STAKEHOLDER RELATIONSHIPS IN A RECESSION

The importance of keeping your stakeholders happy – particularly in difficult times – is often stressed. Yet advice on how this should be done is relatively rare. In the following article, therefore, we look at seven different classes of stakeholder a company might have, and what information and treatment each of these groups would welcome.

KEEPING SUPPLIERS INFORMED

The Chartered Institute of Purchasing & Supply (CIPS) sets out how to keep suppliers happy.

In difficult times, a company's relationship with other businesses in the supply chain is more than ever a two-way street.

In more normal trading conditions, the instinct is to have confidence in your own organisation but worry about the commercial health of suppliers – especially those that are most critical to the success of your company. Will a supplier go out of business and, if so, do you have a ready alternative source of supply? In the present challenging economic environment, however, a company also needs to consider its own financial and trading circumstances in the context of its relationship with the supply base.

In recent years supply chains have become longer and more complex, increasingly developing interdependent organisations in which the success or failure of one link impacts on all the others. To date, to thrive and prosper, supply chains need a flow of information between the links, and this has often been best facilitated by a partnership approach to supply chain relationships openly discussing opportunities and issues.

Yet even where the relationship has a degree of partnership around it, there has often been a stronger emphasis on the supplier providing information to the buyer rather than the other way around. Not any more. In today's climate the supplier is going to be as concerned about the buyer's trading position as the buyer is about the supplier's.

There are a number of good reasons for satisfying a supplier's curiosity, including:

- the supplier may be more willing to share their information with you;
- a supplier may be more willing to continue supply to a customer where they believe they have a clearer understanding of that buyer's true situation - and this is likely to be particularly important as credit insurance becomes harder to obtain;
- it can help to convince a supplier that you are a customer worth sticking with for when the upturn comes around;
- both parties may be able to support each other in dealing with issues; and
- the supplier may be more likely to be able to secure finance to fund the supply if in possession of information which gives its lender a degree of comfort.

The type of information it makes sense to share include:

- financial position;
- specific risks and vulnerabilities;
- concerns regarding the supplier's situation;

- advance notification that you will, or might need to, reschedule or reduce deliveries;
- activities being undertaken to address the current economic climate; and
- business plans.

Clearly, whilst the sharing of information with suppliers can be beneficial (or even essential, where the supplier is in a strong enough position to insist), there needs to be a touch of realism here. The open sharing of information is not without risks. Although it may be desirable in a true partnership relationship, if the first sign of difficulty at your business is likely to cause a particular supplier to shut down supply, then clearly sharing that information is not the smart thing to do!

Further resources are available on the 'Knowledge Works' section of the CIPS website at www.cips.org/professionalresources/knowledgeworks. ■

GOOD EMPLOYEE RELATIONSHIPS

Angela Baron is organisation and resourcing adviser at CIPD. press@cipd.co.uk

Angela Baron of The Chartered Institute of Personnel and Development (CIPD) explains why a positive relationship with employees is more vital than ever.

A recession is not the time to take your eye off the ball if you want to build long-term positive relationships with employees. Any employer who thinks they will get away with treating people badly because the opportunities for them to jump ship are less will turn out to have been sadly mistaken when the economy recovers.

It is the time to focus ever yone's efforts and talents on the things that will keep you in business. More than ever the flames of employee commitment need to be fanned to foster support through the tough times and breed confidence to grasp new opportunities and overcome fear for the future.

The golden rules are communicate, involve and recognise. Communicate as honestly as possible the challenges your organisation faces, and involve people in developing a strategy that will meet these. It is important to help people understand how what they do will contribute to this strategy.

Recognise the efforts that people are putting in – financial recognition may be difficult but it does not take much to celebrate successes with a few cakes or a night out. The right kind of management behaviour costs little but can reap rich rewards if people feel valued.

Finally, trust is essential underpinning to positive employee relationships. It takes a long time to build but can be lost in days if managers resort to short-term measures or knee jerk reactions to cut costs. So think through the implications of decisions that will affect employees from all angles bearing in mind that the recover y will come and with it more opportunities that will tempt talented people away . ■

www.cipd.co.uk/information resources

WHAT TO TELL YOUR AUDITORS

Discuss all relevant information with your auditors immediately, says **Geoff Swales**.

In the current economic environment, auditors will have an increased focus on risk areas such as management's going concern assessment, asset valuations and impairments and key disclosures in the annual report.

Evaluating management's going concern assessment will likely mean reviewing information such as cash flow forecasts, details of banking facilities (including any relevant loan covenants) and any changes in relationships with customers and suppliers. Auditors will want to see evidence (such as board minutes and supporting papers) that the assessment has been properly considered by the board.

Information relating to asset valuations will include third party property valuation reports and evidence supporting the assumptions made by management in the calculations relating to their assessment of asset impairments.

Discussing these matters early will ease the pressure on finalising the audit. Inevitably, though, some information is only available late in the audit, particularly some of the disclosures in the annual report. Auditors will want to read key documents such as the chairman's statement as soon as possible, to consider whether the information in those documents is consistent with the financial statements, including disclosure of any going concern uncertainties.

In conclusion, management should have an open dialogue with their auditors about the issues affecting the financial statements – not just because the law requires directors to provide auditors with all relevant information, but because the auditors' broad experience can assist in ensuring that the financial statements give a true and fair view . ■

Geoff Swales is director, assurance risk and quality, Pricewaterhouse Coopers LLP geoff.swales@uk.pwc.com

The important thing is to be clear in your own assessment of your business – to recognise its strengths and opportunities but also any threats

Chris Tasker is West and Wales senior corporate banking manager at HSBC. christopher tasker@hsbc. com

DEALING WITH YOUR BANK

Chris Tasker explains how to keep a good working relationship with your bank.

As the UK economy continues to prove challenging, ensuring an open dialogue with your business bankers needs to be top of your agenda. Cultivating a close relationship is crucial when positive market characteristics are few and far between. Having a regular two-way dialogue and a process of information sharing will help strengthen this relationship, which can only benefit your business.

Engaging the bank in strategic discussions enables it to understand your revised business objectives and align requirements to ensure that appropriate funding as well as suitable solutions and services are considered.

The important thing is to be clear in your own assessment of your business – to recognise its strengths and opportunities but also any threats. Mitigating risk is vital and you should consider using funding solutions to alleviate pressure on the business, such as credit insurance, foreign exchange, leveraged finance and interest rate management strategies. Providing up-to-date and accurate trading information and forward-looking trading budgets will illustrate the progress towards achieving your business objectives.

Many banking relationship managers experienced the previous recession and can offer insight into the principles and practices that can be usefully adopted during a challenging trading market. Companies and corporations with higher turnover levels will have a network of advisers and partners able to provide additional layers of support and expertise.

If you have covenants agreed, provide information on compliance on both a historic and forward-looking basis. Also critical in this environment – as debtor payments slow – is providing regular updates and forecasts on cash flow. This demonstrates your ability to continue trading throughout a retracting economy.

All of the above should encourage a good working relationship with your bank in an ever-changing economic climate, helping to ease the pressure of the downturn. ■

Michael Mitchell is general manager of The Investor Relations Society. michael.mitchell @irs.org.uk

THE IR PERSPECTIVE

Michael Mitchell stresses the importance of communicating with your shareholders.

The last 12 months or so have been torrid times for anyone dealing with shareholder relations. Most quoted companies have seen huge volatility in their share prices and many have seen up to 90% of their market capitalisation wiped out. So it has not been easy justifying one's existence to the owners of the shares.

Some managements have tried to hide away for the duration of the recession, but this only makes matters worse. Investors themselves, feeling pretty sore that boards were perhaps not as incisive as they should have been, are now demanding much more information. So any attempt to avoid talking to shareholders will just arouse more uncertainty – and that is what the markets hate.

Our advice to companies has always been to continue the dialogue with stakeholders in the good times and the bad. This is particularly important if your company has had to re-examine its strategy in the light of the current downturn. The sooner you get out there and explain to shareholders straightforwardly and honestly what is going on, the sooner you can start to rebuild confidence. Shareholders have long memories and it is those companies that have continued to talk that will be remembered and rewarded with investor support.

In such uncertain times it is even more important that your message gets out to existing and potential shareholders. The best way to do this is to ensure that you abide by the tenets of good investor relations messaging – clarity, consistency, continuity and credibility. ■

HMRC – SUPPORT IN TOUGH TIMES

In a recession, meeting tax obligations can be tough. Yet HMRC can help, as it explains below.

HM Revenue & Customs (HMRC) is doing its best to help businesses who may be struggling with meeting tax obligations - in particular through its newly formed Business Payment Support System (BPSS).

The BPSS, established last November, means that if you are worried about paying your tax on time then you can just pick up the phone, even at weekends, dial the BPSS number*, and talk about an agreed extension of the time in which you must pay. To date, over 60,000 businesses have already agreed time to pay arrangements totalling more than 1 billion pounds.

HMRC has set up this service to help those who have temporary financial problems with paying income tax, national insurance, VAT, PAYE, and some duties or other payments. The service offers a fast and streamlined way of setting up a time to pay agreement based on an affordable timetable.

In the majority of cases, each caller will get a decision and have a payment scheme set up within 10 minutes. Terms are agreed on a case-by-case basis and HMRC is prepared to be as flexible as possible with the aim of bringing the business's tax back up to date on a timetable that is both reasonable and takes into account its circumstances.

If the issue concerns a business with complex affairs that cannot be dealt with in one call, HMRC will call back as soon as a decision has been made, but within no more than four working days. If you have already been contacted by HMRC about an overdue payment then just call the office that originally contacted you. If you need any more information visit the HMRC website (www.hmrc.gov.uk/pbr2008/business-payment.htm). ■

*BPSS line – 0845 302 1435, 8am-8pm weekdays, 8am-4pm weekends.

Roz Morris is managing director, TV News London Ltd. www.tvnewslondon.co.uk

KEEPING THE PUBLIC HAPPY

In recession, maintenance of a good corporate reputation is essential, **Roz Morris** explains.

It has never been easier for bad news to travel faster and farther than ever before via the internet and the worldwide web – and for these negative reports to have immediate financial consequences wiping millions or billions off share prices in a single day.

Some of this may be unavoidable, due to poor results, however many crises that savage corporate reputations are tales of the unexpected: small problems escalating to crisis level.

So what are the best ways to minimise damage? I suggest the following:

- do not cut back on marketing and public relations (PR). Forget about old-fashioned management 'wisdom' which always advises cutting back on PR during hard times. Continue to put out good news and your bad news can be offset against it;
- keep your crisis management plan up to date – eg check names and contact numbers every month;
- build crisis media management into your crisis planning;
- spot problems early so that, ideally, they do not turn into crises. Make your people aware that they must notify anything, however small, that could cause bad publicity;
- never be tempted to hope that a problem will go away without any bother. In the age of YouTube, it is just not worth the risk;
- always act fast and make a statement swiftly when a crisis arises. Do not be like the BBC and wait more than a week before making an official statement about the Ross/Brand phone call scandal; and
- always apologise, without accepting blame. ■

CONCLUSION

Whilst this is necessarily a whistle-stop tour of stakeholder relationships, we hope it provides a timely reminder of some aspects that you may not have fully considered.

One of the key take-away points is that you should involve your stakeholders promptly and regularly, where you as a professional accountant consider this is appropriate. Also, make sure that you identify where third party requirements overlap with your own and can be satisfied to your mutual advantage. ■

FACULTY WEB LINKS

- 'When stakeholders know more than you do' – *F&M98* www.icaew.com/index.cfm/route/132611
- 'Developing a relationship with the public' – *F&M148* www.icaew.com/index.cfm/route/151617