efforts.”

But those higher ideals couldn’t hold back the surge of cynicism that has crashed against his creation. In fact, the revolt has been building for decades.

“This idea that performance reviews are flawed and bothersome to people, and don’t meet their objective — it’s been around since I started in the profession in the ’80s,” Boudreau said. And the latest revolt is the strongest yet, he said.

Some see it as a reaction to the cutthroat competition exemplified in the 1980s by policies that pushed out low-rated employees. Companies today are starved for talent and less willing to shed employees on a schedule.

The increasingly flexible job definitions of the knowledge economy may also be more difficult to capture in a standardised review form. Business literature, meanwhile, has come to emphasise a style of management that is far more empathetic to employees. No matter how precisely it’s defined, the new thinking goes, the traditional review might amplify the way a supervisor’s biases and the company’s own flaws shape employees’ performance.

But none of this should be taken, Boudreau said, as evidence that the performance review should be eliminated. Done right, he said, an assessment can be a crucial connection between employer and employed.

“I don’t think it’s really a rejection of being evaluated,” he said. “In a number of studies, people are saying, ‘I really want to be evaluated. I want to know how I’m doing.’ ”

TURN REVIEWS INTO CONVERSATIONS

Research on performance management emphasises one key assessment: the quality of the discussion with the individual, Boudreau said.

In the new conception, the performance assessment doesn’t pretend to quantify the employee so much as it tries to assure and improve the relationship between the employee and the manager.

“You tell the boss, your job is to help the employee do a better job – first to learn what the employee wants and then to help him or her get it. ‘The bosses’ job is to get the chemistry right,’” said Sam Culbert, professor of management and organisations for the UCLA Anderson School of Management and author of the book Get Rid of the Performance Review!
These relationships, of course, are murkily human things — but they still can be tracked and managed. In some post-review companies, the human resources department tallies the number of contacts between employees and their managers, offering cues at opportune times.

“I’ll send little triggers: You should start doing a quick review. Anthony’s an entry-level, he’s already worked 95 hours — he needs feedback,” said Kevra Esposito, human resources manager for Wilkin & Guttenplan PC, which recently eliminated its annual performance appraisal programme.

This change to a more frequent schedule also can encourage managers and employees to spread the work of assessment into more manageable chunks.

“One of the huge weaknesses I’ve observed in the process is people not setting enough time aside for the conversations,” said Rona Purdham, FCMA, CGMA, a UK-based management consultant who previously was finance director for European human resources at Kellogg Co.

“There’s all of these requirements to do evidence gathering, whether it’s customer feedback forms or examples of work — but, in my experience, people leave it to the last minute.”

More-frequent interaction can yield stronger relationships — or, at the least, deliver criticism and praise about a project before it’s lost to memory.

“Just using an annual cycle doesn’t really … allow you to have a consistent set of alignments and goals that you’re working on throughout the year,” said Brenda Morris, CPA, CGMA, senior vice president for finance at retailer Hot Topic.

“I tend to like more routine get-togethers, and think that a quarterly goal and scorecard review is the better way to go.”

Christian Meloni, ACMA, CGMA, senior vice president for Belgian chemical company Solvay, suggested that this is a challenge for the entire organisation and that communication should be a focus for the training and advancement of managers. His company is trying to encourage a loop of continuous conversation, making its biannual reviews a “formalisation” of what’s discussed every week.

“You may be a very good performer in your role, but if you are not able to develop people, or develop your team, after a while this becomes a strong limitation — and this is a strong incentive,” he said.

ACKNOWLEDGE BIAS TO IMPROVE RELATIONSHIPS

Some of the deepest concerns about employee appraisals can’t be addressed through more conversation alone. Assessors are vulnerable to biases — most obviously involving race, gender, and social status — that can result in unjustly lower scores and limited opportunities for some employees.

“By virtue of being in South Africa and being a black woman and being young, I’ve encountered all of that,” said Kume Luvhani, ACMA, CGMA, an operations technology manager for an international bank’s presence in Africa.

Older white colleagues have at times eyed her with suspicion, she said, perhaps thinking that her career was fast-tracked by diversity hiring practices.

“No matter what we do, the honest truth is biases will always be there, and all we can do to minimise them is to ask a vast range of people for their feedback,” she said.

An improved assessment system can somewhat alleviate those concerns by ensuring that a single person’s biases don’t shadow another’s career. On Luvhani’s team, employees and managers are reviewed by a diverse group of three to five colleagues. The group also is testing an application that will allow employees to leave comments anonymously about superiors.

“We’re trying to encourage those open communication lines,” she continued, “and remove the fear.”

Culbert suggested that employees will put more faith in supervisors who acknowledge the limitations of their judgements.

“People aren’t objective. Self-interests are intertwined in everything a person does. And trusting relationships are built on the basis that we’re in it together. You have to make it real,” he said.

“Use ‘I’ speak. The boss talks about what I believe, he believes, she believes — about their needs, not the employee’s deficiency.”

A well-designed appraisal also can help to balance the
power dynamic between supervisors and team managers.

“You could have a tyrant, and you don’t realise it because they manage up really well,” Fitzpatrick said. “There has to be some mechanism to get feedback from their employees.”

And that balanced relationship can make a review far more effective, no matter how often it’s happening, according to Deborah Myers, CPA, CGMA, a manager of financial product performance for Warner Bros.

“It’s supposed to be a two-way conversation. The boss can learn things from me,” Myers said. “The annual process – if there’s someone who’s administering it who’s keyed in to their employees and their growth – it can work.”

CREATE NEW AVENUES FOR ADVICE

With career paths increasingly unpredictable, the “review” can’t simply measure progress toward the next promotion. Instead, it’s a chance to plot the path ahead.

“People in the early stages of this career find this process very dynamic. They can identify where they want to go and where their gaps are,” said Richard Adam, financial controller for Omega PLC, a UK-based kitchen products manufacturer.

The manager and the performance review, in the traditional view, are the principal guides for an employee looking to ascend the ranks. The manager tells employees what to do, and the review shows how well they’ve done it. A new performance review system can turn that assumption on its head.

“On the other side, it’s also that the employee himself is invited to take ownership of his career, to be proactive, to ask for more feedback from his manager and from his other colleagues,” said Meloni, of Solvay.

But if that’s to happen, companies must offer new avenues for support and feedback. For example, peer-to-peer partnerships, Culbert said, can help “high-structured” employees adapt to a world where jobs are loosely defined and promotions aren’t a function of time on the job.

“Their buddy would come out with them once a month, look at the situations they faced, and make supportive suggestions,” he said. “It gives them alternatives.”

The same tactic can help new employees set their course through the company.

“You choose a mentor, and you’re expected to meet with that individual four times a year,” said Kirsten Thompson, CPA, CGMA, and human resources director for the advisory and accounting firm HW&Co. “The protégé sets the agenda: ‘These are the things I need to work on’ – and then the mentor gives their suggestions.”

Many companies also have incorporated colleagues’ perspectives into the assessment, surveying relevant parties across the organisation to create “360” evaluations. This strategy can ensure employees get credit (or criticism) for their work beyond the department’s boundaries, but Culbert warned against making this commentary anonymous, as many companies do.

“Everything needs to be contextualised,” he said. “It’s ignorant to assume that if it’s anonymous, it is objective. That would mean that hate mail is objective.”

SETTING EXPECTATIONS

Dick Grote, who writes and consults on performance management systems, sees value in rating and differentiating employees.

“Performance appraisal, for all the gripes and kvetches and moans, is probably as much a vital business process as budgeting is,” he said.

“In spite of all the stories we read about companies abolishing performance appraisal, the reason it isn’t happening is simple. If people don’t know what they’re expecting of them, and they don’t know how they’re doing, they’re not going to prosper.”

What’s changing, most certainly, may be the form of those answers. They may come weekly instead of yearly. They may arrive as spoken words, not decimal-point figures. And the results, perhaps, will be seen as a reflection of employee and boss alike.

“Historically, we use [performance appraisals] as an opportunity to tell employees what it is that they’re doing wrong,” said Elizabeth Nilsen, CPA, CGMA, the CFO for FKP Architects in Houston.

“As managers, we need to be so much stronger, and we need to see ourselves as mentors and as guides.”

These ideas about the quality of relationships reflect Walter Dill Scott’s vision of an employee satisfied by an understanding of the connection between her daily tasks and the company’s bottom line.

“Ultimately, that’s what you’re reviewing,” Boudreau said. “That’s what performance is: the thing that connects the employee to the broader goals of the organisation.”
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As FreshBooks added employees, Chief Executive Mike McDerment set out to retain the company’s start-up feel.
How blind dates, chance encounters, and creative onboarding built one company’s culture of ideas

By Mark S. Brooks and Andrew Kenney

FreshBooks had a problem: The Toronto company was taking on so many employees so quickly that it felt as if there were strangers in its new office. Mike McDerment, the chief executive of the cloud accounting software service, noticed the change just after the 160th hire.

“People were walking past me in the hallway, staring at their shoes,” he said.

His company had made huge gains with a product in an entrenched market, and he worried that a divided office culture—between new and tenured employees—would diminish its start-up advantage.

The company’s response to that threat has encompassed many of the most popular strategies for corporate collaboration and a few fresh ideas. FreshBooks employees say hello in the hallways again. They mingle in common spaces that dominate an open office layout. And they go on “blind dates” with one another through an unusual voluntary programme meant to encourage communication.

“We believe culture is strategy, and the difference between companies ultimately is culture,” McDerment explained. “We spend a lot of time doing things to build strong bonds between people. … I want FreshBooks to be like the world’s greatest cocktail party. You may not know everybody, but they’re all friends of friends.”

Innovation is one of the potential powers that organisations gain when employees work together. And while innovation is consistently among the top strategic priorities cited by executives, it can also be a major weakness if not managed correctly. To be innovative, organisations must leverage the talents of all employees. That requires a supportive environment, management ingenuity, and a keen eye on talent management. To wit: A 2012 CGMA report indicated that 40% of executives believe that inadequacies in talent management hinder their ability to be innovative.

Corporate cross-pollination is one way to create and foster a culture of innovation. It occurs when employees from all disciplines and levels mix with one another to transfer ideas, perspectives, and knowledge. The practice can produce novel insights and solutions.

And it’s precisely what FreshBooks is trying to do.

“People were walking past me in the hallway, staring at their shoes.”

— Mike McDerment, chief executive of FreshBooks
prompted other ways to encourage employee relationships and maintain a positive workplace.

The most attention-grabbing of its concepts is the voluntary blind date programme, which sends groups of two to four colleagues to local restaurants. The programme aims to connect people from across functions to improve communication and understanding of different roles within the company.

“It was an activation of these company values — putting yourself outside the comfort zone, learning about someone who has passion for their own role,” said Shannon Murphy, a FreshBooks copywriter who was paired with a finance team member. “Now we make a point of saying hello and having a conversation. We don’t work in the same area, but there’s so many chances for us to interact.”

DON’T SEND NEW HIRES STRAIGHT TO THEIR JOBS

Rewards and incentives tend to narrow employees’ focus onto the action or outcome that is rewarded. Intrinsic rewards, where the activity itself is the reward — delighting customers, challenging oneself in new ways, deepened learning — can enhance creativity and motivation, especially accessible, emphasise what is good and going well, promote a sense of connectedness amongst employees, and encourage a healthy mix between work and personal living.

Emotions are contagious. And a positive, optimistic workplace can send employees home at the end of the day stress-free. This results in a motivating climate where employees will do their best and most productive work while freely associating with other teams.

FreshBooks lists its values in an acronym, PORCHFEST, emphasizing passion, ownership, results, change, honesty, fun, empathy, striving, and trust. Living those values requires employees to develop a broader sense of the roles their colleagues play in each part of the business. “You’re not living our value of empathy if you’re not prepared to hear and internalize what’s going on around you,” McDerment said.

Remember the hallway awkwardness? McDerment took a direct approach to solving it. At his next all-hands meeting, he introduced the idea of “Heads Up, Hello.”

“You don’t pass somebody in the hallway without having your head up and saying ‘Hello,’” he told his employees. The rule quickly took hold. “Since then, no problem.”

Today FreshBooks has about 250 employees — about three times as many as it did three years ago. The growth has
for tasks that require even the slightest bit of high-level
cognitive function. Extrinsic rewards have their place, but be
wary of offering them to encourage innovation. Focus instead
on providing meaningful work so that intrinsic rewards are
more prevalent.

FreshBooks builds its culture and reinforces its values by
putting each employee close to the customer.

Every new hire at FreshBooks spends a month in the
company’s customer service department. Each leaves with
better product familiarity and with 60 familiar faces beyond
his or her own permanent teams. Moreover, acting as a
public face for FreshBooks helps the new hire learn how the
company thinks of itself.

“Having the experience … opens you up to the people we
have running that team, but also to a different kind of world-
view around what service can be for customers,” McDerment
said.

The customer service group additionally acts as a first line
of defence against hires who don’t fit the company, and has
in a couple of cases vetoed a new employee, he said.

Separately, McDerment suggested that a high-level
executive make contact with each employee during the
interview or onboarding process. “When you meet
somebody in the halls, maybe you didn’t work on a project
with them, but you had 45 minutes together,” he said. “I
always carry around my understanding of what makes a
person tick.”

MAKE TIME FOR CRITICAL INNOVATION AND
DISCUSSION
Innovation often happens in the gaps between actual work.
Encouraging employees to set aside a percentage of time
to explore, discover, and experiment can reap big rewards.
For example, Google formerly allowed employees to
spend 10% of their time toiling on something of personal
interest. Google’s “10% time” resulted in Gmail and other
innovations.

If allocating a percentage of all employees’ time is
untenable, consider a day or two per year. For example, ShipIt
Days at software group Atlassian is a quarterly corporate event
during which all employees work on anything they want. They
have 24 hours to assemble a team, develop a prototype or fix a
problem, and prepare to showcase it to the entire company the
following day. The best idea wins, with resources support from
executive leadership to finish and ship it.

Collective reflection and discussion is also encouraged.
McDerment suggested scheduling a specific, frequent
time for teams to talk to large groups of colleagues about
their work.

“We don’t work in the same area, but there’s so many
chances for us to interact.”
— Shannon Murphy, a FreshBooks
copywriter

“They largely happen on Friday, when teams are
regrouping,” he said. “People get up and say, ‘Here’s what
I’m working on, here’s why it matters, here’s what it
accomplished, here’s what it did.’ ”

It’s not just a feel-good showcase. Attendees are
couraged to ask critical questions and challenge presenters’
assumptions, he said. This kind of dialogue plays to one of
the company’s core themes.

“We listen, we care, we’re supportive,” McDerment said.
“We’re a team that solves problems together. It doesn’t mean
we always agree — but you’re going to know you’ve been
heard if you express a different point of view.”

FreshBooks is a “learning culture,” he explained, “so our
ability to learn, unlearn, and relearn is actually what will
distinguish our performance along the long run.”

MAKE SPACE FOR COLLABORATION
The culture and physical spaces in which people work have
a profound impact on their productivity, creativity, and
wellbeing.

A 2013 study by design firm Gensler found that
employers that provide a spectrum of choices for when and
where to work are seen as more innovative and have higher-
performing employees. In addition to providing work-from-
home options, employers should ensure the physical space
of an office environment evokes creativity and provides
adequate space for focused work, formal and informal
collaboration, chance encounters, and play.

“We don’t have offices in FreshBooks,” McDerment said.
“We have meeting rooms for people who like to go into
them. They’re well set up for teams to work as a group.”

The company’s offices cover large floor plans, currently
encompassing one 90,000-square-foot expanse. Eating
facilities are consolidated in one area, encouraging employees
to share meals. The meeting rooms are walled with glass.
The overall layout is based on “collaboration, collisions, and
connectedness,” McDerment said.

“You can see a long way down our office,” he said.
McDerment follows the philosophy so closely that he fought against new bathrooms for the back half of the building, fearing that by spreading toilets throughout the layout the company would reduce employee interaction.

Open offices do draw criticism from some quarters, often for increasing distractions for employees, but McDerment maintains that the design has been crucial for FreshBooks. “These collisions — it never ceases to amaze me how people, just with little interactions like that, where they wouldn’t necessarily bump into somebody, can unlock stuff,” he said.

Mark S. Brooks is a senior manager of innovation at the AICPA. Andrew Kenney is a CGMA Magazine contributing editor.

Manager behaviours

The behaviours and actions of managers send signals throughout any organisation about what is acceptable and expected. Here are more ways managers can influence and reinforce a culture of innovation.

**Fail forward.** Failure is often seen as a negative event, something to be avoided and often taboo to talk about. While it is important to celebrate successes, it is also important to celebrate learning from failure. Managers should provide a reasonable safety net for employees to experiment and fail, for the sake of learning about the customer, the market, and the competition.

**Ask questions.** Great results begin with great questions. Questions encourage learning, which facilitates new perspectives and insights. Managers should neither strive to have all the answers nor be too quick to criticise. Instead, seek to ask and encourage many questions. Questions that result in more questions will spur dynamic, agile, and creative thinking. Question-driven companies can respond quickly to change, are proactive in finding and leveraging opportunities, and place a high value on learning.

**Encourage constructive conflict.** Employees with the same education, same background, and same career path will likely develop homogeneous ideas and solutions. Conversely, employees with diverse backgrounds and perspectives will lead to greater insights and ultimately better ideas. Healthy and constructive conflict is an outstanding channel for learning and thinking differently. For example, one of the core values at McKinsey & Co. is to uphold dissent because it is a way to get to better answers when solving complex issues. Of course, managers must ensure that such conflict and dissension is framed in a constructive manner and remains with the project at hand rather than becoming personal.

**Hire for innovation.** The role of recruiting and retaining innovative talent does not fall solely with the human resources department. Managers and individual contributors have an important role to play with recruitment and retention. The two most important factors in hiring for innovation are to recruit people with diverse backgrounds and areas of expertise, and to challenge their creativity and critical-thinking skills throughout the interview process. Ask candidates to work through a real business challenge. This may include giving the candidate a case to analyse and asking him or her to present recommendations. This type of exercise will help hiring managers assess a candidate’s creativity, understanding of the business, attention to detail, comfort with ambiguity, and critical-thinking skills.

**Retrain existing talent.** Innovation training focuses on creativity, opportunity identification, analytics, and strategic thinking. The intent of innovation training is to reset expectations on the need for and the ability of employees to be innovative. Training should help employees tap into their existing creativity skills and teach a variety of tools, techniques, and frameworks. The Center for Creative Leadership’s 70:20:10 Model for Learning and Development should be employed — that is, 70% of the training is focused on doing, 20% on learning from each other, and 10% on the academic lectures and reading. Actual problems for the business should be addressed as hands-on projects for training participants.
Entrepreneurs have long sought to bring innovative products and services to market in every corner of the world. But they need a lot more than a great idea.

Thirty-six per cent of businesses fail within the first two years of operation. The most common reasons for failure include a poorly thought-out business plan, running out of cash, and pricing or cost issues, according to analysis conducted by venture capital database CB Insights.

Analysts examined the postmortems of 101 failed US-based start-ups, written by their founders. Forty-two per cent of the postmortems stated that there was no market need for the product or service, and 29% said they ran out of cash.

Early-stage companies often fall into the trap of surging off in a certain direction too quickly without gauging...
Bear in mind that while many start-ups fail, there are start-ups — and, therefore, opportunities for finance professionals — everywhere.

Management accountants can play a vital role to bridge this gap between strategy and financial control. Scenario planning, strategic options, and evidence-based decision-making are among the areas where management accountants can provide expertise. At the same time, start-ups can provide rewarding opportunities for finance professionals in search of a fresh challenge.

CGMA Magazine spoke with several accountants with experience in supporting start-ups. Here are some of the tips they shared:

UNDERSTAND THAT IT’S A VERY DIFFERENT JOB

In a start-up environment, with a bare minimum of staff, the CFO figure often has no one to delegate to, so his or her role might involve basics such as monthly bank reconciliations and posting journal entries, explained Jack McCullough, CPA, founder of the CFO Leadership Council. Balancing that reality with a natural inclination to be at the cutting edge with customers, investors, and fellow executives isn’t easy. “It can be a challenging transition to make for someone coming from a big company who had people to do all that for them,” he said.

BE RESILIENT

If you like highly charged environments where there’s a lot of hard work to do — not to mention the chance to see results quickly — then a start-up is a great place for you to be, said Donna Mackenzie, CPA, CGMA, executive director of FireSpring Fund, a Florida company focused on raising early-stage capital for start-ups. “It’s not for the faint-hearted,” she said. “Almost guarantee any start-up is going to have a stage where they don’t know if they can make payroll, and a lot of sleepless nights that go with it. You just have to be able to walk through those fires without giving up or falling apart, even though you may want to at times.”

BE BELIEVE IN THE BUSINESS

Working in a start-up takes dedication and commitment, and there are likely to be long hours involved. Find a start-up that you believe in, one that you can help grow, and find an entrepreneur whom you really get along with. “This is a marriage,” Mackenzie said. “The relationship between the CFO and the CEO or founding partners is a much tighter bond than you’re going to find in almost any other type of company.”

Alex Soskin, ACMA, CGMA, has been managing director of Impact Hub Westminster in Central London since its inception in 2011. The hub acts as an incubator, providing facilities and business support to social innovation start-ups in London. Working in a start-up is not a job, Soskin said. It’s a lifestyle. Accountants must be motivated by the company’s mission. “You are a lot more productive, proactive, and achieve better outcomes if you believe in what you work for.”

BE CURIOUS AND CREATIVE TO FIND DATA AND INVESTORS

Organisations based at Impact Hub share a mission to generate positive social or environmental outcomes as well as revenue. To support a non-traditional business model, you need to be open to learning about new scenarios and new conditions — don’t just think along the lines of a textbook description of the development of a business, Soskin said.

For example, in the world of social innovation, one often has to use combinations of funding methods. These might include new options such as crowdfunding and impact investment, both of which are growing markets.

There are more unknowns in a start-up than in an established company, where there would be a wealth of historical data upon which to help build projections. If your company is truly breaking new ground, there may not even be other companies to draw comparisons with. However, your projections and budgets still have to be credible and based on some kind of rationale. “If that rationale has data points that people can understand, then they will buy into it,” Mackenzie said. “You have to be a lot more creative in finding those data points and helping to make the business case.”
BE ADAPTABLE TO CHANGE
The most important attribute of a start-up CFO is the ability to adapt and change. “You can’t be risk-averse,” Mackenzie said. “You really have to have an entrepreneurial mindset to be an effective CFO, because things are changing, sometimes on a daily basis. If you can’t adapt to change and lack that entrepreneurial spirit, you won’t be able to lead the team. The people around you are going for it, and you have to as well.”

KNOW THAT MANY OPTIONS AND EMPLOYMENT MODELS ARE OPEN TO FINANCE PROFESSIONALS
If the idea of supporting entrepreneurs and helping businesses grow is appealing, consider the capacity in which you want to be involved. “If you are getting involved in a very early-stage company,” Soskin said, “do you want to just be taking a salary? Or do you want to be involved in the whole story with them? For example, drawing a subsistence-level income, while having some kind of stake in the business. I would ask about the shared risk for a shared-reward scenario.”

A range of contract models and levels of commitment can suit your work patterns and availability. The lowest level of commitment with the least risk is as a freelance, part-time CFO. There is a growing network of CFOs for hire, particularly in start-up hubs, McCullough said. But this option requires constantly prospecting new clients, which could be a challenge if self-promotion doesn’t come naturally.

KNOW THAT THE SKILLS YOU GAIN WILL ALWAYS BE MARKETABLE — NO MATTER THE START-UP’S FATE
Bear in mind that while many start-ups fail, there are start-ups — and, therefore, opportunities for finance professionals — everywhere. “Start-ups are providing the most economic value and the most job creation, and solving more and more issues more readily than companies that have been around for many, many years,” Soskin said. “And, obviously, this is a phenomenon that carries across the world, whether it’s inside or outside of our growing network.”

And if you decide not to pursue a start-up job after leaving a failed one, take comfort in the fact that the skills and lessons learned at a fledgling company can be applied to businesses of all shapes and sizes.

Founded in 2011, Impact Hub Westminster in Central London provides facilities and business support to social innovation start-ups.
Here’s a glimpse into the risks facing a strong corporate ethics foundation and the fortifications management accountants are contributing, according to a CGMA survey.
TOP WAYS TO CONTRIBUTE TO COMPANY ETHICS

- 86% Upholding professional ethics code
- 83% Ensuring integrity of management data
- 79% Leading by example
- 82% Code of ethics for staff
- 81% Statement of values to stakeholders
- 62% Ethics training
- 59% Hotline for reporting and advice
- 57% Specific anti-corruption guidelines
- 46% Incentives to uphold standards

COMMON ETHICS APPROACHES

- Say senior management sets a good example
- Say say ethics breaches are punished
- Say managers communicate ethics
- Say management sees whistleblowers as troublemakers
- Say their company lives up to its policies
- Say senior management sets a good example

CGMA REPORT: Managing Responsible Business – 2015 Edition
RISKS AND SAFEGUARDS

How professional accountants contribute to an effective risk culture

By Tanya Barman and Samantha White

The way an organisation conducts itself entails a number of risks, and these risks lead back very clearly to the organisation’s reputation, one of its chief assets.

Increased transparency, regulation, and public scrutiny of corporate activity, combined with the speed and ubiquity of digital communications, mean a company’s perceived failings or misdemeanours can reach a global audience instantly.

The knock-on effects of reputational damage could include impaired access to resources and investment. Repairing that damage could take years and involve significant effort and expense. And if that’s not enough, reputational damage could impact something that is seen as a top risk even for companies of good standing: talent acquisition and retention.

Companies that are highly regarded have the chance to differentiate themselves as a destination for talent. On the other hand, research shows, many workers will not consider joining companies with dented reputations.

A report by EY showed that nearly 80% of workers in the Asia Pacific region would be unwilling to work for companies involved in bribery and corruption. And 53% of UK workers in a LinkedIn survey would not consider taking a role at a company with a poor employer brand, no matter how much money they were offered.

In this context, organisations are becoming increasingly aware that ethical issues can impact their bottom line. Consequently, there is a great deal of focus on the way ethical practices are embedded and implemented. And to that end, many companies are altering policies and striving to become more transparent. The case studies on page 35 show how three companies are doing this.

HOW MANAGEMENT ACCOUNTANTS CAN SAFEGUARD THE BUSINESS

Management accountants are well-placed to take a proactive role in safeguarding the business by being aware of potential risks and identifying solutions to those risks.

With regard to their own professional codes of conduct, management accountants need to be alert to the following types of risks or threats to the business:
Case studies

Australia and New Zealand Banking Group
The Australia and New Zealand Banking Group (ANZ), which operates in more than 30 countries across Asia Pacific, Europe, and the US, sought to embed its commitment to human rights into its values, strategy, governance, policies, systems, and processes.

As part of the initiative, the group implemented responsible lending decision-making through an institutional customer due-diligence process. The process takes the social and environmental impacts of prospective and current customers’ business operations into account in financing decisions to ensure the bank does not become associated with, or inadvertently support, human rights violations through the customers or projects it supports.

Staff who are responsible for making business lending decisions are trained on human rights risks that may be present either in a prospective customer’s activities or business relationships, and use the bank’s “social and environmental screening tool” to assess the potential risks in a prospective customer’s industry. These may include forced labour, involuntary resettlement, interference with indigenous peoples’ rights, and corruption.

Once the due-diligence process is complete, the group may decide not to proceed with a loan or to suspend or end a relationship where it is not evident that the customer is committed to improving its human rights performance.

Mitie
Facilities management company Mitie supplied managerial staff with a guidance document setting out the organisation’s code of conduct.

To encourage engagement and prevent staff from being put off by the level of detail in the manager’s guide, the company created a simplified, four-page version of the code called Do the Right Thing, which uses clear and accessible language to explain the most relevant areas of the code, including Mitie’s organisational values and zero-tolerance policy on bribery.

It also outlines “speak-up” procedures for when a situation, action, or decision doesn’t seem quite right.

Lockheed Martin
Aerospace and defence company Lockheed Martin produced an interactive version of its code of conduct, Setting the Standard, with the objective of making it more appealing to new recruits and easier to navigate than the printed version.

Information is presented in a variety of ways, including videos and FAQs. The search function enables employees to instantly access the specific policy they have a concern about or wish to seek guidance on, and then click a link on that page to report a violation, as necessary. Setting the Standard is also accessible on mobile devices so it can be consulted in the field.

Sources: Australia and New Zealand Banking Group, United Nations Global Compact case study on ANZ, Embedding Human Rights in Business Practices.
within the organisation.

The ethical architecture alone cannot safeguard an organisation. Policies need to be seen to be upheld, and their contravention must lead to negative consequences.

Collecting and using ethical management information can lend valuable insights into both threats and opportunities. An increasing call for such information is coming from external stakeholders, such as investors, to help assess organisations’ long-term value.

Companies such as Northrop Grumman have begun reporting externally on the results of disciplinary action, such as staff dismissals and contracts with suppliers which have been terminated due to issues related to non-compliance.

Leaders must also invest effort and resources into ensuring that the values they espouse are embedded throughout the organisation, and undertake regular and methodical assessment of how policies are being applied, tracked, and acted upon, as well as how any discrepancies were addressed.

Acting as ethical stewards, management accountants can help others gain insight and value from their globally applicable codes of ethics and conduct. The CGMA Code of Ethics can be found at cgma.org/AboutCGMA/Pages/code-of-ethics.aspx.

Tanya Barman is head of ethics at the Chartered Institute of Management Accountants. Samantha White is a CGMA Magazine senior editor.

ENSURING SAFEGUARDS ARE EFFECTIVE
The effectiveness of safeguards depends on a number of factors, including whether the threats to the business have been properly identified, whether the safeguards have been suitably designed to meet their objectives, the way they are applied and by whom, and the consistency of approach within the organisation.

To eliminate or help counter these threats or risks, a range of safeguards need to be in place. Safeguards may come from the external environment, such as professional codes; regulations, such as GAAP; or legislation, such as the US Foreign Corrupt Practices Act. Internal safeguards include the company’s own policies, including the ethical architecture.

External safeguards
- Education and training requirements on ethics and professional responsibilities.
- Professional standards and the threat of discipline.
- Competency and experience requirements for professional licensure and credentials.
- Professional resources, such as hotlines, for consultation on ethical issues.

Internal safeguards
- Tone at the top emphasising a commitment to fair financial reporting and compliance with applicable laws, rules, regulations, and corporate governance policies.
- Policies and procedures addressing ethical conduct and compliance with laws, rules, and regulations.
- Internal policies and procedures requiring disclosure of identified interests or relationships among the employing organisation; its directors or officers; and its vendors, suppliers, or customers.
- Use of third-party resources as needed for consultation on significant matters of professional judgement.
Coaching, experience management, and an emphasis on technical skills are among the elements of EY’s strategy to overcome talent development challenges in emerging markets.

By Sabine Vollmer

Talent development in emerging markets can involve unique challenges — cultural distinctions, language barriers, education system differences, and regulatory structure complexity are but a few.

EY, which employs more than 212,000 professionals worldwide, takes a strategic approach to developing talent in each market. It’s a strategy many companies could adapt for their own use.

The strategy rests on a global framework, called “EYU”, whose pillars are 10% learning, 70% experience, and 20% coaching. “The framework is the same across...”

Grace Guo, ACMA, CGMA, says EY’s talent development programme is a “win-win” for the people and the business.
EY’s global framework calls for a structured learning curriculum that starts with technical competency building.

Emerging markets such as China, where along with the country’s historical economic reform and opening-up policies, the accountancy profession was revitalised and reconstructed in the past 30 years.

To set up a talent development programme that applies global best practices and addresses challenges specific to emerging markets, Guo suggested the following:

INCORPORATE EMERGING MARKET INSIGHTS IN THE DESIGN PHASE

Involve subject-matter experts from emerging markets in the design of global solutions to ensure learning and development programmes focus not just on mature markets. Make their participation, feedback, insights, and ideas count in designing solutions— for example, the way learning is offered, such as instructor-led or other formats— as well as in what type of technical and industry sector knowledge is being taught.

To get talent ready for the job, staff should be exposed to course content that is relevant to a particular market. For example, technical lessons for EY auditors in mainland China address Chinese accounting standards in addition to International Financial Reporting Standards (IFRS). “We analyse GAAP differences along the way of their convergence journey, and we help our talent understand different companies operating in China. What will be the market dynamics, and how will they impact operations. What business risks will be reflected in the financial statements so they can do the necessary analysis to identify the risk areas,” Guo said.

CUSTOMISE ON-THE-JOB EXPERIENCES

Know-how develops as people apply their knowledge. To manage any challenges, coordinate on-the-job experiences with global learning and development goals in ways that benefit emerging markets. In China, for example, the challenge is hands-on problem-solving. Soft skills development aims to manage that challenge. EY employees in China are encouraged to speak up, have confidence in sharing ideas, and allow themselves to be creative.

The coaching sessions are meant to help guide talent through day-to-day job activities and in their daily behaviour, including how to make presentations, delegate, ask questions, and manage projects.

ESTABLISH MONITORING MECHANISMS AND TRACK TALENT DEVELOPMENT

Monitoring indicators for talent development are set...
based on discussions between the business and talent development team and are reviewed annually. Customised technical and soft skills learning and structured on-the-job experiences that are part of the global talent development framework support the monitoring indicators, which target diversification as well as expertise.

For example, young auditors in China should work with at least three managers to gain diversified experiences, have engagement experiences with at least two accounting standards to broaden their exposure, deepen their relevant knowledge with clients of at least two sizes, and work with their coaches about 200 hours per year. EY audit employees in China should be able to, for example, handle most of the tasks in a typical audit cycle within their first three years to prepare them to lead an audit engagement independently as the manager in charge within five years. With their further promotion, EY employees can choose to become industry experts or shape their careers. Guo was an auditor and a technical trainer delivering auditing and accounting courses before she transitioned to learning and development full time.

Each of those agreed talent development indicators has a target attached, and progress is measured by how many employees have fulfilled the requirements of each type of experience. This process allows the business to react quickly and effectively to support the advancement of its talent.

Also, coaching experiences are critical, as talent will be guided by their coaches to discuss and establish development plans.

**INCORPORATE CLIENTS’ FEEDBACK IN TALENT DEVELOPMENT**

Asking clients about their experience with employees is part of EY’s structured talent learning and development. One of the development programmes requires senior managers to assess client satisfaction in various ways. Senior managers may conduct a formal survey or have informal conversations with client personnel, Guo said.

Clients may be asked whether they are satisfied that EY understood their expectations; whether the EY team assigned to the engagement had the appropriate skills and expertise and worked well in a client’s environment; whether EY sets, communicates, and meets targets and deadlines; how likely the client is to recommend EY; and how EY can improve.

“All we do here is develop our people to develop our business,” Guo said. “We see it as a ‘win-win’ for both EY’s talent as individuals and EY as an organisation pursuing its business goals and ‘building a better working world’ purpose.”
THE CASE FOR CULTURAL INTELLIGENCE

Business interactions in the age of globalisation can be minefields. A glimpse into the world of cultural intelligence offers strategies for fitting in abroad.

By Andrew Kenney
The nation of Malta spreads across a cluster of Mediterranean islands just off the southern coast of Italy. Despite the proximity, several international business challenges arise from that aquamarine gulf.

In 2014, Nigel Scerri, ACMA, CGMA, found himself in the delicate early stages of a business deal between his Maltese financial services firm, Ennesse, and an Italian insurance company. Several leaders of the Italian company had come to Malta to discuss the new partnership, which had Scerri’s staff overseeing the Italians’ accountants and suggesting business improvements in Malta and Italy alike.

But it wasn’t conflicting accounting philosophies that tripped up this meeting. It was three words from the mouth of a man on Scerri’s team.

“Non fa senso,” the staff member told the visitors. He had meant to say “It doesn’t make sense” in Italian, a secondary language for many Maltese people. And while his words were literally correct, the other party’s frozen faces told Scerri something had been lost in translation; they were somehow offended by the wording or delivery.

“First, they looked at us with a serious look,” Scerri recalled. “We said, ‘What have we said?’ ”

The staff member’s words, as it turns out, sounded a lot like an expression of disgust to the Italian party. Laughter punctured the moment as everyone realised the message’s innocent intent. “It was too offensive to do anything else,” Scerri said.

Business interactions in the age of globalisation can be minefields. A perceived slight could broaden into a split...
Researchers believe that a person’s ability to operate in other cultures can be reliably measured and improved through training.

between parties in a financial negotiation. Conflicting cultural norms could leave a manufacturing contract unfulfilled months after a supposed deadline. In response, businesses have geared up with a new set of metrics and tools for cross-cultural competence, all in preparation for their own non sensu moments.

For global management accountants, intercultural business is the new expectation. And while Scerri used instinct and experience to correct a faux pas, some researchers believe that a person’s ability to operate in other cultures can be reliably measured and improved through training programmes.

CULTURE SHIFT
Building from previous work in management science and emotional intelligence, a cadre of academics and consultants has surveyed tens of thousands of people, largely over the past decade, to build theories about cultural interaction. They have asked how businesses can best cross borders — and why some people are so good at it.

The central danger for these border crossers could be called information asphyxia. Abroad, the mundane is transformed and unfamiliar. Even the smallest details of life abroad — such as greetings or the lettering of motorway signs — can seem new or puzzling.

“When you’re crossing cultures, you have a lack of information. That comes with uncertainty, and with uncertainty comes some sense of anxiety. It creates quite a lot of rigidity in the way you think,” said Soon Ang, a developer of the “cultural intelligence” theory. She leads the Center for Leadership & Cultural Intelligence at the Nanyang Business School of the Nanyang Technological University in Singapore.

And cultural rules are evolving with the world economy, changing expectations for many business interactions. As Eastern countries rise in global commerce, the norms of acceptable business culture are being rebalanced.

“In the past, every other country in the world had to learn the American ways — because if they didn’t, the deals wouldn’t happen,” said Tim Flood, who teaches a course in cross-cultural competence at the University of North Carolina at Chapel Hill. “… Different countries are coming up. It’s a broader deal, and there’s a much more keen sense that you can’t just be on the Western model and get business done.” Some say the ideal is “intercultural competence”. Others look to improve their CQ, or “cultural intelligence”, score. More than rote memorisation of handshakes and bowing techniques, these are philosophies meant to keep people on balance in unfamiliar terrain.

An attuned person might sense a taboo before it strikes, hear the true message behind a counterproposal, or read body language when words fail. A few people are naturals, and the rest just might be able to learn the art.

EASTERN VS. WESTERN
Leo Chan, CPA, has a front-row view of culture clash from the offices of Sino-Bridge Consulting, a Hong Kong company that helps international firms do business in China.

“It’s natural for partners to disagree on things — but here, when they disagree, because of all these differences, they tend to be very suspicious of each other,” he said.

Chan believes that Chinese groups, especially in state-owned companies, tend to communicate their goals and needs subtly. Western groups often are more direct, he said — and the resulting trampled toes and missed cues can create mutual distrust.

He has watched visitors to China deal with endless challenges, from a surplus of red tape to a deficit of personal space, at least by Western standards. But he figures that one simple factor best predicts how well foreigners will fare.

“The single most important thing, really, is the mindset,” he said of successful visitors and expatriates. “For some
reason, they have the passion; they think there’s a lot for them in China.”

You’ll hear similar assessments from people at all ends of accounting. Scerri, of Malta, can sense in certain employees an enthusiasm for the details of others’ lives and the ability to build foundations of trust from those details.

“You have to get along with people,” he said. “You have to socially interact, understand them, have a good laugh with them as well. It’s not just good to be brilliant at your work.”

This analysis squares with one of the four pillars of cultural intelligence, the theory established by Ang and colleagues Linn Van Dyne and Christopher Earley. Their work describes four “capabilities” for the culturally competent, based on years of survey work by academics.

Among them: “CQ drive” or “motivational CQ”, a measure of how motivated and confident people are to interact with other cultures. Also rated are knowledge of how cultures differ; the ability to plan for cultural interactions; and the ability to adapt behaviour to different situations.

These may seem like obvious measures, but they outline foundational questions for CQ and other theories: Why do we care about other cultures? What draws us towards them, and what makes us afraid?

DIVERSITY WITHIN ORGANISATIONS

Ang started her work on cultural intelligence in the shadow of a scourge: the Y2K bug. She was tasked in the late 1990s with assembling international teams to update computer systems on the island city-state of Singapore. She made her first selections by conventional standards, such as experience and IQ.

“It really didn’t work,” Ang said. Culture clashes frustrated an already complex process of updating legacy systems. In particular, the foreign teams had trouble matching Singaporean expectations of timeliness and efficiency, she said.

With the new millennium threatening major computer problems, Ang turned in 1998 to a new standard. She created a test to rate applicants’ “practical intelligence”, a concept that had emerged 13 years prior, to assess how adaptable candidates might be. Her selections got better, and she and her colleagues began to extend the concept to test intercultural competency. The result would be “CQ”, as described in the foundational 2003 book *Cultural Intelligence: Individual Interactions Across Cultures*, which Ang co-authored with Earley.

Today, the concept has reached deep into the world of business. Ang is working now with the Society for Human Resource Management and the Chartered Institute of Personnel and Development to fit cultural intelligence into larger frameworks. For an accountant, cultural intelligence can give new insight into how various cultures affect management and financial structures, such as incentive models.

“There’s actually an increasing trend toward acknowledging the importance of culture, whether it’s a country’s or a company’s, to impact performance,” she said. The concepts, according to its practitioners, apply just as much to cultural diversity within companies as within industries.

Surveys and other personal assessments are an obvious starting point. Metrics offered by the Cultural Intelligence Center in Michigan and other groups rate people in various categories by comparing their responses to those of tens of thousands of earlier respondents.

New methods of training and assessment are evolving, too. Ang has helped to develop videos that present viewers with tricky scenarios and “micro-aggressions”. Their responses can both predict their performance in real life and help them to prepare for a trip, she said.

Meanwhile, Chan reports that several of his clients have encouraged cultural immersion, bringing people from China into Western offices in order to learn their subtleties.
6 steps for natural success at intercultural business

International assignments are costly and intense. A lucrative deal or untapped market may be at stake. But employees also face the psychological stresses of an unfamiliar environment. The field of intercultural competence aims to guide businesses through every culture imaginable with a common set of strategies. Here are some strategies to prepare for intercultural business:

**Make friends**
People familiar with local culture can circumvent a faux pas or highlight hidden opportunities for a team working abroad. A local consultant often can fill this role, but intelligence comes in many forms. Tim Flood, a professor at the University of North Carolina at Chapel Hill, suggests that taxi drivers can be invaluable sources of information.

**Take a test**
Business leaders may institute metrics such as CQ and the Lewis Model to analyse personalities and predict how employees might react to different cultures. (Founder Richard Lewis offers the assessment through his firm, CrossCulture. See tinyurl.com/nzbv3xj.) Some types of training, particularly simulations, can improve scores on these assessments. More than a means of selecting staff for assignments, a test can highlight areas for improvement.

**Observe social structures**
Some cultures prefer highly ordered hierarchies. It may be inappropriate for a junior member of your team to address another group’s leaders. They might prefer subtle signs to direct declarations. Specific research into an area’s culture can inoculate against this problem.

**Don’t focus exclusively on studying**
Some degree of preparation is wise. The more unfamiliar you are with a culture’s taboos, the more preparation is suggested. But Soon Ang of Nanyang Technological University in Singapore suggests that many cultural guidebooks and other study materials oversimplify cultures and encourage assumptions. They’re an aid, not a replacement.

**Defuse assumptions**
People in certain cultures tend to laugh when they are nervous, rather than when they’re amused. An off-colour joke might be getting chuckles for the wrong reason. To avoid these traps, travellers should learn to read body language and consult with local experts.

**Keep an eye on emotions**
Unfamiliar circumstances can lead to anxiety, which in turn causes people to become more judgemental and less accepting of their host culture, Ang said. Try to maintain curiosity.

**COMFORT WITH THE UNFAMILIAR**
For all its metrics and strategies, the idea of cultural intelligence comes back to a simple difference between those who succeed and those who don’t in unfamiliar environments.

“Usually, there are two kinds of emotional experiences that one has when they cross cultures,” Ang said.

One is positive: curiosity. Some people seem to embrace the swell of new details, searching zealously for new neighbourhoods and underrated restaurants.

Flood suggested that travellers take a taxi ride; drivers often are sources of information about news, customs, and cuisine. David Livermore, president of the Cultural Intelligence Center in Michigan, tells clients to find a local cultural adviser — anyone who can fill in the gaps.

“The mindset going into a culture is actually very crucial,” Ang said. “Your authenticity and willingness to learn from the other side — it will come out unconsciously, and it will be picked up by the other party.”

But some people, understandably, stick to the more familiar confines of the international average. In fact, globalisation has made it possible to cross the ocean without changing much more than the scenery outside the boardroom window.

Livermore put it this way: “If you travel business class and you stay in the business class lounges in various airports, and you go to the Marriott or to the Intercontinental, and you just go to your own local office in a different place around the world, it’s pretty easy to start saying the world’s all pretty much the same.”

But your intercultural advisers wouldn’t endorse that assumption.
A new industrial revolution is challenging traditional business models. The combined effects of rapid changes in technology, communications, and information are the key forces that threaten to disrupt how businesses have traditionally operated.

The CGMA Cost Transformation Model is designed to help businesses achieve and maintain cost-competitiveness. It serves as a practical and logical planning and control framework for transforming and continuously managing cost-competitiveness. The model transcends the finance function, requiring the full participation of, and buy-in by, all functions and processes.

cgma.org/cost
COST TRANSFORMATION AND MANAGEMENT

To survive, businesses must become globally cost-competitive and carefully scrutinise their business models. Leadership must look for transformative opportunities to improve their cost structures while continuing to generate value for customers and aggressively exploit these opportunities.

The competitive advantage

Failure to deploy measures to dramatically improve cost-competitiveness could cause a business to be eclipsed by more nimble competition. It is vital that businesses release resources to fund growth strategies and innovation and retain competitiveness.

This means that cost management is simply not enough anymore; businesses need to move from being good cost managers to cost leaders.

Technology eliminating cost

Technology is eliminating cost as a barrier to entry. Fixed costs of production are now becoming less costly. For example:

- Computer-aided design (CAD) software has become a commodity, with some basic versions free to download.
- 3D printing is enabling the printing of components that previously needed costly machining processes.
- Digital technology has made it technically possible to produce video content at a fraction of the fixed cost that used to be needed for film production.

In some disruptive business models, variable costs are being significantly reduced. Take transport company Uber. After setting up a web-based platform (its primary fixed cost), all that remains to grow its business is for operators (individuals or fleet operators) to sign up to the Uber platform at very low marginal cost to Uber.

With rapid and ongoing improvements in communications and logistics, competitors can be anywhere. Increasingly, producers are having to change the way they do business to maintain competitiveness. The supply chains of the largest businesses have become global to take advantage of lower-cost centres and the ready availability of high-calibre people globally. Components of business models retained as core competencies have to be continuously improved to generate value on a sustainable basis.

The information revolution

The information revolution, epitomised by the internet, makes product price information readily accessible and, therefore, competition on price more pervasive. This is forcing producers to drive down costs to maintain competitiveness. Know-how is a lot more accessible with the democratisation of knowledge made possible by the internet.
The CGMA Cost Transformation Model is designed to help businesses achieve and maintain a competitive advantage. It serves as a practical and logical planning and control framework for transforming and continuously managing cost-competitiveness. The model transcends the finance function, requiring the full participation of, and buy-in by, all functions and processes.

The framework consists of a set of six co-dependent areas that are based on the following principles:

• If you don’t have a strategy to transform costs, how can people be focused on your cost-competitiveness?
• Maintaining the cost-competitiveness of an organisation requires the ongoing focus of appropriately skilled and motivated people across the business, supportive systems and processes, and aligned organisational structures that, together, engender a cost-conscious culture.
• Even if you do have a strategy to transform costs, there will be risks associated with the strategy which will need to be managed to ensure successful execution of the strategy.
• The best way to transform costs is to avoid incurring them in the first place by understanding what the customer’s needs and wants are and responding to these only if it is sustainably profitable to do so.
• It is easy and quick for competitors to copy your cost transformation initiatives. Therefore, to succeed in beating competitors, you need to keep them copying (to keep them chasing). The only way of doing this is to continuously drive and hold costs down by eliminating waste.
• For people to be motivated to drive and hold costs down, they need to understand and trust the numbers (transparent and logical cost accounting processes), to be able to see the discrete results of their efforts reflected in the numbers (information), and to be in a position to make a difference (structure aligned to responsibility).
Seven years ago, 80% of Calgro M3 Holdings’ portfolio was in premium housing stock. When the economy changed, we identified the potential in the lower-income market, which today accounts for 80% of our work.

Because Calgro, a South African property developer, now caters to low-income groups, one might assume we are restricted to low profit margins. But strong cost management has helped our profits increase annually since 2011. Here are some of the secrets to our success:

**Keep it in-house**

We maintain an in-house supply chain. By employing land developers, planners, architects, and surveyors, we cut out the 30%–40% margin that outsourcing these roles would incur. We have 280 sales agents who work on a 5% commission, rather than the 6%–10% an external agent would charge. We cost out projects using our own builders to compare to quotes from subcontractors. Our marketing team works with finance to decide what expenditures to make and how they impact other areas of the business. And we recognise when it is prudent to spend extra on outsourcing. For example, we are not infrastructure specialists, so we appoint an outside service provider to manage that element of a project.

**Know the value in your costs**

Understand the value chain in your business. When you know where value is created, you can invest with confidence. When it becomes necessary to economise, assess the impact of each cost on your business. For example, in tough times many businesses might cut investment in staff development. Our view is that this is a crucial expense. If our staff don’t have the most up-to-date skills and knowledge, we devalue ourselves.

**Sell before you spend**

We don’t start construction on a house until we know we have sold it and that a bank guarantee is in place for the sale. Thus, we eliminate the risk of investing capital that cannot be recouped in a timely manner. This also allows us to decrease the working capital on our books as there are no stock that we have to carry for months on end. This is particularly important on large projects.

**Work with what you have**

Even when an asset doesn’t fit your core business, there still can be opportunity. Calgro owns some land parcels that are not suitable for residential development. So we launched a venture developing private memorial parks. After completing a feasibility study, we won approval from our board and the local council and opened our first memorial park in Nasrec, Gauteng. We have since partnered with Holland Insurance to provide affordable funeral cover, including the burial rights in our parks.

**It’s not what you do, it’s how you do it**

Cost-cutting must be done in a planned and controlled way, particularly to maintain the morale of the company. While working on a Cape Town project, it became necessary to outsource construction and lay off about 100 employees. We involved different parties in the process, including leaders of the communities from which the workers came and the Building Industry Bargaining Council. We negotiated wages with the subcontractor, which agreed to keep 60%–70% of the construction team, and devised a handover procedure to minimise disruption to the project. Although lay-offs were necessary, we handled the situation in an open and collaborative way.

*Kevin Eidelman, ACMA, CGMA, is a group financial manager at Calgro M3 Holdings Ltd.*
HOW TO BE A COST LEADER: CGMA SOLUTIONS

Each of the six areas of the CGMA Cost Transformation Model is supported by guides, practical tools, and templates to help management accountants implement cost transformation and management within their organisations.

Tools

Your practical toolkit to help you embed cost transformation within your business and become a cost leader:

- ABC Inventory Management
- ABC/XYZ Inventory Management
- Achieving Alignment, Shared Purpose, and Agility Analysis
- Activity-Based Budgeting (ABB)
- Activity-Based Costing (ABC)
- Balanced Scorecard
- Beyond Budgeting
- CIMA's Strategic Scorecard
- EFQM
- Enterprise Risk Management
- Environmental Management Accounting
- Kaizen
- Kotler’s Five Product Level Model
- Lean Production
- Lifecycle Costing
- McKinsey 7-S Framework
- Porter’s Five Forces of Competitive Position Analysis
- Product Family Master Planning
- Risk Heat Maps
- Target Costing
- Value Chain Analysis (VCA)
- XYZ Inventory Management

Case Studies

Case studies featuring perspectives from finance professionals who have embedded cost transformation within their business:

- Bob Cortese, CPA, CGMA, Canadian Controller, CTS Corp.
- Kevin Eidelman, ACMA, CGMA, Group Financial Manager, Calgro M3
- Claire Osmundsen-Little, ACMA, CGMA, Finance Controller, Packaging, Tata Steel Europe

Global Management Accounting Principles©

Cost transformation and management is one of the CGMA Global Management Accounting Principles© practice areas. Developed by the AICPA and CIMA, the Principles reflect the perspective of CEOs, CFOs, academics, regulators, government bodies, and other professionals in 20 countries across five continents.

The purpose of the Principles is to support organisations in benchmarking and improving their management accounting systems. They help the public and private sectors make better decisions, respond appropriately to the risks they face, and protect the value they generate.

To access the CGMA Cost Transformation Model, visit CGMA.ORG/COST

Visit cgma.org for more practical tools to help you and your business succeed.
T he competitive market for talent has prompted many companies to rethink how they recruit, retain, and develop employees.

Take KPMG’s UK operation. In 2014, feedback from staff suggested that it was easier to leave the firm than to move around and gain experience in other areas of it. That prompted the firm to rethink its approach to managing and developing staff.

KPMG UK launched a new strategy last year aimed at putting people and their careers at the top of the company’s agenda. Since then, the company’s attrition rate has declined.

Andrew Hessey, ACMA, CGMA, principal advisor of management consulting at KPMG UK, has had a central role in putting the strategy into practice in the firm’s financial management advisory team. Here, he outlines how the approach has changed. He also shares some of the lessons he has learned.

CREATING PEOPLE LEADERS

In January 2015, KPMG UK launched its “Our Deal” strategy, which aims to put people at the top of the agenda through a raft of new initiatives, from having a bonus day off on their birthdays and early finishes on Fridays in the summer to a greater focus on development and providing greater opportunities to move around the organisation.

A central pillar of this strategy was the creation of about 130 “people leader” roles throughout KPMG UK, each of whom looks after approximately 100 people. These roles were open to high-performing senior managers and directors, with candidates undergoing psychometric testing and a panel interview. The majority of the posts were filled internally, with a mixture of people taking the roles for 12- to 18-month secondments as well as on a permanent basis.

In the past, it could be difficult for people to have meaningful career conversations as these were often managed by partners, who spend the majority of their time in the market, so they often could not devote sufficient time to them. There was often little opportunity for an in-depth conversation about career aspirations or ensuring an employee was placed on projects that would help progress towards those aspirations.

The people leader role was created in part to address this shortcoming, giving the post holders responsibility for recruitment, careers, learning and development, performance management, resourcing people onto projects, as well as pay, bonus setting, and more. People leaders are separate from the human resources department but work closely with colleagues in HR. To be successful, people leaders also have to work closely with colleagues in a number of other key support areas, such as learning and development, recruitment, finance, and resourcing.

Among those appointed to the new role temporarily was Hessey. He spent the last year looking after the development needs of the financial management advisory team.

There are opportunity costs to the initiative due to the loss of potential earnings across the whole firm as previously client-facing employees like Hessey take on internal-facing roles.

But the investment is worth making, Hessey said. It gives KPMG the opportunity to further professionalise the way it manages careers, and top talent in particular. It has also been a valuable learning opportunity for those taking on people leadership roles, giving them...
Andrew Hessey, ACMA, CGMA, has helped steer the “Our Deal” approach to performance and career management at KPMG UK.

Four pillars of the new approach

As part of its new talent strategy, KPMG UK has:

- Created a new role with specific responsibility for career paths, development, and performance.
- Abandoned forced distribution curve performance management.
- Set up a career transition team to promote mobility both internally and outside the firm.
- Removed time-in-post requirements for promotions.
“People are still rated. … But it’s much more of a continuum than before.”
— Andrew Hessey, ACMA, CGMA

the opportunity to further develop their people skills as well as their understanding of the business and how it operates.

FAREWELL TO FORCED DISTRIBUTION
The company’s emphasis on talent and development is demonstrated in the move away from the “forced distribution” system of performance management to one which prioritises potential.

Under the forced distribution system, performance managers and partners would gather once or twice a year to discuss each particular grade of employee and rank those people on a curve based on the last year — with perhaps 15% of staff in the high-performance category and 15% in the low-performance category.

“That was always incredibly unpopular,” Hessey said. The difference in performance between somebody who ended up in the medium category and somebody who ended up in the low category could sometimes be a hair’s breadth.

“Now we have moved to performance development as opposed to performance management,” Hessey said. “So, people are still rated. We have to know who our top talent are. We have to know who might need a bit more support. But it’s much more of a continuum than before.”

The time frame under review has also changed. Previously, managers took into account activity over the previous six to 12 months. “Now we look at performance over a period of two to three years because it shows more of a trajectory than an absolute point in time, which has proven very useful,” Hessey said.

Ratings are now absolute rather than relative and are given on two axes: performance and potential. But the matrix used is more of a by-product than the purpose. “The purpose is to help people understand their performance, including readiness for promotion, and how they have done against the expectations, both of their role and their grade, but also the goals [both business and personal development] that were set at the beginning of the year.”

KPMG defines potential as the aspiration, ability, and engagement with the organisation required to be successful in more demanding roles in the future. Agility is one of the primary determinants of potential and could include, among other evidence, the ability to move to a different area, field of expertise, or client quickly and without needing an enormous amount of support; the person’s level of self-awareness; and his or her ability to deal with complexity and ambiguity.

“HONEST CONVERSATIONS”
Constructive appraisal conversations are not easy. Managers often shy away from, or lack experience in dealing with, difficult conversations about performance, which might make the manager’s life temporarily easier; however, avoiding the issue is not conducive to the individual’s progress.

At KPMG, a lot of work has gone into getting development conversations right. The new system involves what are known within KPMG as “honest conversations,” in which the appraisee has the opportunity to assess his or her own performance, and the performance manager can give his or her view, setting it in context compared with peers, role description, and objectives. The manager identifies areas that need work and how both parties can improve those aspects.

To make sure these meetings are as fruitful as possible, managers are trained in how to handle difficult conversations. A fundamental ingredient is that the manager understands the individuals he or she is looking after, where they want to go in their careers, where their strengths lie, and the areas they need to work on.

Understanding the expectations of each grade is also essential. “We try to make sure that managers have a number of appraisees at the same grade, so they can see how other peers are doing,” Hessey said. The point of comparison makes the process more objective and transparent. Better understanding about how promotion and pay award decisions are arrived at also helps improve morale and retention.

FACILITATING MOBILITY
The new strategy has sought to remove internal barriers to mobility that previously encouraged some talented colleagues to leave.

“If one of our junior people has done a couple years on our team and says, ‘Actually, I’d like to go and try
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corporate finance’ or ‘I’d like to go and try tax or audit for a year,’ we make that happen,” Hessey said. “We’d much rather they left our team but stayed with the firm than left the business.”

The approach has proved to be popular with more junior members of staff. Hessey recognises that few of them still want to be on the same team in ten years’ time, but now a ten-year career at KPMG could entail several jobs in different areas of the business.

The career transition team is another means of promoting mobility. The team of specialists is on hand to help colleagues who are thinking of moving away from consultancy to industry, and assess their skills to determine what kind of role is right for them and what opportunities might be available, whether internally or beyond KPMG.

It may seem counterintuitive at first glance — the career transition team actively helps employees leave the firm. Drawing on an extensive network of contacts among clients, the team can often identify opportunities before they are advertised.

“We’ve reached the recognition that nobody stays 30 years at one firm any more. People bounce in and out of industry, to consulting, and back to industry. So we half-expect a proportion of our people to leave. We want them to be good leavers because they might go on to become clients or they might come back,” Hessey explained.

Pace of promotions was another push factor for high-potential individuals. The firm used to conduct a single annual round of promotions, which meant that consultants might have to wait nine to 12 months, or even leave the company, to progress. That’s now a thing of the past. Candidates with the right capabilities can be promoted as soon as an opportunity arises.

Time-in-post requirements have also been removed. Historically, one had to have been a manager for about three years before he or she could become a senior manager. Now, if there is a business case for it after a year or 18 months, and the individual is ready, the promotion can be made.

The people leader role is perceived as making a positive contribution across all aspects of people management, Hessey said. “It is a role that looks set to continue well into the future.”

KPMG engages with new hires after they resign from their previous employer, but before they join the firm, to make them feel welcome, wanted, and excited to join. This may involve an invitation to a dinner prior to their start date where they would get the opportunity to meet other peers who are about to join the firm.

Laptops, phones, and email accounts are all ready and waiting on day one.

New starters are assigned a buddy who looks after them for the first few weeks. On their first day, new starters sit with their buddies and ask them all the questions they might not want to ask anyone more senior — often starting with how to navigate the firm’s systems and processes.

Performance managers are assigned in advance, so new starters know whom to look for and can contact them straight away. In consulting, a performance manager sets objectives and monitors performance but may never work directly with the appraisee.

Those who have made the switch from industry to consulting attend a training session which talks through some of the differences in ways of working to help them make the transition as quickly as possible. They also attend a centrally run residential training course on core consulting skills.

Starting off on the right foot

Candidates with the right blend of technical, consulting, and change-management skills are hard to find, so it’s important new recruits feel engaged and integrated into the business from the beginning. The importance of getting the onboarding process right, particularly when a department is scaling up quickly, is another talent retention lesson learned. Here are some key aspects of the onboarding process at KPMG UK:

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- Those who have made the switch from industry to consulting attend a training session which talks through some of the differences in ways of working to help them make the transition as quickly as possible. They also attend a centrally run residential training course on core consulting skills.
Finance business partners go beyond the production of standard reports and analysis to lead multi-disciplinary conversations that inform and improve decision-making – and ultimately boost organisational performance.

Mastering the role of business partner can also serve as an alternative route to senior management, due in part to the holistic view that the experience brings, research indicates. Finance Business Partnering: The Conversations That Count, a CGMA report based on dozens of interviews with senior executives in a variety of sectors, found that accountants need to develop new skills to become effective partners to the business (visit spr.ly/partnering to read the full report). The additional skills are behavioural, rather than technical, and are most commonly acquired through experience in the role.

Anton Broers, a finance manager at Royal Dutch Shell, described these traits as key to business partnering:

1. The courage to speak up, to challenge managers, and to hold a mirror up to the business. This might involve raising issues such as the unintended consequences of a performance metric.

2. The possession of influencing, relationship-building, and communication skills. These are required to get the message across and get a discussion going.

3. Persistence. Helping peers from other disciplines understand the wider and longer-term implications of an action may take some time.

4. Understanding of the business.

5. The ability to translate the numbers into a business story.

An effective business partner is “the one who makes connections between people and between issues,” Broers said. “They will be sitting in the middle of the table brokering and linking up points, adding an overview and the financial angle.”

The research found that insights into how to improve performance are usually generated through conversations with colleagues in the business. Management accountants bring their accounting toolkit but also their business overview, professional objectivity, and a commercial perspective to these discussions.

Starting the conversation

By stimulating internal discussion, good business partners can facilitate the development of insights in collaboration with business managers. The series of conversations outlined below can help improve business understanding and generate insights:

- **The business model.** Developing the story of how the business works. The discussion helps everyone understand the business’s position, performance, and prospects, enabling the organisation to focus resources on how it actually generates value.

- **Horizon scanning.** Considering possible scenarios to identify opportunities to pursue or decide how to build the resilience needed to safeguard the business’s future.

- **Performance measures.** Determining which non-financial metrics should be monitored to create meaningful performance data to support both current and long-term value creation.

- **Data sources.** Which sources of data at the company’s disposal can be used to create a competitive edge, and how to go about capturing, interpreting, and acting on those data.
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