Issue 292 / March 2021

# Business & Management

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# Business & Management

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COVER ILLUSTRATION: MICHAŁ BEDNARSKI

# New and extraordinary

Hello all and welcome to your March issue of *BAM* magazine. As the days inch ever longer, the sun outruns the clouds and the first seedlings show their shoots, things are looking up. Combine that with the herculean effort and magnificent success of the vaccine rollout, and there's a clear signal to start living our lives again.

Note I did not say 'normal' lives, because 'normal' is a relic of the past, like smoking in pubs (remember them?) and making calls from a landline. And 'normal' will not define our consumer lives going forward. Craft sellers are proliferating on platforms such as Etsy; we take a peek in our cover story and explore how shoppers are choosing to support the little guy. Long may it continue!

Normal can also not describe the Finance division going forward. Changes have been, and are being, made to the role; we tackle Finance transformation in this issue. We also have features on agile working and compassionate management, to gear you up for what is to come. If you think the lifting of restrictions and return to the office will bring back the old days, think again.

But with change comes opportunity. We aim to future-proof our readers to be ready for, embrace and profit from the new way of doing things we are likely to encounter. Just please, no one say 'the new normal'.

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Events and webinars are listed in this publication (see page 6) or go to icaew.com/bamevents

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# In the know

Stay up-to-date with recent developments from the Business and Management Faculty and beyond

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## Global news

### Women on board

The number of FTSE 100 female directors is on the rise. According to the final report of the Hampton-Alexander review, female representation at the top of business has surged by 50% in the past five years, and women now hold more than a third of roles in the boardrooms of Britain's top 350 companies. The number of women on FTSE boards has jumped to 1,026 – up from 682.

But significant progress is needed to boost the number of female top bosses in Britain's biggest firms. Chair of the review Sir Philip Hampton applauded the "excellent progress for women leaders in business" over the past decade, but warned that women need to be recruited and promoted to top executive roles "to sustain the changes made".

### Trustpilot wipes reviews

For the first time in its 14-year history, Danish company Trustpilot has published a transparency report. The global business-review site said it had removed more than two million fake or harmful reviews from its platform over the past year. The vast majority detected were dealt with by automated software, while just over 650,000 were taken down manually.

Peter Muhlmann, Founder and CEO, said: "Fake reviews and misinformation are the enemy, and we continue to do all we can to prevent consumers from being misled. Trust is in our name, and trust is at the heart of all that we do as a business." The company has invested in technology that identifies fake reviews through a combination of trained investigators and specially developed software.

### No jab, no job?

The UK's COVID-19 vaccination programme is proving to be a pandemic success story. Now, amid talk of 'COVID vaccination passports' to enable travel, there are rumours that some companies may require staff to be vaccinated in order to work. Care UK, which runs 120 homes in the UK, has stated that all new staff will be required to be vaccinated before they start work, while Barchester, which operates 220 homes, has said it would insist that current staff are vaccinated, a move that may open itself up to legal challenges.

Cabinet Office Minister Michael Gove will lead a review into the feasibility of vaccination passports, but Prime Minister Boris Johnson has admitted there are 'ethical issues' with such a scheme. "We can't be discriminatory against people who can't have the vaccine, there might be a medical reason," he said.

## Around the ICAEW

### Finance for the Future 2021

The ninth Finance for the Future Awards is now open for entries. Recognising financial leadership in building sustainable economies, this is the perfect opportunity to raise your profile and be publicly recognised for your innovative approach.

Entry is free and open to all individuals and organisations globally, including businesses, charities, social enterprises, the public sector, education institutions, think tanks, collaborations and coalitions. Joint entries are also welcome. The deadline is 28 May 2021.

For more information on how to enter, visit tinyurl.com/BAM-HowToEnter

### New global trading

In a recent ICAEW webinar, Post-Brexit exporting – practical tales from the front, Walter Van der Meiren, brokerage division manager for UPS, gave fascinating insights into the issues facing businesses in this new era. Find out more at tinyurl.com/BAM-UPS

Find a range of resources to help you navigate the post-Brexit environment on ICAEW's dedicated Brexit Hub at icaew.com/brexit

### Going Live

Put a date in your diary for ICAEW's flagship virtual conference, Virtually Live, which will be returning this year from 15-17 June. It's free for all ICAEW members, and you can come to one day, two days or three days to gain inspiration, knowledge and transformational insights and once again get the chance to meet your peers, share stories and network.

Register your interest at tinyurl.com/BAM-VirtuallyLive

# Events

## Webinar of the month

Today's business environment is unpredictable, to say the least, which means decision making is one of the toughest challenges facing business managers. In this webinar, Richard Morris, Head of Service Improvement for the Online System for Central Accounting and Reporting, HM Treasury, and BAM faculty board member, will examine how a long-established but out-of-fashion planning technique – scenario planning – can enhance preparedness and enable executive teams to respond rapidly to an ever-changing business landscape such as we face at the current time.

Richard started his career at PwC, and has worked as a business adviser specialising in planning, budgeting and forecasting. He joined the Civil Service in 2017 and HM Treasury in early 2020.

**Memories of the future: using scenario planning to navigate uncertainty**
**14 April 2021, 10:00-11:00**
**icaew.com/bamwebinars**

## 60-minute webinars

**Digital downtime**
**16 March 2021, 10:00-11:00**
Charity CABA looks at smart technology and how it influences our lives.

**Modern slavery: how to prepare a s54 statement**
**17 March 2021, 14:00-15:00**
Pentland discuss their approach and answer your questions

**Business resilience**
**27 April 2021, 10:00-11:00**
Nick Wildgoose on the importance of resilience, and the impact of getting it wrong.

## 20-minute webinars

**Motivating your team: a three-pronged approach**
**24 March 2021, 12:30-12:50**
Rick Payne on aspects of motivation needed to get the most from your staff.

**Data valuation: the key to more value creation**
**26 April 2021, 12:30-12:50**
Herman Heyns explores data valuation methods and their benefits.

**Managing bribery and corruption in a downturn**
**12 May 2021, 12:30-12:50**
Maria Cronin provides a timely update on the current risks to business.

Missed a webinar? Catch up in your own time, with recordings from the webinar library. All webinars and events are free for faculty members. Visit **icaew.com/bamwebinars**

## Tax news in brief

**Help at hand:** Small and medium-sized UK businesses needing support on customs duties and VAT will be able to apply to the SME Brexit Fund for a grant of up to £2,000 to pay for professional advice or training. UK businesses with up to 500 employees and a turnover of up to £100m will be eligible to apply. Find out more at tinyurl.com/BAM-SmallMed

**VAT deferred:** Businesses that chose to defer their VAT payments between March and June 2020 due to the pandemic can opt in to HMRC's new payment scheme. The scheme enables businesses to pay their deferred VAT in up to 11 monthly instalments from March 2021. The online portal is open now and will close on 21 June 2021. See tinyurl.com/BAM-VATDef

**Have your say:** As part of its exploration of how 'smarter use' of third-party data could make tax easier, the Office of Tax Simplification has launched an anonymous 10-question survey to collect taxpayers' feedback. To take part before the closing date, 9 April, visit tinyurl.com/BAM-Surv

Read more from the Tax Faculty weekly newswire at **icaew.com/insights/tax-news**

## Financial reporting

**Implications of COVID-19**
A joint statement by the FCA and FRC reminded companies of the extended financial information timelines, granted to ensure quality is maintained. The Financial Reporting Faculty has issued guides on the accounting implications of contract modifications under IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has also updated its checklists on the implications of COVID-19 for the preparation of accounts under FRS 102 and FRS 105. Find guidance from ICAEW and external sources at tinyurl.com/BAM-CovidFR

**UK endorsement of IFRS**
UK companies with accounting periods beginning on or after 1 January 2021 will be required to switch from applying IFRS as adopted by the EU to IFRS as adopted by the UK. Endorsement will be the responsibility of a new body, the UK Endorsement Board (UKEB). You can find out more at tinyurl.com/BAM-BrexFR

**Filing reforms**
A consultation launched by BEIS in December puts forward a reduction of filing deadlines to three months for public companies and six months for private companies, and a requirement for directors to declare the company's eligibility to file under whichever regime it has chosen. It also suggests the introduction of mandatory digital file tagging, to make information filed with Companies House machine-readable. BEIS also wants to review the filing regimes available to smaller companies with a view to reducing the options.

ICAEW has submitted its response and will continue to engage with BEIS on the issues in the coming months. Members can submit feedback on the proposed reforms by emailing representations@icaew.com. See tinyurl.com/BAM-CHFiling

Read more from the Financial Reporting Faculty at **icaew.com/frf**

**David Carr**
**UK Chief Executive, Energies and Services, Bouygues, and Chair of Business & Management Faculty**

# ‘The UK has always faced a productivity challenge. I see the use of technology and data as crucial to cracking that problem’

My move from accounting practice to business was driven by an interest in sustainability and doing something that would make a difference in the long term. I always felt that the economy didn’t do enough to focus on environmental issues. That was one of the factors that led me to working for global company Bouygues 25 years ago. Since 2001, I’ve been with Bouygues Energies and Services, part of the company’s wider Bouygues Construction division which also includes Colas Group (civil engineering/infrastructure) and Bouygues Immobilier (real estate). Other Bouygues brands are Bouygues Telecom, TF1 Group and Alstom.

We have a strong sustainability agenda covering renewables as well as carbon reduction within existing buildings. We put forward propositions for how organisations can refresh their current assets to reduce energy consumption, and manage the project delivery. Our work covers the technical/engineering perspective and leverages data to influence behavioural changes on how the building is being used.

Our clients in the public sector are in education, healthcare, utilities and local government. In the private sector, we cover utilities and commercial buildings. My challenge is to scrutinise the different market conditions and understand how I can best support them. I might be working with a client in healthcare, exploring the economic challenges there, or seeing how COVID-19 has affected higher education. I could be looking at Brexit and how it is affecting my client base. Because I’m constantly analysing how the whole economy moves, it means I’m not developing tunnel vision.

Since the first lockdown a year ago, I’ve seen a great deal of resilience in the workforce and the public. There’s been a real step up in collaborative working and I’m a strong advocate of that. We’ve had three groups of workers facing very different challenges: on the front line, working from home or being furloughed. A significant proportion of my team are key workers, and the first thing I looked at was making sure they were kept safe.

Another group went through the process of adapting to a working-from-home culture, with Teams meeting after Teams meeting. They’ve had to avoid becoming overly myopic and still pick up on all of the little things going on. On a screen you don’t get the 360-degree vision you get working within your client’s business.

## Climate forces change

The pandemic is only the start of change for business operations and society in general. The main driver is climate. Watching the degree of structural change unfolding (for example, the drop in the numbers commuting), the pace at which it’s affecting the economy is huge.

Technology was always going to change our business and now it will be significant in the evolution of the UK economy too. But the UK has always faced a productivity challenge. I see the use of technology and data as crucial to cracking that problem, especially if we’re to maintain the high employment levels of the past 15 years. We need to use data and technology better and get improved connectivity. To achieve this, we need investment in core infrastructure.

## Faculty strengths

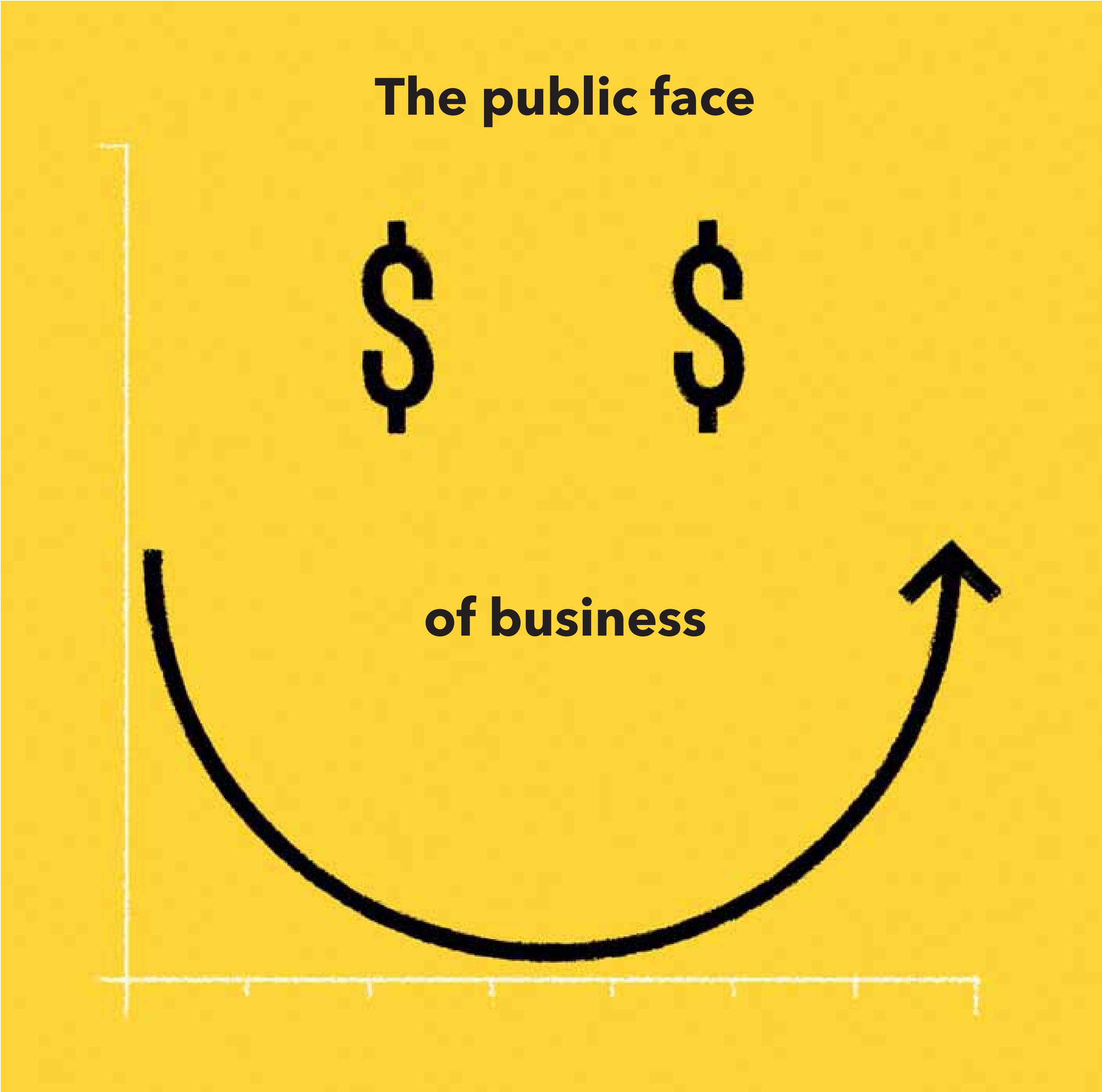
The Business & Management Faculty (BAM) has an important role within ICAEW to support members in business. They’ll be using financial information to improve productivity as much as the members in practice, if not more so. I’m keen to make sure that the training on offer continues to reflect that need.

I rely on my ICAEW studies and my audit background, and it’s important we continue to teach raw analytical skills. These will help people who study them interpret data, a much-needed skill for today and to prepare for tomorrow. This has been one of my main points of focus as chair of BAM – in particular, business performance metrics – to develop and improve productivity, not just to report but to make change happen.

As a faculty committee, sustainability is at the forefront of our work. We are looking to drive how people in a financial setting can effect change with a climate agenda. We need to, because industry has so many skills to bring to the table.

ILLUSTRATION: DAN MURRELL. INTERVIEW: NINA BRYANT

# The public face of business



How do businesses win their customers' hearts and minds? In the first half of a two-part study, Lucy Douglas explores smart advertising, building brand image, understanding customer responses and delivering growth to markets. In the next issue, she will consider the importance of an online presence

Back in March 2020, a video from a well known brand of stout appeared online: vintage images overlaid with the uplifting sounds of an Irish flute and a voiceover in a lilting brogue. Ahead of St Patrick's Day, the company wanted to send its customers a message: celebrations might not be the same this year, but remember to stay safe and be good to each other.

"When you raise a pint of Guinness, also remember to raise each other up," said the narrator, over images of friends and families clinking glasses of the familiar black stuff.

The video is a deft bit of marketing from Guinness, which has an illustrious history of smart, memorable ad campaigns. It communicates both the heritage of the brand (there is mention of the 9,000-year lease on its Dublin brewery) and a message that speaks to the time (staying safe in the pandemic). According to a survey of US viewers by advertising technology company Unruly, 21% said they would share it because "the content defined the spirit and mood of the time".

It might seem counter to the business's own interests. St Patrick's Day is the biggest single day for Guinness sales – a reported 13 million pints are sold globally, compared with a daily average of 5.5 million. Surely a message that explicitly encouraged consumers to drink the product at home might have done more to make up some of the revenue lost due to swathes of Europe and North America being under lockdown. But in the 21st century successful marketing is about more than sales: it's about the brand. Who are you? What do you stand for? Why should consumers care?

"The received wisdom now is that you have to look for long-term, brand-building activities and at the same time match them with your short-term, sales-driven activities," says Helen Edwards, a branding consultant and columnist for *Marketing Week* magazine.

Guinness wasn't alone. In late March, Tesco launched a new TV advert telling viewers about "little helps for safer shopping". Meanwhile, Volkswagen and McDonald's both ran ads featuring their iconic logos redesigned with a gap in the middle, to encourage social distancing. Amid an unprecedented global crisis, marketers were scrambling to let the public know how their company – whether a supermarket, brewery or sportswear brand – fits into life in the new normal.

Deloitte's Global Marketing Trends Consumer Pulse Survey found that 79% of consumers could cite a time a brand responded positively to the pandemic, and one in five strongly agreed it led to increased brand loyalty on their part. Conversely, two-thirds could cite a time a company had acted in its own financial interests during the pandemic, with a quarter saying it would make them walk away from the brand.

### Driving growth

Marketing covers a huge range of activities. Even the Chartered Institute of Marketing (CIM) says the term is as broad and hard to define as 'management'. Practices range from promotional activities such as advertising and PR to operations such as customer relationship management (see boxout). But, ultimately, they serve to fulfil a simple aim: getting and/or keeping customers.

According to research by McKinsey, 83% of C-suite executives look to marketing as the major driver of growth in their organisation. The consultancy defined modern marketing as "the ability to harness the full capabilities of the business to provide the best experience for the customer and thereby drive growth".

"Marketing ought to be the people who really understand the customer, what the customer

**'Businesses need to involve marketing in their decision-making to ensure they stay relevant, engage customers and drive productivity'**

wants, how they operate, and delivering against that," says Edwards. That principle applies as much to, say, a company selling IT solutions to corporate clients as it does to the likes of Apple and Nike.

Mocky Khan, London chair for the CIM, says that marketing must be a two-way conversation, rather than a business. "You must listen to your customers, non-customers and what the marketplace is doing," he says. "I suggest that senior directors go onto the front line, look on social media, understand what customers are saying and then adapt."

But knowing what your customers want isn't enough to drive growth: businesses must deliver on that too. Figures from a study by the CIM and Arlington Research found that 42% of UK decision-makers do not believe their company has a strategic vision. Meanwhile, 56% of decision-makers believe that board decisions are made without understanding the needs of customers.

"Business owners need to involve marketing in their decision-making to ensure their organisations stay relevant in order to engage customers and drive productivity," says Khan. "Winning hearts and minds is key. Only when your staff understand the thinking behind the key decisions will they really put their heart and soul into it, making it a success."

Edwards highlights Tesco during the tenure of recently departed CEO Dave Lewis. "It started with understanding their customers and that's not easy to do when you're a mass-market brand," she says. One notable initiative under Lewis was to reformulate the supermarket's own brand of food, introducing the 'farm' brands that compete on price with discount competitors Aldi and Lidl. "They really understood what was important to their customers and fixed that before going out with a campaign."

Edwards says that businesses can be guilty of overestimating their competitive advantage. "They tend to focus on their own category and competition within that category, whereas consumers don't. They see your brand in the context of other brands." For example, she explains, imagine you're running an energy company and you have the best customer-service call response time in the energy sector. But your customer is not comparing your customer service calls to other energy companies; they

are comparing your response time to that of all the other companies they might call, such as their bank or their broadband provider.

**On purpose**

Campaigns like Guinness's in the early days of the pandemic are increasingly important to businesses in today's market. Customers don't just care how good your product is, they also care about what you stand for as a brand.

Research in 2018 by Accenture found that more than half (52%) of global consumers surveyed were more attracted to buy from one brand over others if it stood for something bigger than the products or services it sells, which aligned with their personal values. And it's more important to younger consumers: according to research by KAM Media, 48% of Gen Z respondents said a brand's impact on the environment was important to them when making a purchasing decision, and 44% said a brand's ethical stance was important.

"Purpose is really [about asking]: what do we believe in? What drives us? And making that more known to your customer base," says Edwards. "I think there has been a rise in attention to purpose, and that comes down to a recognition from businesses that what you're going to have to do is compete on other dimensions than functional differentiation. If you can stand for something that a consumer connects with, then you're competing on multiple associations."

Done well, she adds, it allows both consumers and staff to connect with the business on a deeper level than a purely transactional one. It can be measured through brand equity studies and, hopefully, though increased revenue. In the days following Nike's 2018 'Dream Crazy' campaign – featuring Colin Kaepernick, the NFL player who led protests against racial injustice in the US by kneeling during the national anthem – the company reportedly saw a 31% uptick in sales.

"It's not for nothing," cautions Edwards. "If you declare a purpose, you then have to live by it, otherwise you'll quickly get found out."

More recently, Deloitte named 'purpose' as one of its seven marketing trends for 2021. "Organisations that know why they exist and who they're built to serve are uniquely positioned to navigate unprecedented change," said Deloitte's 2021 *Global Marketing Trends* report.

Edwards points to Unilever as a good example of how brand purpose is guiding other activities within the business. "They have a Unilever corporate purpose around sustainability, and then every brand finds its angle on it," she says. "I think what they're doing with the Knorr brand is really interesting. They're reworking it around more sustainable foods and diets for the future. They've reformulated the product, they're reworking the corporate partnerships. I think that's where Unilever stands apart – they take purpose seriously, and they do it properly."

## Types of marketing

**Advertising**

Perhaps the most obvious example, advertising is still a juggernaut of an industry in its own right. In 2019, global advertising revenue reached $586.95bn. Today, businesses have myriad options when it comes to placing adverts, from billboards, TV, or print media to Google, social networks or even platforms such as Spotify.

**PR**

Public relations is more about building brand awareness and reputation than advertising. Simply, it's encouraging the media to feature your product or company, such as by putting senior executives or brand ambassadors forward for interview.

**Search engine optimisation (SEO)**

The higher up your business appears in the results of a Google search, the more people will click through to your website. According to a 2020 study, the first result that isn't an ad has an average click-through rate of 28.5%; those on the second page have a rate of less than 1%.

**Social media marketing**

Social media sites serve as a platform for both promotion and brand building. Having a presence on popular sites such as Facebook, Instagram and YouTube allows businesses to engage with their customers and push their brand identity. Plus, they're a popular advertising platform. Facebook made $84.2bn in 2020 from advertising.

**Events**

Hosting or taking part in events is another tactic for marketers. This could be a presence at a leading trade show for your industry, or hosting discussions on topics that your target customers might be interested in. Either way, events can offer a valuable opportunity to speak to consumers face to face.

**Content marketing**

Rather than advertising, which pushes a hard sell to products, content marketing is more about strengthening a brand identity. It offers value to customers – content that is interesting or useful – and is aligned with the brand's interests. The in-flight magazine you read on a plane? That's content marketing.

GARY BATES / IKON IMAGES

# The evolving role of a CFO

With the economic landscape still unsteady under our feet, financial planning and analysis has never been more crucial, says **Gordon Stuart**. The progressive CFO is adopting new tools to strengthen business and drive change

Benjamin Franklin wrote: "By failing to prepare, you are preparing to fail." He was right. But planning is one of the toughest aspects of running an organisation. With an ongoing pandemic and Brexit now a reality, there are at least two macro factors to make business planning even cloudier than usual.

As retailers switch to online only, restaurants become food delivery services and clothiers turn production over to face masks, it's clear we are a million miles from business-as-usual. Companies are having to adapt their plans sharply, assess multiple scenarios and at the same time envision what the post-pandemic future may look like. The good news is that smart CFOs are already adopting tools and tactics to make business planning a more reliable discipline, even amid the turmoil.

Progressive CFOs are increasingly looking at financial planning and analysis (FP&A) to get visibility and create strong frameworks that support strategic decision-making. Excel addiction is ending and we're seeing a shift from CFOs being viewed as accountants. The new CFOs are more akin to analysts, architects, play-makers and venture capitalists. They are able to study a range of source materials to make complex decisions, and present risks and opportunities in ways that can be widely understood.

By adopting AI and querying historical data in ERP systems and elsewhere, they can look at business in the round. Forecasts will become more accurate and the capacity to make inspired decisions is exponentially increased. Add rich visualisations, and the ability to persuade others and share knowledge is amplified. Engineering firms, for example, need to match the right people to the right roles and build the right amount of capacity to grow profitably. FP&A helps by getting to a clearer picture of likely needs.

## Ways of thinking

CFOs need to lead or oversee FP&A teams that give them the critical capability to understand and predict what will happen next, so they can build in contingency planning and the ability to course-correct and pivot. FP&A can help to answer short-term questions such as 'Do we have the cash reserves to survive if this pandemic continues into late 2021?' but also complex, multidimensional concerns that can steer investments, such as:

- What adjacent market moves are wise, and what are our chances of success?
- In which geographies are we underperforming and why?
- Will the recent Schrems II verdicts leave us at risk of data protection prosecutions and to what extent?

These are the sorts of questions CFOs can answer with the aid of FP&A. The tools aren't a virtual magic wand, but they will provide ways to think about such matters in a considered fashion, create an audit trail of assumptions and build a case for business change.

## Beyond the spreadsheet

FP&A is already seeing wide adoption in large enterprises, but the tools are also valuable for smaller companies seeking investments, talented recruits or strong valuations. They can help build a buzz and drive a sense of purpose internally because realistic goals can be set based on documented reasoning. This is a 'show, not tell' phenomenon: by providing evidence in support of changes in direction, CFOs can get everyone on board, winning buy-in and backing and fostering the mindset to think differently.

Like anything valuable, FP&A is not simple and it's certainly not purely dependent on having great software. Companies that succeed will have a balance of analytical nous, data science, technical knowledge and communications skills. Also, there will be the usual challenges of change: not over-inflating expectations, or moving too fast and losing confidence because initial results aren't great. But FP&A can help to build powerful environments that make the CFO an even more influential figure in organisations where they are not just counting the numbers but making the calls.

**Gordon Stuart** is CFO of software company Unit4, delivering next-generation enterprise solutions. He has worked across diverse global businesses. More at unit4.com

'Excel addiction is ending. The new CFOs are more akin to analysts, architects, play-makers and venture capitalists'

GETTY IMAGES

# Created equal

For all its processing power, artificial intelligence remains fallible when it comes to detecting discrimination. **Was Rahman** highlights ways to safeguard your organisation's integrity

Removing discrimination is a priority. Responsibility starts with senior leadership and requires sustained effort involving initiatives such as education and awareness programmes, equality policies and diversity monitoring. But with the increasing use of data technologies such as artificial intelligence (AI) and intelligent automation, new forms of discrimination are appearing in the workplace. These need a different set of treatments, reflecting different causes.

Some are flawed features of a new piece of technology, such as Google's early facial-recognition software that classified two African Americans as primates. Others are signs of poor implementation or inadequately defined business requirements. Amazon's initial attempts to use AI to screen CVs is an example. The technology shortlisted disproportionately fewer female candidates to maintain the historical industry skew towards males.

Technology analyses large volumes of data and infers how to solve a given problem by finding patterns in the data. This means it will replicate any bias in the data and will use any statistically valid means to do its job. So it may solve a problem like CV screening in an inappropriate (and illegal) way – as Amazon found to its cost.

Addressing these problems is about ensuring data technologies are designed, tested and used in a way that avoids inappropriate bias. Like any business technology, how well AI does what it should is the responsibility of business leaders as much as technology teams. Here are 10 ways to ensure data and technology do not inadvertently introduce bias into your organisation.

## 1 Identify data that could potentially cause discrimination

To prevent data bias, you need to know what data in your organisation could cause it. The kind of bias to consider should reflect the organisation's policies and priorities. Characteristics include gender, race, age, disability and sexual identity, but could also involve socio-economic status and place of residence.

People who may be treated differently because of bias are primarily employees and customers. Ensure your organisation knows where all data about them is held, especially related to characteristics associated with discrimination. This may be impossible to do completely in a large organisation, but even a partial view is a good start.

## 2 Define data bias and its indicators

Many of the techniques for detecting and removing data bias use technology, but to work they need the problem to be defined unambiguously. That includes clarity on how to recognise the presence of data bias, and when it switches from acceptable variation from the norm to unacceptable discrimination. This will vary from case to case.

## 3 Include data bias in monitoring

Diversity monitoring is part of most organisations now, including outsourced functions. However, it's typically designed to address behavioural and cultural dimensions of bias problems, so it doesn't cover data or technology bias. Changing that requires support and engagement of technology teams and software vendors.

## 4 Educate technology teams

Diversity education is an key part of removing discriminatory behaviour in an organisation, and is of course valuable for technology teams. However, the material needs to be amended for this audience to cover data bias and its causes in addition to the wider subject.

## 5 Review requirements for data bias

One cause of data bias is poorly articulated requirements when developing relevant systems. Users may overlook bias being introduced through business rules they specify, especially if inexperienced. A systematic way of preventing this is by introducing an independent review of requirements for possible data bias as part of the system development process.

> 'We don't need to worry about AI being inherently sexist or racist – it's simply technology that's doing what it's designed to do'

## 6 Remove bias from AI training data

A critical part of developing AI systems is 'cleaning' the data used: creating consistency, removing duplication and ensuring data is statistically valid, among other things. This includes identifying statistical anomalies, which are a sign of possible data bias.

It's particularly important to do this thoroughly with training data, the representative data an AI system learns from. Unresolved bias in training data is the first place to look if an AI system shows signs of discrimination.

## 7 Test AI algorithms for discrimination

Algorithmic bias goes hand in hand with biased training data, and occurs when an AI system uses discriminatory logic to solve a business problem. Like biased training data, it is identified and addressed by statistical techniques that data science teams should be using when creating an AI system.

Business leaders and teams are unlikely to be directly involved in addressing biased training data or algorithms, but they can ensure development teams understand the business importance of doing this well.

## 8 Include bias checks in IT testing

A part of AI development where the business can be directly involved is testing. Unlike other software development, there are not yet industry-wide standards or best practices on how to test AI systems. Most development teams use versions of conventional system and user acceptance testing, modified for AI.

Business users can play a key role in how well AI systems are tested for data bias, by helping create possible conditions, scenarios and symptoms to include in testing.

## 9 Retest AI for discrimination

With conventional technology, once a system has been tested and deployed, it remains relatively stable until it's updated. Testing only needs to be repeated if a change is introduced, such as a new software release. This isn't the case for AI systems with machine-learning technology. The AI continually reassesses how well its algorithm is performing, checking if adjustments would achieve better results. Algorithm improvements often reflect changes in the data being processed, for example, because of customer or market changes.

Even if algorithm changes are minor, there's a theoretical possibility that fresh data bias is introduced. This is unlikely if sufficient care was taken setting requirements, designing the original algorithm and cleaning training data. Nevertheless, it's possible that an AI system becomes biased over time, even if it wasn't originally.

## 10 Include data bias in governance

The final tip for business leaders is to review the implications of data bias on governance. These checks and balances on obligations to stakeholders usually include some reference to ethical or social responsibilities, often including diversity. They ripple down into the business policies and practices that shape the day-to-day reality of an organisation, as well as the 'sticks and carrots' that influence behaviours.

As businesses become increasingly dependent on data technologies like AI, they face a new set of business risks, which includes data bias. Leaders should consider whether, for their circumstances, these risks are or will become topics for the boardroom, and the implications on governance. A starting point is to review whether data bias could have any implications for existing governance mechanisms, for example, corporate policies or internal controls.

**Was Rahman** is an expert in the ethics of AI, the CEO of AI Prescience and the author of *AI and Machine Learning*. See more at wasrahman.com

# The only way is up

Empathetic, compassionate management improves business, and will become even more important as we enter a post-COVID-19 world, reports Xenia Taliotis

Buzz words and phrases often start with a whisper that becomes more vociferous with time. This has certainly been the case with the concept of collaborative, compassionate and communicative business, an approach that is now getting the credence that indicates its time has come.

If you are in any doubt as to how long leaders have been talking about empathy being at the heart of good practice, you might be interested in these two quotes.

"Coming together is a beginning; keeping together is progress; working together is success."

And: "If there is any one secret of success, it lies in the ability to get the other person's point of view and see things from that person's angle."

They didn't come from a millennial disruptor. Nor did they come from Peter Drucker, the father of modern management and a champion of collaborative business. In fact, those words were spoken by 20th-century industrialist Henry Ford who, despite developing the production line, still realised that without a contented, well paid workforce, he'd have nothing.

"Ford recognised that a company's greatest assets are its people long before others were credited with that epiphany," says Talita Ferreira FCA, author of *The Authenticity Dilemma Resolved*, who advises on leadership. "For the past 25 years, I've been helping leaders adapt or reinvent their management style in order to create trust-based work cultures so that their employees – and therefore their organisations – can thrive. My message is that business 'doing good' is not confined to providing social activities in the community... It includes a social responsibility to have people working in the way that best suits them to ensure they have a higher level of motivation, development and engagement."

The fact that engaged staff doing purposeful work are more productive has been shown by numerous studies. In 2019, a six-month research project conducted at BT call centres by Oxford University's Saïd Business School found that employees were 13% more productive when happy, while a 2017 US-based survey by Gallup said that engaged 'business units' saw a 41% reduction in absenteeism, a 17% increase in productivity, a 10% improvement in customer ratings and a 21% increase in profitability.

So companies would do well to boost employee wellbeing. The way to do this, says the Workforce Institute – a think tank that helps organisations improve performance by addressing management of their staff – is through "compassionate and inclusive management that builds trust".

**'Organisations that show compassion and understanding to those who are struggling will be more likely to thrive after the great reset'**

The Institute's Executive Director, Dr Chris Mullen, is so confident that good leadership lies in putting the lives of staff ahead of work that he has made it one of his key predictions for 2021.

'Wholistic' employee wellness is vital, he says. "The past year has challenged people enormously and we are seeing higher incidences of depression, isolation, anxiety and stress. Businesses have done more than ever before to protect workers and their families, but the ones that will excel will be those that emphasise empathy, wellness and belonging.

"Organisations that show compassion and understanding to those who are struggling will be more likely to thrive after the great reset."

Jennifer Jones FCA, founder and consultant at Metis, which advises organisations on leadership and change management, agrees: "Even before COVID-19, millennials were driving through significant cultural shifts, but the pandemic has greatly accelerated the move from results-based business models to value-centred ones, and focused attention on how people worked before, how they are working now and how they wish to work going forward.

"Trends that are likely to be permanent are emerging. For example, a move towards a hybrid model that embraces flexibility by allowing workers fluidity of movement between working remotely – from home or even abroad – and the office."

Several issues will have to be addressed as the workplace transitions to a kinder place. "Organisations will need to make conscious and deliberate decisions about policies and processes," says Mullen. "They will begin to refocus and reinvent and think about which practices have gone forever, and which will return."

Such decisions may take years to solidify, which means that work will be defined by uncertainty. Again, the firms that survive best will be the ones that can deal with this. In times of uncertainty, trust will play an even greater role in organisations – particularly between leaders and their team members.

"Employees will need to trust that they will be looked after and supported throughout any difficulties they might encounter, while companies will need to trust that their staff will work to the best of their ability when working remotely," says Jones. "The bedrock of trust is honesty. Managers will need to see their team members and also allow themselves to be seen. When leaders show their vulnerabilities and say they share similar anxieties, they help flatten the traditional hierarchical structure and encourage a greater sense of belonging.

"It's not about saying 'we're all in this together,' which, let's face it, can actually be quite patronising and alienating, but about being genuinely empathetic. This paves the way to creating a truly sustainable business model, one that is built on communication, trust, collaboration, understanding and mutual respect."

TANG YAU HOONG / IKON IMAGES

## The expert view

Human resources (HR) will play a vital role in shaping the workplace of the future. Here, HR experts give their views on compassionate leadership.

**Dr Andy Brown, CEO, ENGAGE, a leadership and engagement consultancy**

"The pandemic has changed the definition of strong leadership. It has affected organisations across sectors, geographies and demographics, and has forced leaders to refocus efforts on the human aspect of their business. Having the right traits, wisdom and skills is just one contributor to successful long-term, post-crisis leadership. Behaviours – externally showcased actions – are equally critical. We call this human, or balance, leadership.

"Organisations that have shown resilience and success have demonstrated a common set of leadership behaviours, including being visible and available; communicating through check-ins and two-way dialogue; listening authentically and acting on what employees, customers and stakeholders are saying; being open and honest; and admitting when they don't have the answers

"Successful leadership balances harder business elements with softer human ones, while also focusing on continual engagement with vision and strategy. Traditional leadership frameworks, typically based around big-picture thinking, a focus on results and building high potential, are not enough on their own to drive success in this new future.

"The ability of businesses to survive and evolve rests on how leaders respond to changes in the way businesses work, the way teams are structured and managed, and the way employees are engaged. How they emerge after the reset will depend on them maintaining this approach and combining it with leadership effectiveness and knowledge. That means redefining the pure-play model of leadership – based on business outcomes and KPI metrics – that we've worked from over the past 20 years. Expected behaviours will need refreshing and the factors on which leaders are chosen, promoted and rewarded will need to shift. Leaders need to be able to make mistakes and change direction while maintaining trust and confidence. The introduction of elements such as humanity, humility, openness and listening will create a more balanced approach to leadership as we move forward."

**Jenny Burns, expert on work reimagined and executive partner at Fluxx, which supports clients to accelerate growth and sustain change**

"Emotional intelligence is the key leadership skill of 2021. Business leaders that promote a culture of psychological safety, empathy and trust within a business will be the winners; when emotional intelligence is ingrained in the DNA of an organisation, it enables better collective decision-making, especially in times of crisis, and even more for the new hybrid world of work."

**Liz Sebag-Montefiore, director of HR consultancy 10Eighty**

"For some time, there has been a shift in how people want to be led, and the pandemic has accelerated this. 'And Beyond' leaders of the future need to facilitate positive and sustainable change to meet the challenges of the new world of work by creating an environment that's focused on collective leadership and business agility in an age of disruption. They will look beyond the norm to identify the right strategy, decision or outcome and will find ways to experiment and adapt. Jacinda Ardern is a good 'And Beyond' role model. Her empathy, compassion and integrity engender a high level of trust and confidence in her, which she lives up to."

# A shop window to the future

How will retail survive the online shift forced by the COVID-19 crisis? Will the new way we shop be long-lasting? Can small retailers compete with the major players? David Adams explores the options for digital presence and the likelihood of a new online sales tax

ILLUSTRATIONS BY MICHAŁ BEDNARSKI

Informed observers have been predicting that the internet would transform retail since the 1990s, but 2020 was the year their prophecies seemed to come true. The COVID-19 crisis closed most non-food, bricks-and-mortar shops for months; more consumers than ever before became regular online shoppers; and thousands of retailers of all types and sizes were forced to create or upgrade online retail capabilities.

This sudden acceleration in the shift towards online retail has inflicted terrible damage on those retailers that have been unable to meet consumers' expectations of online services, which have been shaped by Amazon's extraordinary product availability and delivery offer. At the same time, overall demand fell. A few non-food retailers have prospered during the pandemic, including those able to satisfy lockdown-driven demand for goods such as electronics or gardening and DIY supplies, but the overall picture has been bleak. The British Retail Consortium (BRC) estimates that by the end of January 2021, the COVID-19 lockdowns had cost UK retailers £22bn in lost sales.

The list of retailers that have gone into administration and/or become online-only during the past year includes some major high-street names: Debenhams; the Arcadia brands including Topshop and Miss Selfridge; Peacocks; Jaeger; Oasis; Warehouse; Paperchase; TM Lewin; and Cath Kidston. During 2020, some 182,564 retail jobs were lost as 16,045 stores closed, according to figures compiled by the Centre for Retail Research.

### Hope for the high street

Andrew Goodacre, CEO at the British Independent Retailers Association (BIRA), echoes the pronouncements of other key industry figures when he suggests that 2020 witnessed "five years' worth of internet sales growth and five years of high-street decline" in the course of a single year.

The high street may not be finished yet, but new habits may die hard. BRC Director of Insight Kyle Monk notes that, even when lockdown restrictions are lifted, a "voluntary distancing" effect is likely to continue to depress footfall on the high street. It may be a long time before all office workers are working in the office five days a week again (if that ever happens) – a change that will have implications for many retail outlets in city centres. National chains reeling from the effects of the crisis will continue to withdraw from less profitable sites.

But if online sales are now set to become more dominant in UK retail, what are the most important factors that will determine success and profitability? Some smaller retailers will base online offers on meeting the needs of local customers; others will seize the opportunity to target customers who may be hundreds or even thousands of miles away. Brexit has created additional difficulties for those selling to customers in the EU, making it even more important that they derive maximum profit from interactions with UK customers, whether in-store or online.

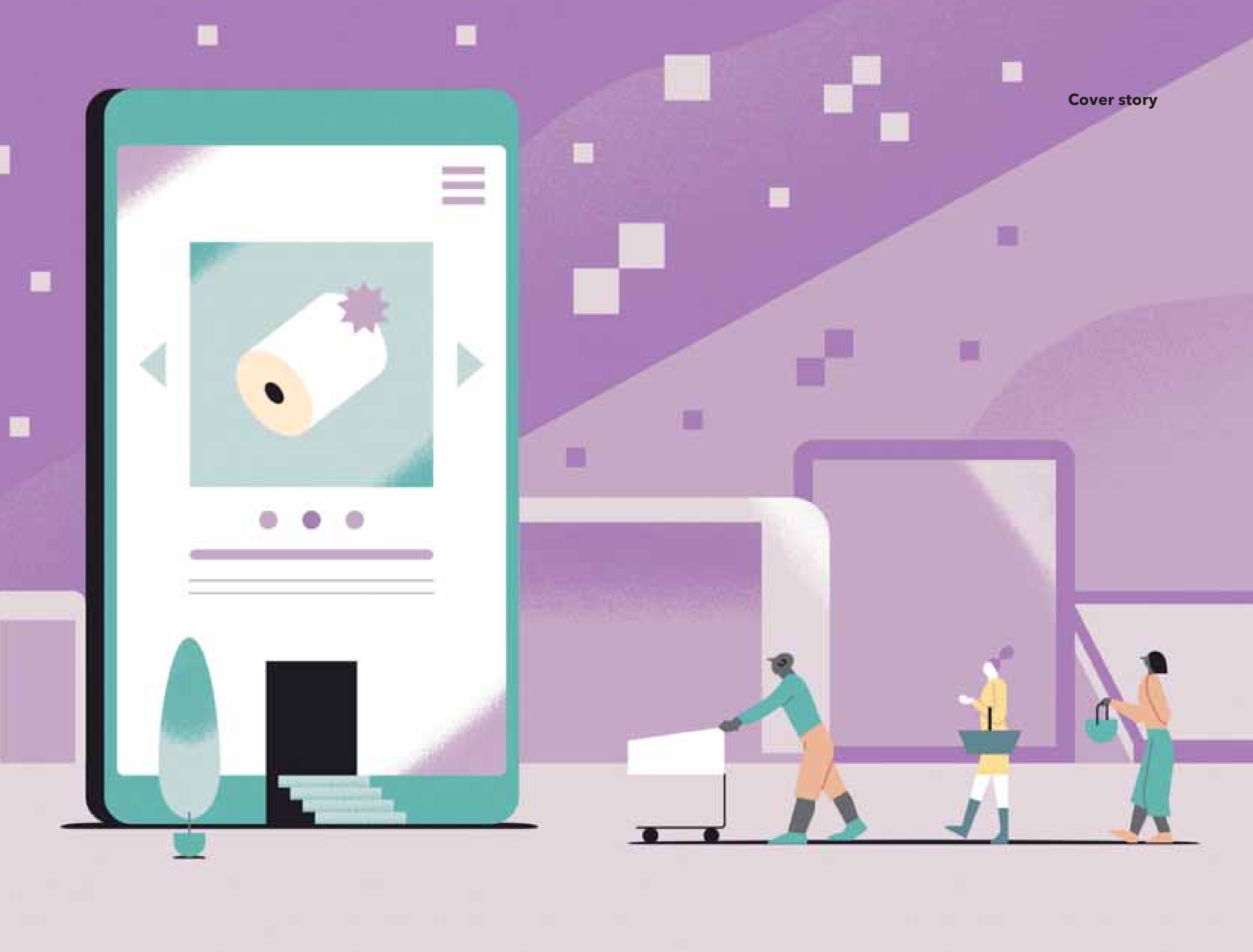
Wherever the customer might be, the retailer's first challenge is simply to be *found* online in a vast crowd of potential competitors. For those seeking to connect with customers in a local area, Goodacre suggests considering the use of technologies like NearSt and Pointy, which upload information about a retailers' stock inventory to the internet to inform localised Google searches.

"That sort of technology is ideal for the independent retailer because people mainly search by product," he says. "As a smaller business, you can't compete with big retailers on pay-per-click and search advertising. An independent retailer has to be a bit smarter to be found. But you then also need the website to back it up."

Retailers must be able to offer attractive service and delivery options, delivering far and wide, within reasonable timescales and at competitive prices. But they must not overpromise. If something that a customer thought they had purchased is then revealed to be out of stock or takes an unexpectedly long time to arrive, consumers will move on – and may leave unfavourable comments on review sites and/or social media as a parting gift.

Online consumers may well be Googling product reviews anyway, so retailers need to embrace review

**'If online sales are now set to become more dominant in UK retail, what are the most important factors that will determine success?'**



sites, linking to them and encouraging consumers to review products on those sites and/or on the retailers' own sites (although taking care not to irritate with such requests).

Websites must offer a pleasant experience. "It's about engaging with consumers, taking the shop experience into the digital world," says Goodacre. It should be well designed, easy to navigate and enhanced with photography, video content (such as product instruction videos for specialist DIY or exercise equipment, not just marketing) and easily accessible product information. It must also provide straightforward processes for filling or emptying the virtual shopping cart while browsing.

**An easy and safe payment process**

Websites must also offer all the payment options consumers might want to use, including payment by instalments, as provided via services such as Clearpay or Klarna. Payment processes should always be quick, seamless and secure – slow payment confirmations and any suggestion that using a website might make a customer vulnerable to cybercrime can easily dissuade them from making a second visit.

Whenever possible, every aspect of the site needs to be effectively under constant review: in an ultra-competitive marketplace your website and the pitch you make to potential customers can always be improved.

Sophie Michael, Head of Retail at business advisory firm BDO, highlights the importance of consistency across different service channels and social media, "to avoid any risk of reputational damage through poor customer handling". If resources allow, she suggests mid-market or larger retailers invest in technologies that monitor goods through the supply chain in order to give customers accurate updates on the progress of their orders. She advises smaller retailers to focus on getting the best possible deals from logistics companies, to improve margins and, hopefully, enhance the customer experience.

Anneke Short, co-founder of the Camden Watch Company (see box, page 21), points out that retailers may be able to improve the terms they get from logistics companies as they grow. "Don't hesitate to switch couriers if you can find a better deal," she advises.

Another key question for many smaller retailers is whether or not to offer free returns – a selling point that can really eat into profit margins. The Camden Watch Company does not do so. Short says the company wanted to undermine the idea that a process that is so wasteful, in terms of time, money and effort expended by the retailer, and from an environmental viewpoint, should be taken for granted by consumers.

Online retail is also well suited to a subscription sales model, offering retailers a chance to build and nurture a loyal customer base, while also improving its leverage over logistics companies. Lockdown has provided opportunities to niche retailers selling all sorts of products, from food (including vegetable boxes, ingredients or meal kits) and drink (including brewers and wine merchants) to clothing (Stitch Fix), household cleaning products (smol), sustainably and ethically produced toilet paper (Who Gives A Crap?) and houseplants (Bloombox Club) – or a whole studio's worth of different arts and crafts supplies. It will be interesting to see how some of these niche retailers develop, perhaps increasing the range of goods and services they sell to carefully cultivated and nurtured customer bases. Amazon began as a bookseller, after all.

Retailers of all sizes can use the data generated by online interactions with customers to inform strategy and add elements of personalisation to website, email, social media and (when permitted) in-store interactions. According to research from Accenture, more than nine out of 10 consumers (91%) are more likely to shop with brands that recognise and remember them, and provide them with relevant offers and recommendations.

**Small business solidarity**

Smaller retailers may also benefit from joining groups of other small businesses based in the same geographical area who collaborate to raise their profile, using Google, Facebook, WhatsApp and Twitter; or tools created for this purpose, such as Down Your High Street, Locally UK and ShopAppy.

They can also improve their online visibility and reach – and may avoid the cost and effort of running their own dedicated website if they wish – by working with Amazon or other online marketplace sites like Notonthehighstreet or Etsy. The pros and cons of working with Amazon – paying commission of between 7% and 15% on sales, alongside other fees, in exchange for access to its huge customer base – and the debate about Amazon's impact on UK retail, are both subjects worth whole articles in their own right.

Amazon had an extraordinarily successful 2020, with worldwide net sales up 38% on 2019, to $386.1bn. But that success is built in part on the work of smaller retailers: around 60% of physical goods sold via Amazon are sold via third-party sellers, according to the company. Other online marketplaces also enjoyed strong growth during 2020. Revenues at Notonthehighstreet – where more than 5,000 small UK businesses, largely creative traders, sell to three million customers – grew by more than 50% in 2020. It reports a 78% increase in applications from small businesses seeking to sell via the platform since May 2020.

Goodacre can see the benefits and downsides of working with these platforms. "It depends on the product you're selling, but it can become a race to

'We cannot yet be sure how many of the changes the pandemic has brought to the way we live, work and shop will be long-lasting'

the bottom in terms of price," he warns. "If it opens up new markets, helps you to reach people you wouldn't normally reach – fantastic. If you haven't got a shop to run, it may work for you, because you haven't got those overheads. But I know some BIRA members have moved away from it."

**Online sales tax under consideration**

At the time of writing, the retail sector is also awaiting government announcements linked to a possible reform of business rates, and to the possible introduction of a new online sales tax. One suggestion is that a 2% tax might be imposed on any online sales to UK customers, to complement the Digital Services Tax launched in April 2020.

Opponents of a new online sales tax point out that the direct and indirect costs it would impose on retailers would be passed on to consumers by many retailers, that it could create extra costs and practical challenges for smaller retailers in particular, and that it would not level the online playing field or fill the gap in government revenues left by the fall in business rates revenue caused by the decline of bricks-and-mortar retail.

BDO has an alternative suggestion: a version of the tax levied alongside an overhaul of business rates. Occupiers of retail premises would pay tax on the rent they pay, while owners would be taxed on rent received. An online sales tax based on 2% of turnover from online sales would be introduced, but retailers would be able to offset business rates liabilities against the new tax. It might be combined with incentives for use of green technologies and processes in physical stores and supply chains.

Whichever policy changes governments make in the future to 'save the high street', or to ameliorate the impact of Brexit, all retailers must retain flexibility within their business models. We cannot yet be sure how many of the changes the pandemic has brought to the way we live, work and shop will be long-lasting. But the past year has shown that the most successful retailers, on the high street or online, are those able to adapt, again and again, as circumstances and consumer preferences change.

# Future-proofing retail markets

## Timely investment in online operations

The Camden Watch Company, created by Anneke Short and Jerome Robert in 2015, creates watches with designs inspired by historical places or concepts linked to London. The business was online-only at first, but Short and Robert then opened a small store in Camden, north London. It was so successful that they opened two more London stores.

Short and Robert have always used social media to help publicise their brand, and have been assisted by the publicity coup of actor Martin Freeman becoming a fan of their watches. Before COVID-19, tourists formed an important part of their customer base. Many found the company online and went looking for the stores when they came to London.

Short is not sure the company would have survived lockdown and the temporary closure of its stores if it had not already had an effective online operation. At the start of the pandemic, the company also scaled back online marketing and social media activity to cut costs, but it was then able to resume this activity once government support schemes were announced.

Short advises retailers to ensure their website uses engaging content, and recommends testing how well it works when accessed from different devices.

## Subscriptions can make business bloom

Dr Katie Cooper, formerly a therapist and psychology lecturer, founded Bloombox Club in 2015, after noticing the mental and physical health benefits many of her patients seemed to derive from being around plants.

With the assistance of an angel investor and then a business incubator run by Dutch florist conglomerate Royal FloraHolland, Bloombox Club has developed into an online store and subscription-based business that ships thousands of indoor plants and related products throughout the UK every year. It currently fulfils around 6,000 orders per month and employs seven people.

The website also contains articles, blogs, guides and videos about plants and wellbeing. With people confined to their homes that have also had to act as workplaces, 2020 was a successful year.

Cooper says retailers selling online need to ensure customers understand the retailer's offer, and they should try to maintain constant contact with their customers, "so you know what they're looking for and what they do and don't like about your website and your products". The company has invested resources in online advertising, via Google and Facebook, alongside other profile-raising activity in the UK media.

## Tailoring the website to customer needs

Coes is an East Anglian retail institution. The business is more than 90 years old and sells high-quality clothing from five stores scattered across Suffolk, Norfolk and Essex. It has also been selling online for more than 10 years, but activity and investment online has grown significantly during the past five years. "Within the next year, [the website] will be our second biggest shop," says Managing Director William Coe.

The retailer prides itself on building personal connections with customers, so trying to recreate the in-store experience online during the pandemic has been a major challenge.

Coe advises retailers seeking to get the most out of trading online to focus on the basics: making sure goods are in stock and delivering them to the customer on time. Significant effort and investment have been put into ensuring customers find the Coes site.

The retailer has opted not to work with any of the digital marketplaces, "because of the amount you have to give away via commission" and the time and effort involved. Instead, it has focused on investing in its own website, creating a foundation for an online proposition to protect the business as it moves into its second century.

THE CAMDEN WATCH COMPANY, GETTY IMAGES

# When is an accountant not an accountant?

The profession needs to present itself in a manner more directly identifiable with the benefits it can bring, says **Steve Benham**

Chief accountant, business partner, financial controller, finance director, CFO: all titles typically given to us accountants. The problem is that, for our non-accountant colleagues, these titles don't encapsulate what's important about our role.

One of my best bosses, the late chef Albert Roux, used to lovingly call me his bean counter. Although that was in the 1980s, I suspect many executives still view us that way. How do we change this perception? We need to focus more on what the executive team really needs from us.

In a later CFO role, I was proud to reduce the financial close to five working days and to add a commentary to the accounts – quite novel in those days. The CEO's response was succinct: "Don't tell me about over/under accruals – that's accountants' jargon. Don't tell me about variances between plan and actuals. I signed the purchase order two months ago and I knew then we were going to exceed budget on advertising. I need you to give me your best view of future profitability, then I can make informed decisions about future production, future products and future customer pricing." A good lesson for a young CFO.

I have come to the conclusion that very few finance departments can explain the causes of profitability to their non-accountant colleagues. They are even less able to articulate forecast profitability. Yet executive decisions are about improving future profitability, so there should be a finance role that focuses on that. Finance transformation should therefore start with the appointment of a Future Profit Officer (FPO). The focus is then clear to all.

'Defining the role to focus on future profitability is vital, but to be successful there are other challenges'

Only in recent years have I begun to see CFOs change focus towards future profit. One of my clients needed to move rapidly from research and development mode to product marketing and manufacturing mode, and needed to raise significant private equity to do so. Rather than getting bogged down in reporting monthly expenditure, the CFO commissioned a financial model where a five-year plan was updated in real time by changes to sales forecasts derived from the e-sales data, and also by changes in production planning. The latter allowed batches to be planned bottom-up, using bill of materials functionality and a 16-step supply chain across two factories and three countries.

Using this model, the CFO was able to fulfil successive private equity requests to see different scenarios, normally within a few hours. He was also able to produce business-as-usual forecasts for executive decision-making. Only after six months or so did they start populating the reports with actual results. It gave them comfort, of course, but didn't change any decisions. FPO in action.

Defining the role to focus on future profitability is vital, but to be successful there are other challenges.

- Like my client above, you will need a driver-based financial forecast model. It will need to be connected to sales and operational planning. Let's call this a cause-and-effect model. This model will then be the base for plans, forecasts and scenario analysis.
- You will also need an agile forecast process. Most companies invest a lot of time in the annual plan exercise and reporting monthly actuals. Actuals often deviate from the budget before the latter is approved. Pretty embarrassing for finance! Better to put all this effort into a slick forecast process, then derive the plan from the latest forecast. Once the forecast reflects the real business dynamic, valuable commentary can explain why the latest forecast is different to the one used as a basis for the plan, and actuals should not deviate significantly from the latest forecast.
- Data is often the bane of IT implementations. Though, data issues must not be used as an excuse for inertia. If a key piece of data is missing or unreliable, find a way of estimating it. We have shown on multiple projects that an informed estimate can be remarkably accurate. It's far better to populate the cause-and-effect model with an estimate than to persist with backwards-looking management information. This will prove the business value that higher-quality data could bring.
- Finally, let's deal with technology. The FPO will need to move away from disconnected spreadsheets and legacy planning tools. That's good, as spreadsheets are for desktop. The fact is that ad-hoc analysis, enterprise-wide collaboration in forecasting, and planning processes need a cloud-based data-analysis modelling and reporting tool that allows real-time updates from mobile managers and source systems.

None of this will happen, however, unless accountants grasp the nettle by focusing on future profitability rather than analysis of historic numbers. Let's start by appointing FPOs so that the business community at least knows what our mission is.

**Steve Benham ACA**, Director, Profit&

**Transforming your approach to forecasting**

Twelve months after committing with its new investors to developing a three-year plan, the directors of this newly formed global software provider were under pressure to deliver. The new CFO had only historic management and statutory accounts to go on, prepared by a finance department operating with an unstable network of disconnected spreadsheets and legacy IT tools.

As a first step, an FPO was appointed. This role gave the focus necessary to bring all the key components together. That included a future-looking cause-and-effect model and redesigning the cross-departmental planning process, both enabled by the purchase of cloud-based planning and modelling software. The three-year plan including profit and loss analysis by region, channel and product, integrated with balance sheet and cash flow, was delivered in about six weeks in late 2019.

With investors satisfied, the FPO was able to move on to deal with other problems highlighted by the three-year plan. With a global team of account executives using only spreadsheets, the Chief Sales Officer (CSO) was struggling to provide timely and reliable sales forecasts. The model was expanded to provide granularity down to sales territory level, and a daily update of committee sales from the sales pipeline management system.

The CSO was delighted, as he now had up-to-date information with which to manage the sales team at an operational level. Just as important was that finance now had reliable sales forecasts, already integrated with a forecast version of the three-year plan, to use as a basis for rolling forecasts.

During 2020, the FPO was instrumental in delivering reliable sales forecasts, a sales target and quota management functionality, and sales commission forecasting – one of the biggest and previously unpredictable costs. The CSO now has a sales operations planning system and the CFO can see the impact of changes on corporate finances almost immediately.

By using the three-year plan as the base, and by redesigning the quarterly rolling forecast process, the FPO is now delivering regular forecasts. Finance can also now respond quickly to ad-hoc requests for analysis and scenarios. There is more to do, such as including the monthly performance results, and connecting an operations model for product development and IT projects to the base cause-and-effect model. It is clear, however, that the focus provided by appointing an FPO, a little over 12 months later, has enabled more agile executive decision-making based on the latest view of the future.

DAN SIPPLE / IKON IMAGES

# B for bountiful

The B Corps movement of environmental certification is flourishing. Michelle Perry assesses its relevance to today's businesses and meets members of 'the coolest club in the world'

Organisations are talking about purpose as much as profit these days. The importance of greater sustainability in business has long been acknowledged but the pandemic shone a light on the urgency of nurturing businesses that consider people and the environment as well as financial returns. At the current rate of change, though, the UN says we will not achieve the goal of net zero emissions by 2030 as set out in The Paris Agreement.

The need for swifter action has accelerated membership growth in one initiative looking to make a change – the B Corporation movement. Initially established in the US in 2006, B Corps launched in the UK in 2015 with fewer than 100 members. Today the UK community has more than 400 affiliates, with a combined revenue of £4.3bn across 48 industry sectors. In total, there are now over 3,600 B Corps in 75 countries around the world.

"In 2020 we saw a dramatic acceleration in the number of aspiring B Corps as companies embraced long-term thinking and stakeholder governance in order to future-proof their business and navigate their way through crises," says B Corp UK. Membership, it says, confers faster growth, greater employment retention, engagement and diversity, higher levels of innovation and more robust governance processes among other benefits.

**So what is a B Corp?**

Certified B Corporations are businesses that adhere to high standards of verified social and environmental performance, public transparency and legal accountability. B Corps must measure, manage and report their business impact via the B Impact Assessment. Businesses must score 80 points or more out of 200 to certify. As well as meeting the performance criteria, companies also have to amend their articles of association. And companies have to re-certify every three years to ensure they continue to meet the high standards.

UK members include the most recognisably environmentally friendly and socially aware companies such as The Big Issue Group, sustainable footwear maker Allbirds, and outdoor equipment supplier Patagonia, but also those with perhaps less obvious green credentials. The Guardian Media Group became a B Corp member in 2019, claiming to be the first major media organisation to achieve B Corp status.

Other B Corps cover a vast range of industries, including companies such as online tea supplier Teapigs, 'As more companies join the B Corp initiative it will become easier to measure and report the business benefits of sustainability'

London-based chain of hair salons Blue Tit and accountancy firm Kung Fu Accounting.

In 2016, after becoming disillusioned at a leading accounting firm, Scott Johnson set up Kung Fu Accounting with the intention of creating a business that had purpose as well as profit. The chartered accountant had heard about the B Corp movement a decade earlier and its philosophy had struck a chord. At that time, he determined that when he set up his own firm he would establish it on the B Corp philosophy of balancing profit with people and planet.

As a start-up Kung Fu Accounting became what is called a B Corp Pending organisation. After a full year of trading the firm became a full member and, in its third year as a B Corp, Kung Fu Accounting was nominated under the 'governance' module as the best in the world, Johnson says.

**Low impact**

Some of the things Johnson does to ensure his business has a negative or low environmental impact are straightforward. For instance he buys second-hand IT equipment from a local IT company and has fitted out his office with reclaimed materials.

The firm also has a charitable-giving policy based on turnover and not profit "because that can be manipulated". Kung Fu gives 3% of its turnover to two local charities close to Johnson's heart – one for the homeless and a children's charity. During lockdown it created a community-giving programme in Stroud where the firm is based, partnering with a local charity that hires previously homeless people and trains them as chefs to provide meals to the homeless.

The firm is also a paperless office, ensuring another quantifiable positive impact on the environment. "For me, it's the obvious thing to do. It's how business should be – making the world a better place. But we can always do more as an industry," says Johnson.

Although a small firm with a team of four, Johnson says his B Corp status improves employee engagement and motivation. It also helps gain clients.

For every self-assessment return Kung Fu completes for a client, the firm provides a travel bag via MadLug for a child in care. Another initiative sees payroll clients invited to donate £1 for every payslip the firm produces. Kung Fu matches that donation, and all funds go to high-impact projects vetted by social enterprise B1G1, which contributes to achieving one or more of the United Nations' 17 Sustainable Development Goals.

"The external messaging is huge. Clients are now coming to us because they know they can contribute to improving the planet or someone's life just by being our client. This way of doing business is only going to grow," Johnson says.

Naoya Ishibashi, head of people at Blue Tit beauty salons, says although the process to becoming a B Corp is not easy, taking on average a year to complete, the advantages are bountiful. It is also an evolving process for continuous improvement.

Ishibashi says: "Being a B Corp business is like gaining membership to the coolest club in the world! Since our certification we have worked with many other amazing B Corp businesses, creating wonderful partnerships. The B Corp standards give businesses an incredible infrastructure in which to run an organisation, and in doing so the joy of knowing that every process implemented is contributing to this global cultural shift."

Companies' desire to become more sustainable cannot be solely attributed to the pandemic. Evolving consumer habits and a younger, more socially aware generation of employees have long been driving change. But what the pandemic highlighted were the deep-seated structural inequalities in society, which drove people to become more vocal about changing things for the better.

Businesses have tuned into this wish and want to support change, and while the B Corp initiative is currently small in the UK it is growing quickly. As more companies join it will become easier to measure and report the business benefits of sustainability. That in turn should contribute to the positive cycle, with ever more organisations working towards meeting the UN's goals of reducing our impact on the environment and creating a more sustainable, equitable world. Accountants should take heed.

## Staying on track

Teapigs, which became a B Corp in 2019, says that doing so has ensured the company maintains a focus on its sustainability progress as well as providing it with useful benchmarking resources. As part of their certification B Corps have to compile an annual impact assessment report, which has "given us the opportunity to reflect on our big sustainability goals which we will be using as measures of success".

Anna Foks, sustainability coordinator at Teapigs, says: "We've always tried to do the right thing and have a focus on sustainability, community and people, so we're really happy to have joined the B Corps community. It's a great way to keep ourselves on track and accountable in all our sustainability goals. It's helped us measure our true impact, which helps us prioritise our efforts in areas where we can have the biggest impact."

Teapigs sources its tea from sustainable estates and was the first tea company to be certified plastic-free. All its packaging is made from plants, and its tea temples (tea bags) are made from cornstarch – biodegradable and suitable for commercial composting. It's also a member of the Ethical Tea Partnership and its Everyday Brew is 100% Rainforest Alliance certified. The company gives back to its local community in Brentford, London, and runs its own ethical scheme that supports vulnerable young people in Gisenyi, Rwanda, where its tea is sourced.

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**In January 2021, the UK government announced a review of export controls in response to modern slavery allegations in China's Xinjiang region. In addition, the Foreign and Commonwealth Office advised UK businesses to undertake due diligence to ensure their operations do not contribute to human rights violations in the region. Some business groups saw this as an unwelcome intervention: governments should impose sanctions and export controls, but is it up to businesses to police the world? If it is, what can they do? Jane Berney takes a look and rounds up ICAEW's modern slavery resources**

In the UK, there is an obligation to at least acknowledge the risk that modern slavery and human trafficking may exist within a business or supply chain. The Modern Slavery Act 2015 mandates some commercial organisations to publish a Modern Slavery Statement. This is a report on the risk of modern slavery in the business and its supply chain, and what it is doing to detect, mitigate and prevent modern slavery in its operations, wherever they occur in the world. It is not a guarantee that there is no slavery but more a statement of intent: by recognising the extent of the problem, an organisation can then (hopefully) do something about it. Other countries, most notably Australia, are starting to impose similar obligations.

Assessing the risk is relatively easy. Modern slavery in certain industries such as agriculture and clothing manufacture is well documented and there have been successful prosecutions in the UK. But what do you do next?

Some organisations have gone to great lengths to map their supply chains from start to finish, but many only consider their direct (or tier 1) suppliers. Even if you map all suppliers, it can be very difficult to assess what is going on. A company can employ specialist auditors to review its suppliers, but access to construction sites or factories in far-flung places is difficult, many employees are scared to complain about their conditions and some may not even consider themselves slaves. The same is true in the UK – those who use slaves are adept at hiding them in plain sight.

But the reputational damage to an organisation accused of harbouring slavery or doing nothing to prevent it may prove catastrophic – even if the accusations prove to be unfounded. Consumers, employees and investors are now less likely to accept that doing nothing or very little is an option. The UK government has also announced its intention to strengthen the requirements of the Modern Slavery Act and even to impose financial sanctions for non-compliance.

With this in mind, the Business and Management Faculty and ICAEW's Business Law department have created a Modern Slavery Hub (tinyurl.com/BAM-ModSlavery) with new resources – including videos, webinars, guides and articles – to help businesses navigate the risks. There is guidance on the Modern Slavery Act itself and how to prepare a Modern Slavery Statement. There is advice on what makes for a good or bad statement, how to spot victims and what to look for in supply chains. Some guidance applies to to all sectors whereas others are sector specific. More resources will be added.

What is clear is that modern slavery may be hidden, but there is no hiding place for organisations that choose to ignore or dismiss it as none of their concern.

**Dr Jane Berney BFP FCA**, Manager, Business Law, Technical Strategy Department, ICAEW

## What is modern slavery and how to spot it

Modern slavery is a serious and often hidden crime in which people are exploited for criminal gain. It encompasses slavery, servitude, and forced and compulsory labour.

In 2019, an estimated 40 million people worldwide were living in conditions of slavery or working under forced conditions. In the UK, there were an estimated 136,000 victims.

Modern slavery victims are often 'hidden in plain sight', but there are tell-tale signs. Some on their own may not indicatie slavery, but a combination may suggest someone is a victim.

Accountants in business or practice often visit clients on site or at their offices, so are well placed to observe the workforce, but may not realise they are witnessing modern slavery. Below are signs to to be aware of; the advice right and overleaf will help you know when and how to report it.

### Physical signs

- A malnourished or unkempt appearance.
- Same clothes worn every day or for long periods.
- A lack of the right equipment for the job.
- Untreated injuries.
- They appear scared and withdrawn, or show signs of mental/physical abuse.
- Limited language skills.
- Few personal belongings.

### Less obvious signs

- Someone pays for their travel or food.
- Someone speaks for them or they are reluctant to speak to strangers.
- Taken to and from work, always in the same way or at unusual times.
- They work long hours with few or no breaks
- Unsure of their address.
- May live on site in group accommodation.
- No identification on them.
- Appear to be under the control of someone else and are reluctant to interact with others.

## Resources for accountants

Many organisations will be asking questions of suppliers and refusing to trade with organisations that do not address the issue of modern slavery. And as more and more countries are starting to impose similar obligations, it is clear that accountants and auditors have a role.

Resources created by ICAEW's Business Law department and the Business and Management Faculty will help members identify how they can assess and mitigate the risks within their own business or that of clients.

tinyurl.com/BAM-ModSlavery

### *Actions for internal auditors*

This guide explains the role of an organisation's internal audit function, and where there is no such function, best practice for management to ensure risks to the business have been assessed and the relevant controls are in place.

tinyurl.com/BAM-AuditSlaveryGuide

### *How to report modern slavery*

A guide to the various ways you should report suspicions of modern slavery in your own organisation or your client's business, and what you should do if you suspect someone is a victim.

tinyurl.com/BAMReportingSlavery

### *Making a Suspicious Activity Report*

Modern slavery is often linked to economic crimes such as money laundering. As an ICAEW member, if you suspect money laundering may be taking place, you are legally obligated under the 2017 Money Laundering Regulations to submit a SAR to the National Crime Agency.

tinyurl.com/BAM-SARGuidance

## How the world fights modern slavery

**Do all countries criminalise slavery and human trafficking?**
Most countries have legislation that outlaws slavery in one form or another. Many distinguish between holding someone as a slave and trading someone as a slave and some limit the legislation to the forced employment of children.

For example, in the Democratic Republic of Congo abducting, arresting or detaining persons to sell them as slaves is criminalised, not the act of slavery itself. In Turkey recruiting, abducting, transporting or harbouring persons as slaves can lead to prison sentences of 8-12 years, while in Iran the traffic of human beings as slaves is a crime that can lead to a prison sentence of 1-3 years.

**Does slavery vary across the world?**
Slavery can take many forms. For the most part, it is the employment of people, including children in factories, fields, mines and on construction sites. However, it is not limited to the production of goods or material for onward sale or use, as in many countries domestic servitude and prostitution are forms of slavery. In these instances the victims are often trafficked abroad and then sold to work as domestic servants or in brothels. In some countries, however, it is the government or military authorities that are accused of holding certain groups as forced labour. Usually these are particular ethnic groups or refugees that are held in labour camps and forced to work in mines, on construction sites or to pick crops.

**Apart from prosecuting the perpetrators of slavery and human trafficking how else are countries seeking to prevent this abuse?**
Although slavery and trafficking are generally classified as crimes to a lesser or greater extent in most countries, the fact is that it still goes on. It is this that has led to some countries taking a different approach. A handful of countries are now seeking to involve commercial organisations by making them assess the risk of modern slavery within their supply chains – wherever they arise – and then try to do something about it.

**The countries leading the way are:**
- The UK
- Australia
- USA
- France
- Netherlands
- The EU and a number of other countries are planning similar legislation.

tinyurl.com/BAM-SlavGlobal

## How to report modern slavery

If you suspect that modern slavery or human trafficking is going on in either your own firm/business or in a client's, you must report it, but without tipping off.

If you are unsure whether the activity you have seen is modern slavery or human trafficking, then you must still report it. The authorities can use such reports to build up a case, as they will be aware of the bigger picture.

There are a number of ways to report:

- If you suspect it in your own firm or its supply chains, report it through your firm's usual reporting channels or whistleblowing lines. Your firm should have procedures in place for onward reporting to the National Crime Agency (NCA) via a Suspicious Activity Report (SARs).
- If you suspect it in your client, your firm should have procedures in place to deal with such reports and for onward reporting to the NCA via a SARs.
- If there are no such channels available, you feel uncomfortable reporting it internally, or you are unsure whether what you have witnessed or suspect is evidence of modern slavery or human trafficking, you can contact the Modern Slavery Helpline on 08000 121 700

Information about ICAEW members' responsibilities to report misconduct or unlawful acts can be found at icaew.com/regulation

# A matter of status

Taking a further look at the off-payroll working rules, **Sarah Ghaffari** explains who they affect and the impact on the payroll

In November 2020, we highlighted how the off-payroll working (OPW) rules will change for private sector engagers from April 2021 (tinyurl.com/BAM-Nov2020). In this follow-up we briefly consider the impact of these changes on the finance function and other parts of the organisation.

### Is the organisation small?

Small entities are exempt from the rules, but how do you know if the organisation is small? The tax legislation uses the Companies Act 2006 small company regime for this purpose.

If the company is not a member of a group, the test is applied to the most recent set of accounts that were due to be filed at Companies House in the preceding tax year. If the company is a member of a group, the test is applied to the group as a whole – the parent company and all subsidiaries, again using the most recent set of accounts.

This article assumes that the entity is not small. Therefore, OPW rules apply.

### Establishing the employment status

The entity will need to identify which engagements are within scope of the rules. For example, where a contractor is engaged directly (not by an intermediary company) the rules will not apply.

Having identified the engagements in scope, the business should then assess their employment status. For example, should the individual be treated as a 'deemed employee' for tax purposes? This will involve consideration of the facts of the engagement, whether embodied in contractual agreements or practical issues arising through day-to-day working arrangements. There are a number of resources available to help:

- HMRC's *Employment Status Manual* (see tinyurl.com/BAM-ESM); and
- HMRC's Check Employment Status for Tax online tool (tinyurl.com/BAM-Status). Outputs and summary of responses should be retained to demonstrate the issues considered. These will form evidence to support the decision in the event of a dispute.

In very complex cases it might be necessary to consult a specialist.

### Status determination statement (SDS)

Having carried out a status assessment for each contractor, for any engagements that fall within the OPW rules, the business must inform the individual by issuing an SDS, and tell the worker on what basis the decision was made about the status of the engagement and the conclusion that it is caught by the rules.

There is no prescribed format for the SDS. It can be sent via post or email.

### The purchase invoice

The entity can choose how to process invoices received from the contractor, but ultimately these will be passed to the payroll department to calculate deductions. Invoices can be processed as normal through the purchase ledger before being passed on. Alternatively, the invoice can bypass the finance process and pass straight to payroll.

It will be important to highlight to the finance team the engagements caught by the rules, and what should be done on receipt of the invoice. This is likely to include capturing and processing the VAT, materials and allowable expenses elements of the invoice.

### The payroll process

Either the in-house payroll team or an outsourced payroll agent will need to withhold tax and national insurance from the contractor's invoice for any engagements that are within the rules.

As is the case for an actual employee, a deemed employee will need to complete a starter checklist.

Payroll software will contain a marker that should be set against the record of deemed employees. This acts to suppress functionality not applicable to them, such as student loan repayments.

### VAT

Input VAT will need to be identified for recovery in full or in part and posted to the organisation's VAT recoverable account. The net amount of the supply will also need to be identified for inclusion in the VAT return submission.

### Further resources

Our guide is available exclusively to members: tinyurl.com/BAM-UserGuide

**Sarah Ghaffari**, Head of the Business and Management Faculty

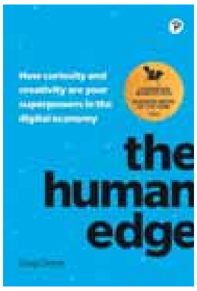
JAMIE JONES / IKON IMAGES

> 'It will be important to highlight to the finance team the engagements caught by the rules and what should be done'

# Radar

Our regular roundup of the latest books, podcasts and more on all aspects of business

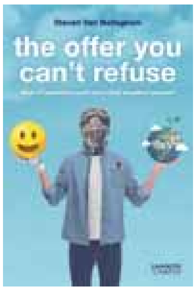
## Read...




***The Human Edge: How curiosity and creativity are your superpowers in the digital economy***
**by Greg Orme (Pearson, £14.99)**
"What's left for humans in the world of AI?" That's the fundamental question Greg Orme, Programme Director at the London Business School, is attempting to answer in this book. His approach is to look at the human element, what essentially differentiates us from machines, even very clever ones. Artificial intelligence (AI) is transforming our lives, at pace, sometimes in ways we don't even realise, and Orme's mantra is that we need to become even more human humans.

Looking at skills in demand in the 21st-century workplace, Orme has based his notion of the 'human edge' on four Cs: consciousness, curiosity, creativity and collaboration. He starts by looking at the challenge – how can something created by humans become our intellectual challenger? – then deep-dives into the Cs in turn. Each comes with two 'Dance Steps' that reinforce it, to implement in your daily life, because this process needn't be in a straight line; it is inherently human.

This book is entertaining, accessible and easy to read, with relatable examples from all areas of life: on the subject of creativity, he quotes David Bowie ("The only art I'll ever study is stuff I can steal from") and Salvador Dalí ("Those who do not want to imitate anything produce nothing").




***The Offer You Can't Refuse***
**by Steven Van Belleghem (Lanoo Campus, £30)**
The customer is always right, or so says the adage. And while that may not be strictly true, it lies at the heart of a successful business. The ability to meet or, better still, exceed customer expectations is fundamental, and in a changing landscape is quite the challenge. Prof Steven Van Belleghem, an expert on customer experience in the digital world who has worked with organisations such as Microsoft, Disney and Google, believes that a good product and convenient service are no longer enough. To succeed, companies need to go the extra mile, become a partner in life and make a societal impact – in other words, the Offer You Can't Refuse.

Using examples of companies around the world that get it right in different ways, including Tinder, Van Belleghem explores all aspects of customer experience and how technology can be used to make this better, more convenient, more... indispensable. He also takes his theories into the world of employee relations, citing Adobe as a beacon for its focus on continuous learning, personal development and reskilling. (Its Digital Academy aims at opportunities for all.)

Overall, the book is engagingly written with lots of fun colour illustrations. It even claims to be the first management book with a soundtrack (accessible via a QR code) – soothing techno beats, since you're asking, but only seven minutes.

## Listen...

**Stratechery**
If you're looking for smart, insightful thinking with a tech angle to it, Ben Thompson's newsletter, Stratechery, is your go-to. Non-paying subscribers get a weekly article, while those who pay receive a further three, all with substantial analysis of the news, with plenty of 'why' and 'what's next' thrown in. It's available as a podcast, as well as in the more traditional blog form, and its subscribers include executives and employees from tech companies large and small, start-ups, venture capitalists, government regulators and more.
*stratechery.com*
If you enjoy that, you'll probably also like these:
*dithering.fm* – a podcast from Thompson and John Gruber. Three episodes a week, 15 minutes per episode.
*exponent.fm* – a podcast about tech and society hosted by Thompson and James Allworth

**The Extraordinary Business Book Club**
This weekly podcast showcases books that make a particular impact in their field or demonstrate an innovative approach. Making people excited about business books for five years now, it is hosted by Alison Jones, publisher, book coach and founder of Practical Inspiration Publishing. Recent guests have included Seth Godin, Safi Bahcall, Kate Raworth, Robert Cialdini and Tim Harford.
*extraordinarybusinessbooks.com*

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