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GOAL SETTING

How employees' individual actions link to overarching company strategy 8

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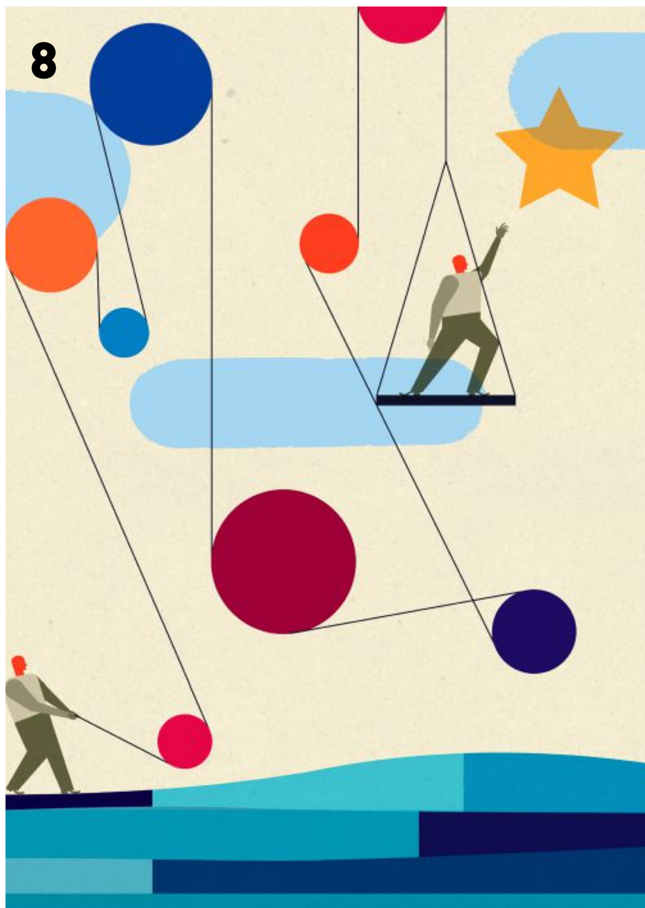

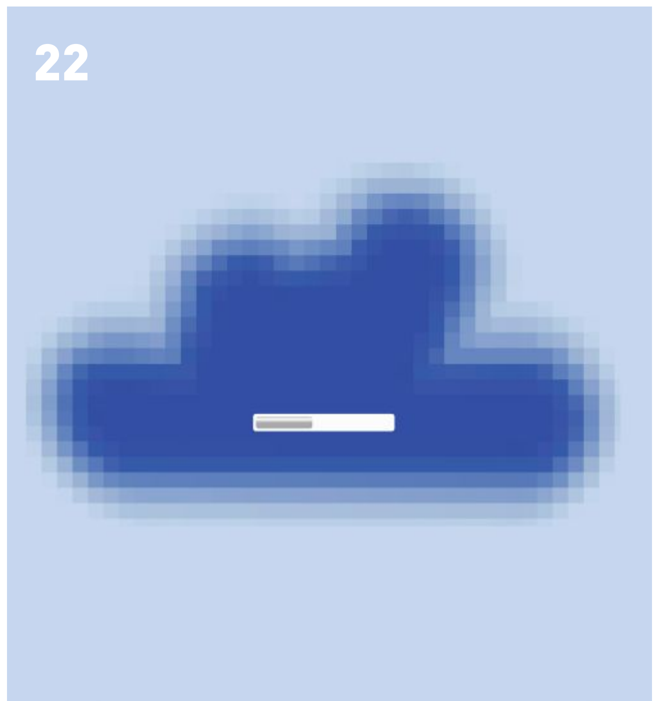

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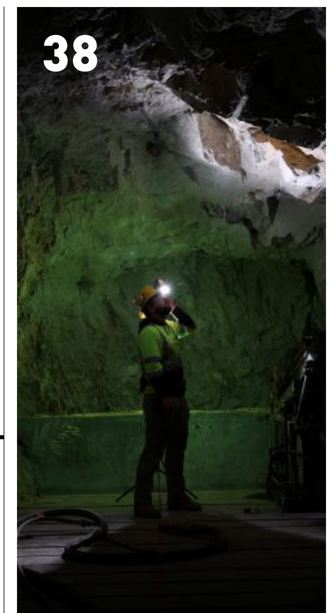

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PAUL ASH, FCMA, CGMA

A commitment to skills

'When employees possess critical skills — such as in digital technologies — they are more agile.'

Management accounting is one of the most trusted and valued professions. The critical relationship between business information, strategy, and the evolution of businesses' connections to civil society has never been faster paced nor more dynamic. Stakeholders are now broader, problems are now more complex, data and data sources are now more widespread, and the decisions we must make now are more uncertain.

To get us through these challenging times, research firm and consultancy Gartner believes that, in the post-COVID-19 pandemic era, organisations should focus on the skills an individual has and needs rather than on the role an individual performs. I agree. During the past two years, many organisations have had to either change their business model or accelerate changes that may have been in the wings — as the Association did when we accelerated the introduction of remote examinations to ensure our students' learning did not lose momentum.

When employees possess critical skills — such as in digital technologies — they are more agile, and it can open up more options in their careers (CIMA's Digital Mindset Pack is available to members). Also, getting to the truth behind the data matters. We need to be certain that data is accurate before we can use it to inform and impact management decisions. Committing to building a resilient organisation also means committing to building resilient skills in our organisations, and that means supporting both existing and potential employees to build their necessary skillsets. Acquisition of such skills, knowledge, and new techniques should also form part of our performance management programmes.

Performance management also needs to focus on productivity. Albeit seen differently across different eras and markets, innovation has always improved productivity. It happened in the First Industrial Revolution, and we are experiencing it again today as we live through the Fourth Industrial Revolution. It's happening in ways we could never have imagined, as the boundaries between the physical, digital, and biological worlds become more blurred. Indeed, we know that higher productivity not only improves the bottom line but can also improve quality of life.

As management accountants we are at the centre of our businesses, and we understand how processes can be optimised to maximise productivity. To help you, I encourage you to read our report *Reimagining Performance Management*, in which we outline some best practices that were recommended by our members.

We shouldn't forget that our skills must keep up in a climate of change, even during a period when revenue streams are unreliable and cash flow remains a top priority. Finance professionals are key to business continuity, so it is critical that we continue to invest wisely in our people, building the human resilience needed to navigate our businesses through and beyond the challenges we face.

Throughout my presidency, I have said we must collaborate with each other and other professions, to "dare together" to move forward successfully. We live and work in a fast-changing and uncertain world, but as management accountants we will remain central to business information, planning, and decision-making processes. We will respond by mapping a way forward and ensuring that all our stakeholders are able to adapt and thrive. To remain effective and personally relevant, we all need to continually improve on our skills. So, think about the new skills that you need to gain today, as well as those that you need to improve on, and engage with us so we can help you acquire the skills that will help your businesses become more profitable, productive, resilient, and sustainable.

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Making productivity a priority

By Andrew Harding, FCMA, CGMA

One of the things that makes our profession fulfilling is that we can use our training and skills to drive real business progress and innovation. Take for example, productivity. This idea of monitoring and driving business performance has been central to our work since our foundation in 1919. In late 2021, the Association published a report, Tackling the UK Productivity Puzzle, looking at how government and finance professionals can play leading roles in driving productivity, an ongoing issue for the UK and elsewhere.

Within the G7 group of nations, the UK lags behind France, Germany, and the US in productivity. The UK also has what is known as the "productivity puzzle" to contend with. That means, in short, that its productivity is not growing at the rate it did before the financial crash in 2008. This sounds like an esoteric economic issue, but as productivity is one of the most important factors in determining standards of living, it has consequences that everyone feels.

When we surveyed UK and Ireland members for their opinions on the key causes of sluggish productivity, they pointed to areas such as available skills not fitting what the market needs, a finding that we also see in our Mind the Skills Gap surveys. They also highlighted poor management as a problem.

Members told us that new technology is the most impactful factor behind improved productivity, followed by hybrid working and accumulation of knowledge, and sharing of ideas and know-how. You no doubt recognise these as core components of your work as a management accountant.

I often talk about the importance of setting the right targets for the right areas — I think this simple mantra has significant power. We attend to things that are measured, so we need to be confident that those areas are the right ones to focus on. This is where our work on integrated thinking and integrated reporting (IR) comes into its own. IR explores where the value in a business is generated, going beyond the hard numbers to unearth other factors that contribute to its success and viability. As you consider your own productivity questions, why not look at the picture through the lens of IR to find new insights?

We recognise that solving the productivity puzzle has become even more critical as we wait to see the long-term impact of the pandemic in this area. Meantime, we have made suggestions for how the UK's productivity could be improved. Some are for policymakers — we are proposing that the UK establishes a productivity commission, similar to those that have been created in Australia and South Africa. But others are actions we can take as business finance leaders, such as improving management practices by finding better ways to set the right targets and track outcomes, for example. How companies motivate employees is key to boosting productivity, with skilful use of KPIs and budgeting a central part of this.

If we are to deliver a lasting economic recovery, ensure greater business resilience, and drive sustainable growth in the next 18 months, we must outline a longer-term strategy to tackle structural issues that risk holding the UK back, such as our faltering productivity and widening skills gap. As management accountants, we should make it a priority to measure, report, and drive strategic options on productivity.

Andrew Harding, FCMA, CGMA, is chief executive–Management Accounting at the Association of International Certified Professional Accountants, representing AICPA & CIMA.

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6 ways to ensure your team achieves corporate goals

Avoid inefficiency by communicating how employees' individual actions link to overarching company strategy.

By Andrew Kenney

When she was the director of operations for a retail cosmetics chain in Nigeria, Tundun Aderibigbe, FCMA, CGMA, was given a straightforward mission: increase sales. She researched the company's sales, assembled detailed presentations, and shared her insights in meetings with the managers of the Lagos-based company's 26 stores.

But to her surprise, her message didn't seem to work. "You could tell they were bored," she recalled. "They weren't unpleasant. They weren't trying to not do their jobs. They just didn't understand what these charts meant."

It's an example of a common problem that was highlighted in the recent report *Reimagining Performance Management* from AICPA & CIMA and the World Business Council for Sustainable Development.

One section of the report focuses on the practice of "cascading" goals, in which leaders like Aderibigbe, who now has separate CFO and audit and advisory roles, are tasked with translating overarching corporate goals into objectives for individual team members.

Cascading can be a powerful strategy to ensure that individual employees are supporting the company's mission — but it's also a highly "fallible" process that depends on the actions of executives, managers, and employees, the report concluded (see the sidebar, "How to Address Goal-Cascading Pitfalls").

"It's one thing to come up with a strategic plan. A lot of companies go through that process," said Atif Ansari, CPA (Canada), ACMA, CGMA, who runs Ansid, a fractional CFO consulting business in Canada.

"Where it differentiates a company," he continued, "is how the management team executes that vision: How do you then take that strategy, turn it into actionable initiatives, and then cascade that through the organisation to make sure the strategy gets executed?"

Here's how Aderibigbe, Ansari, and other financial leaders have learned to set clear plans and translate company objectives for their teams.

Turning a top-down message into frontline strategy

After her initial messages failed to resonate, Aderibigbe tried a new approach to cascade the company's sales goals. Instead of delivering messages directly from the top, she decided to work in the opposite direction.

"The first goal was selling more. And then, the second goal was for them to understand what strategies work," she said.

Over several months, she visited all the company's stores. "I realised they do want to work, they do want to deliver," she said. The problem was that many frontline managers didn't understand how they fitted into the company's overall strategies.

"I got to experience a day in every one of their lives. I then found I began to understand their language a little bit more," she said. "I wanted to succeed at helping them, and they wanted to learn."

As she visited, she explained why it was important for managers to think more deeply about their sales strategies and participate in the performance-management process.

"You have to sell it: 'This is how I put on the lights. This is how I make sure that the store is pretty. This is how I make sure that you're ready to serve the clients,'" Aderibigbe said.

Soon enough, managers began calling her for help and advice. An intimidating corporate goal — "increase sales" — had become a tangible set of tactics and strategies for individual employees.

"When you help people discover strengths they didn't have, they trust you more. They listen to you more. They seek you out more," Aderibigbe explained. "As a leader, everything has to be about helping people to be more [of] what they want to be."

IMAGE BY SKOPEIN/IKON IMAGES

> **'As a leader, everything has to be about helping people to be more [of] what they want to be.'**
>
> Tundun Aderibigbe, FCMA, CGMA, the CFO of a retail cosmetics chain in Nigeria

Demonstrating the individual's role

Aderibigbe demonstrated an approach that others say is crucial to goal cascading and alignment: She helped people understand how their actions contributed to a larger goal.

"It's about setting priorities with the team, involving frontline staff in the process, to make sure that what you're doing today — day in and day out — is going to serve the business well," Ansari said.

When people understand the organisation's higher goals, they gain more agency, and they can spot problems or opportunities that might be invisible to higher leadership.

"The team — they're seeing things every day, and they can come back and provide their input to [the plans set by leadership]," Ansari said. "They're trusted with broader goals that are aligned, but on a day-to-day basis … they're able to function independently. It's not a micromanaging approach."

Aramide Balogun, ACMA, CGMA, a controller for Microsoft in West and North Africa, said she also focuses on individual contributions to the group.

She tries to help her team understand "that the whole performance-management process is not necessarily about driving individual results. It's rather about driving impacts within the team and within the business," she said.

"It's beyond me as a person. If my team does well but we fail at an organisational level, we all failed, in a way." Her goal, she said, is to help people understand how they will benefit when the organisation succeeds.

In contrast, when individuals aren't invested in organisational goals, they may instead pursue individual priorities, such as boosting their own sales numbers. In some cases, they may even believe that prioritising a team goal will hurt their individual chances of a promotion.

"There is a genuine trend now for people to have a situation and first ask, 'How does this affect me?' It then becomes provincial and protectionist decision-making," said Earl Furfine, CPA (inactive)/CITP, CGMA, a vice-president at IBM.

Aderibigbe has a simple solution to conflicts of individual and corporate priorities: "Call it out," she said. "It just makes it easier. Everybody puts their cards on the table."

She recalled the case of a manager who wanted to keep selling a product that fared poorly in other stores. Aderibigbe explained the overarching need to consolidate product lines and worked with the employee to identify alternative products.

"It ended up building more trust," she said.

Ensuring alignment

Of course, the success of the goal-setting process ultimately depends on whether the right goals are being set and how they're communicated.

Especially in larger organisations, the goal-sharing process can become "opaque — with clarity diminishing" as goals are passed down through the hierarchy, according to the report.

Hada Chang, CPA, CGMA, said that he encountered just such a problem at a previous job when a miscommunication between higher-up leaders led to wasted effort.

"I spent too much time on details, but I didn't actually need to. I did much, much more extra work," he said.

Years later, Chang was determined to avoid those kinds of errors at his job with Bain & Co. in South Korea, where he was assigned a role moving accounting work to a shared-services centre in India.

To ensure that he was fulfilling expectations, he focused on key questions throughout the complex project: "What is the outcome? Why are we doing what we are doing?"

Similarly, Ansari likes to ensure alignment by drawing "strategy maps", where all the team's objectives are listed and directly linked back to the overall business strategy.

Aderibigbe also said that goals can be inadvertently changed during a cascade — for example, a manager might understand "lower cost" to mean "lower quality". To keep goals aligned, she phrases goals in a way that encourages managers to think about multiple options.

"You can't just say, 'We must cut costs.' You say, 'How can this be more cost-effective or achieve more with less?'" she explained. "The language helps to reduce corruption [of goals]."

Choosing the right priorities

A common theme emerges amongst financial leaders: Decision-makers at every level must choose a manageable number of priorities.

In her role at Microsoft, Balogun is responsible each year for cascading a set of goals from her CFO to several collaborators across 14 legal entities in 13 countries. Recently, for example, those goals have included creating business continuity plans for remote operations.

As she and her manager discuss priorities for the complex organisation, they consider a series of questions: "Is this the right time? Is it an activity that can wait? How important, how urgent is it? How likely is it to impact business disruption? How likely is it to impact business enablement?"

Those choices are important.

Aderibigbe said: "As a leader, if you put too much on people, you get nothing — absolutely nothing." She suggested choosing five or six immediate priorities, with input from the team.

Experts interviewed for this article said goals should be specific and attainable and should include a menu of ways to accomplish them.

Staying on track

Once Balogun has selected goals with her manager, she helps to broadcast them widely through the organisation.

"We typically have a call, a very open call, where the goals are broadcast. Everyone's aware, and you can ask questions," she said.

Ansari said, "Those kinds of broad

How to address goal-cascading pitfalls

The goal-cascading process can be derailed by personal biases and other issues along the chain of command, according to the experts interviewed for this article and the report *Reimagining Performance Management* from AICPA & CIMA and the World Business Council for Sustainable Development. Here's how to address key issues.

'Safety-first' mentality

It's tempting for managers to focus their efforts on their own areas of expertise. This may lead them to ignore or change goals that force them into new territory. Addressing this bias may require establishing a sense of safety by assuring the employee there is room for error; suggesting ways for the person to improve their skills in a given area; and underlining the importance of a particular goal to the success of the business.

Moral hazard

Complying with corporate goals often comes with trade-offs for managers and employees. For example, a corporate goal of making a more efficient retail product line-up might require store managers to drop some of the products they prefer. Leaders can respond by assuring these employees that the change won't affect their chances of a promotion or salary increase; sharing detailed information that shows why the change will benefit the company; and working with employees to create new strategies.

Differing interpretations of strategy and goals

Especially in a large organisation, the original intent of a goal can be lost in translation. There also may be debates over the best way to achieve a goal. Leaders can avoid confusion by providing specific strategies and tools to achieve goals. They also can engage with employees throughout the organisation, including through "skip level" meetings with lower-level staff, to ensure that everyone shares the same understanding of the company's goals.

Lack of transparency and efficiency in the cascade process

The cascade process is meant to create "line of sight" between the work of individuals and an overall strategy — but it can become cumbersome and confusing as goals are passed from level to level of the organisation. To improve transparency and efficiency, the experts interviewed for this article suggested that businesses create and share documents that clearly "map" the overall strategy and demonstrate how each individual's goals are linked to the pillars of that strategy. An open and receptive culture also will allow staff to ask questions and highlight potential inefficiencies.

communications are important because team members should understand the goals of others and how they might interact, not just their own goals."

Later, Balogun answers questions from individual team members to ensure they understand their goals — and then she keeps checking in with weekly or biweekly meetings.

"We're able to correct, we're able to clarify, we're able to raise our hands up and identify potential blockers very early in the process … as opposed to finding out later that they were unable to complete their goal due to an issue you could have solved months ago," she said.

At IBM, Furfine heads US federal sales and has been tasked with leading a sales strategy transformation. He ensures synchronicity by holding regular one-on-one meetings with people at most levels of his 65-person organisation and has an open-door policy for anyone in the organisation who wishes to speak with him.

"I basically have about 30 or 40 meetings a month, sometimes only ten or 15 minutes," said Furfine, who stressed that he was speaking for himself and not for IBM.

The meetings can reveal to him when a team's goals have drifted. Conversely, they also allow lower-level employees to share obstacles and see their place in the grand strategy.

"If you don't build this circle of trust where people can tell you really what's on [their] mind, you end up getting lip service," he added.

Supporting employees

While strategic goals tend to focus on the company itself, their success ultimately depends upon individual employees.

Facing a list of goals can feel intimidating, or even impossible, for inexperienced employees. When one of Chang's direct reports shared those feelings, he offered this advice: "We are human. We are not computers."

Then, he encouraged the employee to break down those big, overarching goals into timelines and milestones — and he explained how fulfilling the goals would benefit his employee.

"Once you accomplish this, it will help you to develop your career," he said. "It will not be as complicated as you think."

At IBM, Furfine stresses that he is there to support his team, but he trusts them to find the right way to achieve their goals.

"I surround myself with really smart, hard-working people, and I empower them to do the job that needs to be done," he said. "I don't tell them what to do, exactly how to do [it], but I tell them I'm there to clear obstacles."

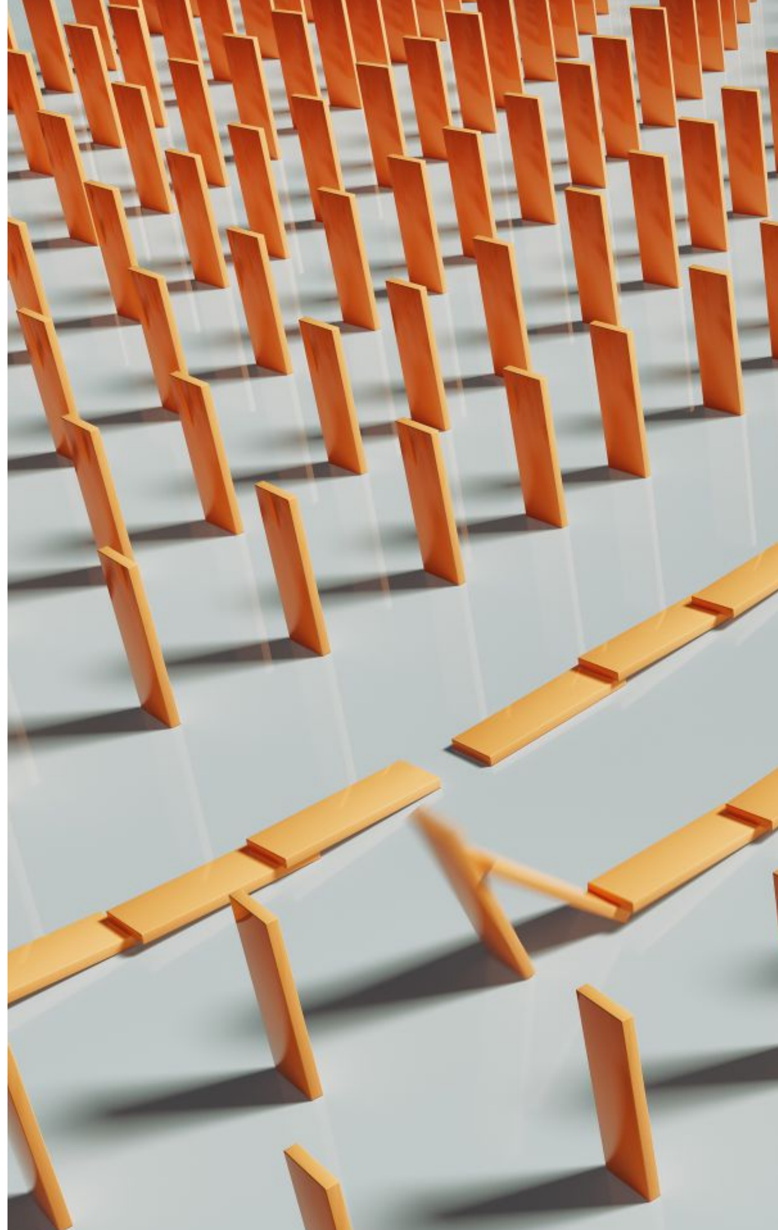
After a few cycles of goal setting and achievement, he said, people begin to trust the system and see benefits to their career. Ansari said that the corporate goal-setting process must ultimately focus on individual growth, too.

"When it comes to individuals, those eight to ten objectives have to include personal development — how the organisation is going to help them achieve their personal goals as well," he said.

"There has to be that balance for individuals as well as business needs." ■

Andrew Kenney is a freelance writer based in the US. To comment on this article or to suggest an idea for another article, contact Drew Adamek at Andrew.Adamek@aicpa-cima.com.

What your people don't know might hurt you



"People risk" can be mitigated by ensuring your employees have a full understanding of their role.

By Helen Tuddenham

IMAGE BY LAN ZHANG/ISTOCK

Look at any significant corporate failure over the last 20–30 years, and at its heart will be issues relating to people. In most industries, people are your greatest asset — but they can also be your biggest liability. Unlike machines, they are unpredictable, irrational, and erratic, which makes "people risk" one of the most challenging areas to define, assess, and manage on your risk register.

People risk is the risk that the people in your organisation, either through ill intent or ignorance, will act in a way that prevents you from achieving your strategic aims and objectives. It is rarely stand-alone but instead is a contributing factor to many other risks on your register. It is often overlooked — either because it is seen as too difficult to define or because it is a less obvious contributing factor than something more visible such as a system failure or, indeed, a global pandemic.

"People" does not just mean employees either. A variety of agents, suppliers, contractors, and others will be representing your organisation. Your level of control over them will vary, but where possible, you should introduce measures to manage the risk from these stakeholders, too.

The causes of people risk can broadly be split into three categories:

- **Lack of understanding:** Individuals are unclear about what they are supposed to be doing;
- **Lack of skill:** They know what to do but do not know how to do it; and
- **Lack of will:** They know what to do and how to do it but do not do it.

This article looks at lack of understanding in more detail.

Job descriptions

Setting expectations of what an employee has to do and the standard to which these tasks must be carried out is critical. The standard tool for enabling employees to understand what is required of them is a job or role description. These are typically prepared for recruitment or to help with career development but rarely for managing an organisation's risk. They may also have been languishing on the intranet or on the shelf for the last few years and don't reflect the current reality of the role.

Review descriptions before recruiting for a new role, particularly for one in a higher-risk position. Where does this role fit in carrying out the organisation's aims and purpose? Think about the touchpoints this person will have with customers and other stakeholders. If something goes wrong, what will it be, and where will it happen? What has gone wrong in the past? Speak to others who do the job — the person writing the description is unlikely to be close enough to know exactly what happens on the ground. This should not be a theoretical exercise.

From a risk point of view, a good role description should include overall responsibilities, the tasks to be carried out to meet those responsibilities, and any expected standards or targets. It should also include the manager the role reports to. A list of desirable skills is typically included to aid with recruitment and performance management, but these can also be helpful when dealing with people risk to determine whether the person has the ability to carry out the role successfully.

Training and communication

It is not enough to give an employee a job description and then expect them to understand and remember it fully. As part of the induction process, there should be sufficient training and

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communication of what the role entails, bringing the job description to life.

An essential element of this is understanding why the tasks and responsibilities are important and how they help the organisation fulfil its aims and purpose — or prevent it from being exposed to failure. Communications or training should explain the consequences if things go wrong. This is particularly important in those items highest up your risk register — for example, regulatory breaches.

Training is also where the "how" of an employee's day-to-day work should be explained. This may be part of values or code-of-conduct training and introduces employees to the organisation's culture.

It does not have to all be done through formal training. A period of work shadowing, a "buddy" or "mentor" system, and high-quality on-the-job coaching all reduce the risk of an employee not understanding what is required.

Role guidance

A role description by itself is not sufficient. In some cases, it may be appropriate to have procedure manuals, standards of practice, or other documentation to explain what an employee needs to do and when.

Embedding the requirement to use these documents should be part of any induction. Ensure that employees can navigate their way around them, perhaps by undertaking a "treasure hunt" activity, where employees are set tasks that use the documentation and help sources. Help guides should be easily accessible on the intranet or even on an app.

In reality, employees may find it quicker to ask colleagues for advice on how to do something, so there must be refresher training and communications so all employees know what to do.

The nature of some job roles does not lend itself well to manuals, particularly those in less process-oriented industries. In such cases, employees must understand the framework within which they can make decisions that affect the organisation. This can include guiding principles and decision-making tools. Knowing when to consult elsewhere within the organisation is critical.

Managing performance

Of course, knowing that you have set your employees off on the right track does not mean that they will always stick to it. Having a robust performance-management process is crucial to understanding whether employees' actions open you up to risk.

A culture of continuous and honest feedback can help employees to understand where they are not meeting expectations. Enabling a two-way dialogue allows both for them to ask any questions and for management to understand why they may not be aware of what is required of them in the role. Employees may also be able to make suggestions as to what tools, guidance, and training would help them understand things better.

You should also continually monitor issues as they arise and ask whether there are root causes relating to any cases of employees' lack of understanding of their roles.

Putting this guidance in place will help ensure your employees understand their role and how it supports the organisation to be successful. You may not have the resources to put all of the elements into place, but by taking a risk-based approach, you can determine where best to focus your efforts.

And do not forget, one of the additional benefits of clarity of role and purpose is that employees will be more motivated and engaged in their work. ■

Helen Tuddenham is an executive coach and leadership development consultant based in the UK. To comment on this article or to suggest an idea for another article, contact Drew Adamek at Andrew.Adamek@aicpa-cima.com.

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3 ways to improve employees' trust in their employer

To develop employee trust, examine its elements, build it in line managers, and provide staff with information on company values, mission, and policies.

By Jasmijn Bol, Ph.D.; Katlijn Haesebrouck, Ph.D.; and Serena Loftus, Ph.D.

IMAGE BY ALICE MOLLON/IKON IMAGES

All managers want trustworthy employees. But few managers consider whether employees view their employer as trustworthy. This is important, because when employees do not perceive their employer to be trustworthy, they do not believe the company will fulfil its commitments. This lack of trust undermines all company policies, such as bonuses or other rewards, as no incentive can work if employees expect the organisation to neglect its commitments.

Not surprisingly, research finds that employees' trust in their employer is a crucial factor for organisational success. Yet, relatively little is known about how employees form trust perceptions.

Our research, funded by CIMA's academic research programme, explores how employees form perceptions of their employer's trustworthiness and how features of the organisational structure influence these perceptions.

Data collection for the project involved a case study, with both in-depth interviews and a survey, at a privately owned North American pharmacy retail chain.

Organisational qualities

Employees' perceptions of their employer's trustworthiness are impacted by three factors: the organisation's benevolence, integrity, and ability.

Benevolence

This is the extent to which the organisation "wants to do good" to its employees. Employees experience benevolence when the organisation expresses genuine care and concern for them as a person, beyond the organisation's concerns about their performance as an employee.

Integrity

This is employees' perception that the organisation follows an acceptable set of principles. In the case study company, a manager expressed concerns about integrity in the following way: "They pit one manager against another ... which I don't agree with."

Ability

This relates to employees' view of the organisation's skills and competencies. In the pharmacy chain, employee views on the organisation's ability varied. For example, one employee viewed the company's product decisions based on the employees' location as incompetent. "They are going to bring in [a certain product] into this store, which is very expensive to begin with. And I mean, we're such a small store. I think that them bringing in [this product] is a complete waste of money. The demographic that we have here [means that] the people that can afford to take that [product] don't come in here. So I'm confused as to why they would do that. All of us here know that it's not going to work."

Factors influencing employee trust

Employees are generally tuned in to their direct manager's opinions. They are likely to view the organisation as trustworthy when their direct manager views the organisation as trustworthy, and vice versa.

Further, when employees lack understanding of the organisation's mission, values, and policies, their trust in the organisation is considerably lower.

The study also showed that employees' reliance on their direct managers' opinions is influenced by the extent of employees' understanding of the organisation's mission, values, and policies. When employees' knowledge about the organisation is low, their direct managers' opinions play a larger role in shaping their trust perceptions. In contrast, when employees have high independent knowledge about the organisation, they are less reliant on their direct managers' opinions when forming trust perceptions.

Practical ways to improve employee trust

Three practical pieces of advice to improve employees' trust in their organisation are:

Systematically examine employee trust

Separately examine the different elements of employee trust in the organisation, as doing this systematically can help diagnose the source of any potential trust issues. Consider the following questions:

- Do the organisation's actions show concern for employees' welfare (benevolence)?
- Are the organisation's actions consistent with employees' norms (integrity)?
- Do the organisation's actions appear competent (ability)?

Build managers' trust in the organisation

Pay particular attention to *managers'* opinions. If managers' trust in the organisation is low, act quickly to build it, as managers' trust in the organisation will impact their direct reports' trust in the organisation.

Provide information and training

Communication is key. Organisations should ensure that all employees have received information and training to inform them about the organisation's values, mission, and policies. Without this information, employees will rely on their managers' (or other influential employees') opinions, which might not be accurate. The organisation should also consider retraining employees when important changes are made, as outdated information can cause confusion.

These actions can help create high-trust organisations, setting them up for success.

More information on the research can be found here. ■

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IMAGE BY VIPUL UMRETIYA/ISTOCK

Identify external links in Excel without using VBA

Take a LINKS function stored as a defined range name and Transpose it via dynamic arrays.

By Liam Bastick, FCMA, CGMA

Sometimes deliberate and sometimes inadvertent, links to external data sources often work their way into our Excel workbooks. To understand what they are and why they exist, we need to first know which external sources are referenced, because we can't find what we are looking for if we don't know what we are looking for. I feel a U2 song coming on. That's right, I can't live with or without my links — of which there may be more than one. Many years ago, I wrote an article that explained how a macro could be employed to list all external links in an Excel workbook:

```
Sub ListExternalLinks()
Dim ws As Worksheet, TargetWS As Worksheet, SourceWB As Workbook
 If ActiveWorkbook Is Nothing Then Exit Sub
 Application.ScreenUpdating = False
 With ActiveWorkbook
  On Error Resume Next
  Set TargetWS = .Worksheets.Add(Before:=.Worksheets(1))
  If TargetWS Is Nothing Then ' the workbook is protected
   Set SourceWB = ActiveWorkbook
   Set TargetWS = Workbooks.Add.Worksheets(1)
   SourceWB.Activate
   Set SourceWB = Nothing
  End If
  With TargetWS
   .Range("A1").Formula = "Link No."
   .Range("B1").Formula = "Cell"
   .Range("C1").Formula = "Formula"
   .Range("A1:C1").Font.Bold = True
  End With
  For Each ws In .Worksheets
   If Not ws Is TargetWS Then
    ListLinksInWS ws, TargetWS
   End If
  Next ws
  Set ws = Nothing
 End With
 With TargetWS
  .Parent.Activate
  .Activate
  .Columns("A:C").AutoFit
  On Error Resume Next
  .Name = "Link List"
  On Error GoTo 0
 End With
 Set TargetWS = Nothing
 Application.ScreenUpdating = True
End Sub

Private Sub ListLinksInWS(ws As Worksheet, TargetWS As Worksheet)
Dim cl As Range, cFormula As String, tRow As Long
 If ws Is Nothing Then Exit Sub
 If TargetWS Is Nothing Then Exit Sub
 Application.StatusBar = "Finding external formula references in " & _
  ws.Name & "..."
 For Each cl In ws.UsedRange
  cFormula = cl.Formula
  If Len(cFormula) > 0 Then
   If Left$(cFormula, 1) = "=" Then
    If InStr(cFormula, "[") > 1 Then
     With TargetWS
      tRow = .Range("A" & .Rows.Count).End(xlUp).Row + 1
      .Range("A" & tRow).Formula = tRow - 1
      .Range("B" & tRow).Formula = ws.Name & "!" & _
       cl.Address(False, False, xlA1)
      .Range("C" & tRow).Formula = "'" & cFormula
     End With
    End If
   End If
  End If
 Next cl
 Set cl = Nothing
 Application.StatusBar = False
End Sub
```

If you are terrified of Visual Basic for Applications (VBA) and hate programming, don't worry — feel free to ignore the above: I have no plans to explain it. I reproduce it *for effect* only.

Whilst working on a client project recently, I came across this wonderful trick that combines old, "outdated" Excel with one of the very latest features in Excel. It is so *simple* and just blows the above solution out of the water. I would love to take the credit for this, but I cannot: Longtime Excel Most Valuable Professional (MVP) Bob Umlas, please take a bow, because the crux of this trick belongs to you.

Before VBA came to Excel, coding was undertaken using what were known as Excel 4.0 (xl4) macro functions. These old xl4 macro functions are still doing the rounds because Microsoft cannot get rid of anything, because the software giant knows that some spreadsheets still in use probably were developed before the wheel was.

I have written before about EVALUATE, which is a very useful function (it essentially converts text strings into formulas that may be, er, evaluated). For example, consider the complex spreadsheet shown in the screenshot "Simple Example".

Simple example

	A
1	1
2	+
3	2

Theoretically,

=EVALUATE(A1&A2&A3)

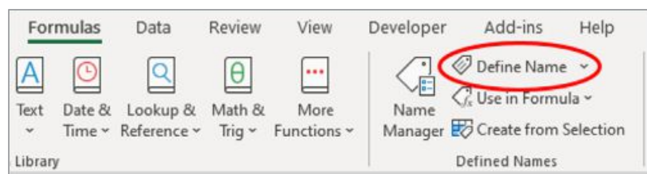
would be EVALUATE(1+2), which is 3. That's all good, except it doesn't work *unless* you use it via a range name definition.

You won't find it in Excel Help ("That function isn't valid."), but as I say, it is recognised as long as you use it inside an Excel range name. And its sister function, LINKS, which recognises external links in an Excel workbook, behaves very similarly.

Thus, the process for identifying and listing external data links in an Excel workbook is very easy.

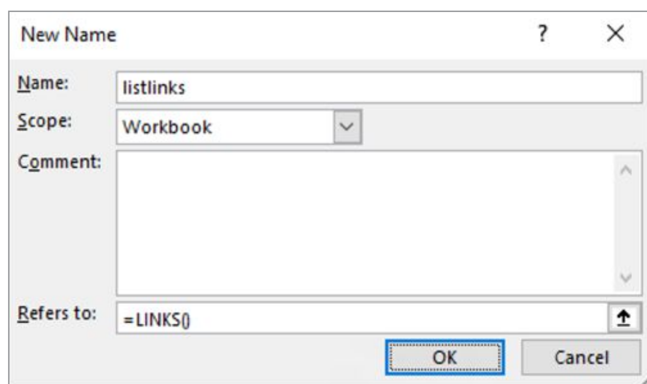
First, let's define a range name, as shown in the screenshot "Define Name", which shows **Define Name** in the **Formulas** tab of the Ribbon.

Define Name



This opens the box shown in the screenshot "New Name Dialog".

New Name dialog

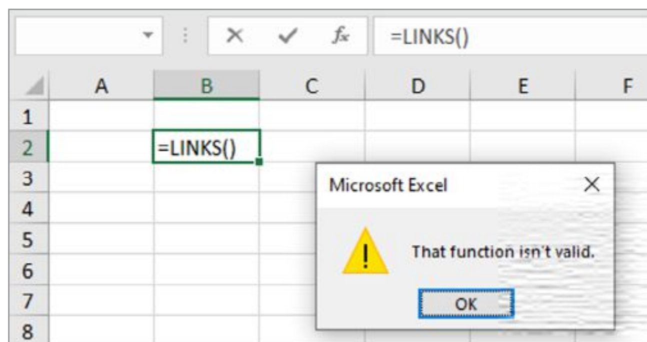


Here, I have created a new range name, called listlinks, which refers to the formula:

=LINKS()

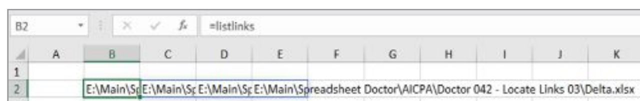
If I were to type this formula straight into a cell, I would get the following (aforementioned) error shown in the screenshot "Invalid Function Error Screen".

Invalid function error screen



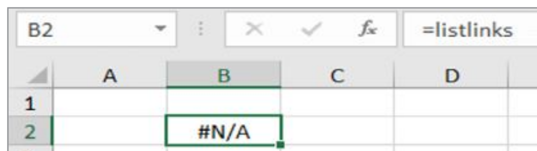
But if instead I were to type in =listlinks (ie, my freshly minted range name), I wouldn't get an error if the model contains links to external data sources (as shown in the screenshot "Range Name With External Links") and you have an Office 365 version of Excel.

Range name with external links



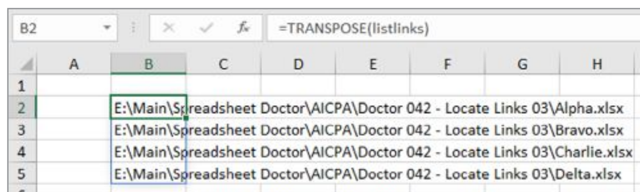
However, if the model *doesn't* contain links, I would receive a *prima facie* error, as shown in the screenshot "Range Name With No External Links Error".

Range name with no external links error



In the first instance, Office 365 has *spilled* the references; ie, it has listed the references in adjacent cells along the same row. Good old Excel: It does like to default to the incorrect choice. To counter this great default "feature", if I were to use TRANSPOSE, suddenly things become much more readable, as shown in the screenshot "Range Name Transposed".

Range name transposed



Voilà! All your links are presented dynamically.

This is just so much simpler than convoluted VBA code or using third-party software. All you need is the ability to spill your results; ie, your version of Excel supports dynamic arrays (presently, this means using an Office 365 version of Excel).

That's all there is to it.

Word to the wise

Excel 4.0 functions stored in defined names may only be saved in macro-enabled workbooks (.xlsm or .xlsb). If you are using this feature in conjunction with dynamic arrays, the file will have to be generated using Excel 365, too, so do be aware of these limitations when incorporating this functionality into existing workbooks.

It should also be recognised that the VBA approach will identify cell locations, whereas the new trick detailed above does not. However, links may occur for other reasons that the macro may not locate. Therefore, it's a case of using the right approach for the right scenario. ■

Liam Bastick, FCMA, CGMA, FCA, is director of SumProduct, a global consultancy specialising in Excel training. He is also an Excel MVP (as appointed by Microsoft) and author of Introduction to Financial Modelling *and* Continuing Financial Modelling. *Send ideas for future Excel-related articles to him at liam.bastick@sumproduct.com. To comment on this article or to suggest an idea for another article, contact Jeff Drew at Jeff.Drew@aicpa-cima.com.*

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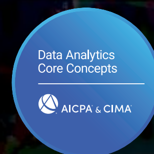

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‘Cybercrime is big-game hunting now … you need to be prepared’

IMAGE BY GILLIAN BLEASE/IKON IMAGES

The number of cyberattacks is rising. What do boards need to know from executives to protect companies?

By Felicity Hawksley

The global COVID-19 pandemic has exponentially increased the number of cyberattacks on companies, countries, and individuals — in part because of widespread government spending programmes applied for and administered online. A 2021 global threat report by cybersecurity firm CrowdStrike found intrusions involving hands-on keyboard techniques increased fourfold during the prior two-year period.

In a world of increasingly linked organisations, each target is a risk to others, and the financial damage wrought by these attacks can be significant. Attacks on companies can compromise critical national infrastructure, and attacks on individuals can open back doors into companies already stretched to the limit. As the harried world works from home and more businesses join the cloud to manage their data, bad actors continue to take every advantage they can.

Not up to speed

EY's *Global Information Security Survey* (GISS) revealed in 2020 that 59% of senior leaders at almost 1,300 organisations interviewed had faced a "material or significant incident in the past 12 months". And that was before the coronavirus and mass home working. The survey found that 48% of boards expected a cyberattack or data breach to more than moderately affect their organisation in the next 12 months.

Yet EY also found that only 20% of boards were extremely confident that the "cybersecurity risks and mitigation measures presented to them can protect the organisation from major cyberattacks." And worryingly, 7% of respondents to the GISS said that cybersecurity was never on the board's agenda, while only 29% said it was on the agenda on a quarterly basis. Facts and figures abound, but one thing is clear: Although they may be more aware of the risks now, most boards were not up to speed on cybersecurity before COVID-19.

This is a problem because the board has a key role to play in a company's cybersecurity. Boards help manage risk, regulation, investment, and governance — and cybersecurity has an impact on all four. In an interview, Kanika Seth, EY EMEIA financial services cybersecurity leader, said: "Companies are outsourcing a lot of their cybersecurity needs, but you can't outsource risk — responsibility ultimately sits with you. This is a global threat that crosses jurisdictional boundaries. Companies need to stop looking inwards and locally, and boards need to be better equipped to support management."

Merle Maigre, former director of NATO's Cooperative Cyber Defence Centre of Excellence, argued that "while it is a good sign that so many companies have a chief information security officer [CISO], that CISO has to have a meaningful relationship with the board". That is where it gets tricky. According to EY's findings, only 48% of the respondents felt that "their board and executive management team have the understanding they need to fully evaluate cyber risk and the measures it is taking to defend itself".

So how can boards learn more about cybersecurity and adjust to new risks? And how can executives charged with cybersecurity bring the board along with them? The answer is threefold.

Budget

Ultimately, much of an organisation's ability to handle cyberattacks will come down to investment in IT security.

"There are three types of cyberattack — theft, subversion, and sabotage. And they are all increasing," Maigre said. She explained that one growing trend is for hackers to use ransomware to steal information that is not valuable to them *per se* but is valuable to the organisation, demand a ransom for that information, take the ransom, and then sell or leak the data anyway. Cybersecurity research company Cybersecurity Ventures predicted that ransomware attacks would occur every two seconds by 2031 (compared with every 11 seconds in 2021), with a total attendant cost of around $265 billion. "Hacking is becoming more complex, more common, and more professional," Maigre said. "It is looking pretty bleak for those small and medium-sized organisations which feel like they do not have the resources to invest in IT security — and by degree bleak for those larger organisations with these companies in their supply chain."

Budgeting needs to be driven by more than image concerns and regulation. The GISS suggests that organisations should budget for cybersecurity in a different way than they have in the past. "We've recommended that arguments focused around value creation and transformation, not just value protection and recovery, will resolve some of the tensions between the CISO and the board," Seth said.

Instead of focusing on how not to be the subject of a cyberattack, or how cybersecurity is essential for customer trust, the value-creation argument allows organisations to invest in new technologies that enhance outcomes for customers and clients — for example, in healthcare, where connecting highly valuable and sensitive patient data can lead to substantially better patient outcomes and increased operational efficiencies.

Educate

According to Maigre, one of the best ways that executives can help the board understand the fundamental importance of cybersecurity is to test board members' own online security. Maigre said that a session in which they are asked about the security of their passwords, the types of things they post online, and the apps and services they use can be very helpful. This has two benefits, she said. First, it helps illustrate the type and depth of work that needs doing and shows that insecure practices can be commonplace. Second, it secures the communications of board members, who are themselves prominent targets for attackers because they often possess sensitive information.

Another key way that executives can educate the board on cybersecurity is to hire experts to speak with them in their various subcommittees. "The job of the board is to probe management's strategies, but if they're not equipped to do so, then that querying role becomes impossible," Seth said. Maigre advocated having a cyber expert on the board itself — and there is evidence to suggest that, in the US at least, companies are looking to hire such experts.

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Test

Testing can also help educate the board, demonstrate the need for additional budget, and increase security. Maigre said that "as well as highlighting security needs, war games and tabletop exercises can help to build meaningful relationships with board members, as well as helping them to understand that they have a key role to play".

Maigre recommended that companies take a two-step approach to testing. "First, the company needs to threat-model and undertake technical exercises," she said. "The board, along with key IT personnel, [needs] to explore potential risks from known adversaries. This means acting with as much fidelity as possible." The threat-modelling stage involves simulating attacks from start to finish, and cycling through response and mitigation options using red (attack) and blue (defence) teams. The board should be present for big technical exercises.

"Technical exercises should be followed by tabletop exercises" in which organisations discuss the outcome of simulations and examine their response, Maigre said. "Tabletop exercises should look at four areas," she said. "First, time — how much time is needed to make decisions in the event of an attack? Second, transparency — how much of what has happened would you reveal to stakeholders and when? Third, authority — who are the key decision-makers, and under what circumstances can or should you delegate or escalate certain tasks? Fourth, based on the results of the first three steps, is our current response framework useful?"

Throughout these discussions the board should be asking questions about the likelihood of attacks, the impact of information sharing with stakeholders, and where key responsibilities lie. "Many companies are equipped with the technology to respond to a cyberattack, but they can fail on governance," Maigre said. That is where an engaged board can make a difference.

Ultimately, Seth said, this is an area that is only going to grow in importance. "Attacks are increasing, ransomware is growing in sophistication, and there is a lot of regulation coming. Companies cannot be ready for a cyberattack if the board is not ready, too. It's as simple as that." Maigre agreed and added: "The board has to understand that these are no longer rogue individuals out for a quick payday. They are criminal enterprises — businesses in their own right. Cybercrime is big-game hunting now, and you need to be prepared." ■

Felicity Hawksley is a freelance writer based in the UK. To comment on this article or to suggest an idea for another article, contact Drew Adamek at Andrew.Adamek@aicpa-cima.com.

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IMAGE BY ALICE MOLLON/IKON IMAGES

Value: Its meaning and measurement

To understand a business's value, management accountants need to become experts in intellectual capital and its impact on financial performance.

By Paul Ashworth, FCMA, CGMA

Finance needs to move beyond its traditional, and essential, core accounting role to include being the custodian of organisational value, according to the 2018 CGMA report *The Changing Role and Mandate of Finance*.

However, there is a vast gap between meeting the demands of this extended mandate and the reality on the ground. How many businesses have a finance function that has the expertise and capability to identify, understand, measure, and manage the various sources of value in their business? It should not be assumed finance will automatically be made the custodians of value; they will need to earn the right to gain this responsibility. Currently, it seems that this is a role that many finance senior management teams do not recognise or understand, let alone champion.

This is the first in a series of articles that looks at how value is created, the way it is measured, and the cost of capital. The second article will build on the first to look at improving forecasting capability. This enables finance to develop in-house expertise to be effective custodians of organisational value.

This is not a matter the profession can ignore, as the potential for significant rewards or losses is enormous — successful businesses are those that understand what drives value and what diminishes it. There needs to be a significant investment in research and skills development to improve all these capabilities in finance professionals so they can take a lead role and partner the business in the protection and growth of organisational value.

Finance isn't currently leading on calculating that value; instead, external parties like market analysts, providers of funding, and external mergers and acquisitions advisers are taking the lead. The use of valuation techniques by in-house finance teams in ongoing business management is extremely limited, despite them having access to the richest sources of data on the actual and potential performance of the business. However, it is within the business itself where there is the greatest opportunity to create or destroy value.

To be the custodians of organisational value, finance teams must have expertise in both financial and intellectual capital. Various approaches, such as Kaplan and Norton's balanced scorecard, have been proposed to bring the consideration of intellectual capital into business management, but we are not seeing any significant level of recognition, consensus, or adoption of any approaches by finance teams. Approaches for bringing it into the quantitative measurement of value have made even less impact. Consequently, expenditure on intellectual capital is still largely treated, both in financial reporting and in the minds of business managers, as a cost to be controlled rather than an investment in business assets.

Over my many years of enabling organisations to understand, manage, and optimise their value, I have seen limited development in the tools and techniques used by finance professionals. This has been accompanied by a general lack within finance of recognition, prioritisation, and investment in this activity.

There is no off-the-shelf, instant solution to calculate a precise, robust company valuation nor any tool to enable effective value management. However, incremental improvements in this area can deliver significant benefits even whilst the capability is being developed.

Editor's note

This article is the first in a series looking at the role of the management accountant in understanding, measuring, and managing value.

Several characteristics of intellectual capital make it difficult to determine a fair value.

Improved understanding can lead to both improved actual performance and increased certainty about future performance, both factors leading to increased business value.

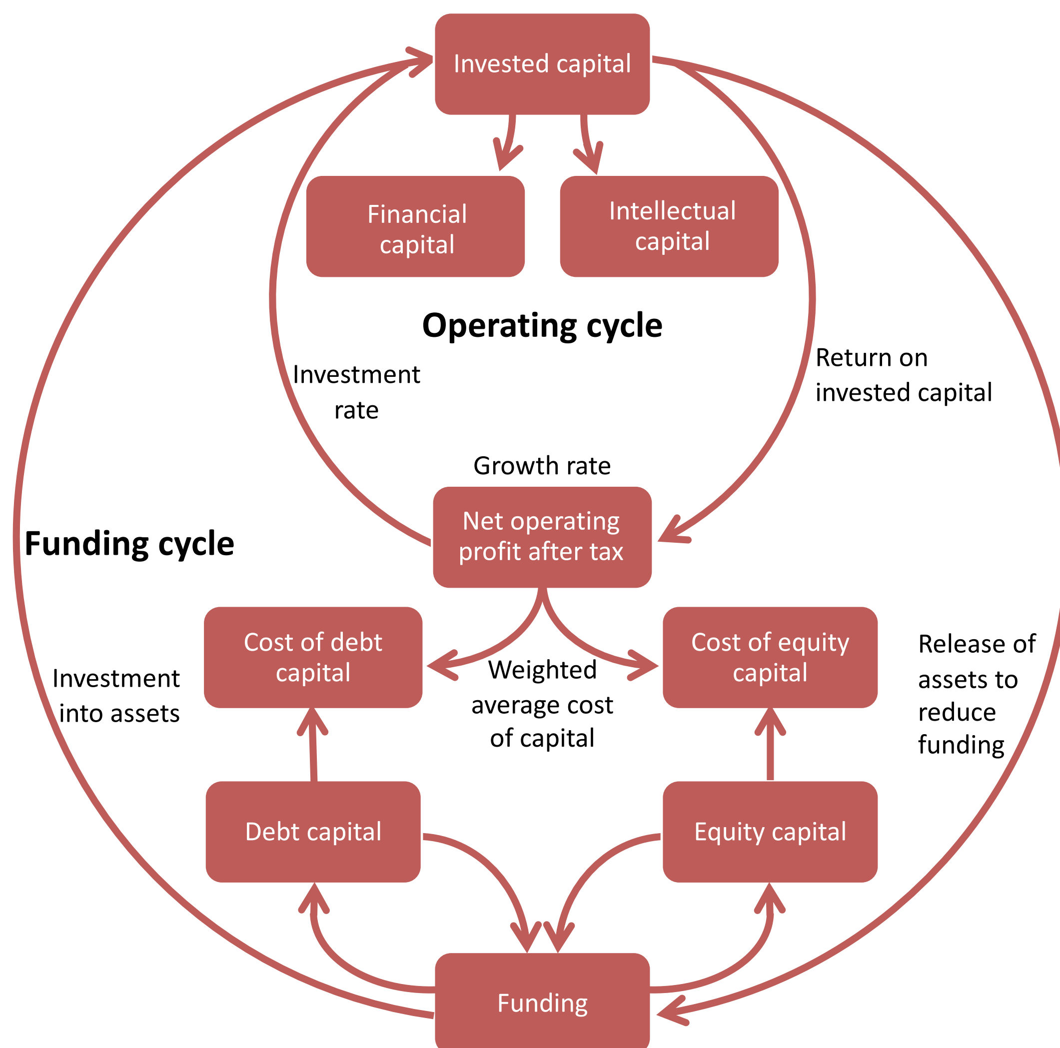
Value creation — a technical perspective

Value is created by employing both the financial and intellectual capital of a business to generate a combination of earnings growth and a return on invested capital (ROIC) exceeding the weighted average cost of capital (WACC) that is funding that business. Funding of this invested capital is provided by debt and equity capital (see the chart "Funding Providers' Value Creation").

Invested financial capital represents the retained value created from the business's historic performance and comprises net working capital and tangible fixed assets. Intellectual capital encompasses the intangible, nonphysical assets represented by customer relationships, product/service propositions, processes, innovations, supplier relationships, employees, and digital capability, which are employed in combination by the business to create synergies that drive future value creation.

Value creation is dependent on the growth rate (g), ROIC, and WACC in combination with the net operating profit after tax (NOPAT). Value is always created when ROIC is improved. However, growth will only lead to value creation when ROIC exceeds WACC. With simplifying assumptions of a constant growth and ROIC rates, according to McKinsey & Co's guide, *Valuation: Measuring and Managing the Value of Companies (Seventh Edition)*, this relationship can be represented by the

Funding providers' value creation



Weighing up alternative valuation techniques

Methodology	Pros	Cons
Component valuation	• Direct valuation of financial capital.	• Challenges valuing intellectual capital: ○ No consensus over techniques. ○ Idiosyncratic nature. ○ Often only of value in combination.
Precedent transactions	• Comparison to similar transactions. • Includes takeover premium.	• Unlikely to find comparable transactions. • Multiples can vary significantly. • Become stale-dated. • No detail on intellectual capital.
Public company comparables	• Widely used. • Comparison to similar businesses. • Stay current.	• Difficult to find similar businesses. • Multiples can vary significantly. • No detail on intellectual capital.
Discounted cash flow	• Requires extensive detail and analysis. • More justified and accurate valuation. • Enables scenario modelling. • Provides insight for value improvement.	• Requires extensive detail and analysis. • Discount factors can be too subjective. • Long-term cash flow forecasts not very robust. • Too much reliance placed on terminal value.

"value driver formula" as follows:

$$\text{Value} = \frac{\text{NOPAT}_{t=1}(1 - g / \text{ROIC})}{\text{WACC} - g}$$

This is commonly used by analysts to calculate a continuing or terminal value for a business to be used at the end of the explicit forecast horizon in a discounted cash flow valuation.

The value created can then be employed to:

- Fund future organic or inorganic growth in the financial capital required to build the business.
- Invest in maintaining or increasing internally developed intellectual capital (not reported on the balance sheet).
- Acquire externally generated intellectual capital (reported on the balance sheet as goodwill or intangible assets).
- Repay debt capital (short- and long-term interest-bearing debt and debt equivalents) or build holdings of cash excess to operational needs.
- Repurchase equity capital (stock).

The decision as to which is the best course of action will depend on a range of factors, but, principally, whether the perceived returns from identified potential investments exceed the company's WACC.

Value measurement challenges

Most theory focuses on the derivation of valuations from information held in the financial accounts. However, these accounts do not capture all shareholder value, as shown by price-to-book ratios, and the situation is getting worse. The ratio between S&P 500 price and book values is about 4.5 and has more than doubled over the last decade. Some of this may be due to factors such as the valuation given to financial capital or irrational exuberance of the market, but a key cause will be the nonreporting of all the other value hidden away in intellectual capital.

Finance professionals need to be competent in the financial reporting and management of intellectual capital. In the 1970s the ratio of financial capital to intellectual capital was on average about four times. Since then, the proportional relationship between financial and intellectual capital has reversed. This means that now most value is not a recognition of historical financial performance, but the financial performance that is expected to be achieved in the future.

The significance of intellectual capital in a business's value means it must be a major consideration when completing a valuation.

Approaches to value measurement

The significance of intellectual capital in a business's value means that it must be a major consideration when completing a valuation. However, directly measuring the value of intellectual capital is extremely difficult, and there is no best practice or regulatory requirements as to how it should be completed. Several characteristics of intellectual capital make it difficult to determine a fair value:

- Most is not legally owned by the business; for instance, the business does not have legal ownership of its clients or employees.
- It is only of value when combined with other intellectual capital; an excellent product proposition is only of value if you have access to a market with customer demand.
- It is esoteric in nature, having different value for different parties;

Finance professionals need to be competent in the financial reporting and management of intellectual capital.

the expertise of a brain surgeon has massive value for a hospital but significantly less to a car dealership.

Valuations are completed using various methods, including component valuations, multiples from precedent transactions or public company comparables, and discounted cash flow. All methods have their strengths and weaknesses (see the table, "Weighing Up Alternative Valuation Techniques"), and the best one to use will often be a matter of judgement.

A key consideration will be why the valuation is being completed. In the situation of a sale event, the key focus may be on calculating a number to guide negotiations. However, to manage organisational value on an ongoing basis, it will also be necessary to have detailed justification as to why the value is at the level it is and how it could change subject to defined actions and under various scenarios.

The general principle that intellectual capital is only of value when it is part of a system rules out component valuations as a valid method for many businesses with a high proportion of intellectual capital.

Precedent transactions and public company comparable multiples may be based on the historic or forecast values of various financial profit (net income or EBITDA) or cash flow (free cash flow for firm (FCFF), free cash flow for equity (FCFE), or cash from operations) measures (see the chart "Profit and Cash Flow Measures Used in Multiples").

Valuations based on each of these financial measures will derive significantly different valuations. The multiples will also vary significantly over time due to factors including premiums or discounts resulting from market conditions, a listing, or a takeover. The approach seems weak for valuing businesses where most value is held in financial capital, but even worse when it is mainly represented by intellectual capital. There is no practical insight provided on the underlying drivers of future financial performance, which drive the value represented in intellectual capital.

This leaves one remaining approach: discounted cash flow. This uses future unlevered free cash flows discounted at the business's WACC to create a business valuation. It is more complex to prepare but can provide the most justification and potentially the most accurate valuation. Having prepared a base case valuation, this can then be flexed to provide scenario modelling. The detail provided within the valuation can uncover immensely powerful insights to guide the realisation of opportunities to enhance value and avoid value destruction. This is subject to two critical success factors: determination of the appropriate discount rate to apply to future financial performance values and the provision of robust long-term financial forecasts. Initially, we will look at establishing the appropriate discount rate to apply to the business or divisional forecast.

Profit and cash flow measures used in multiples

Net income
+ Interest paid
+ Tax paid
+ Depreciation
+ Amortisation
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)
+/- Working capital changes
- Capital expenditure
Free cash flow for firm (FCFF)

+/- Inflows/outflows from debt	- Interest paid
Free cash flow for equity (FCFE)	- Tax paid
	Cash from operations

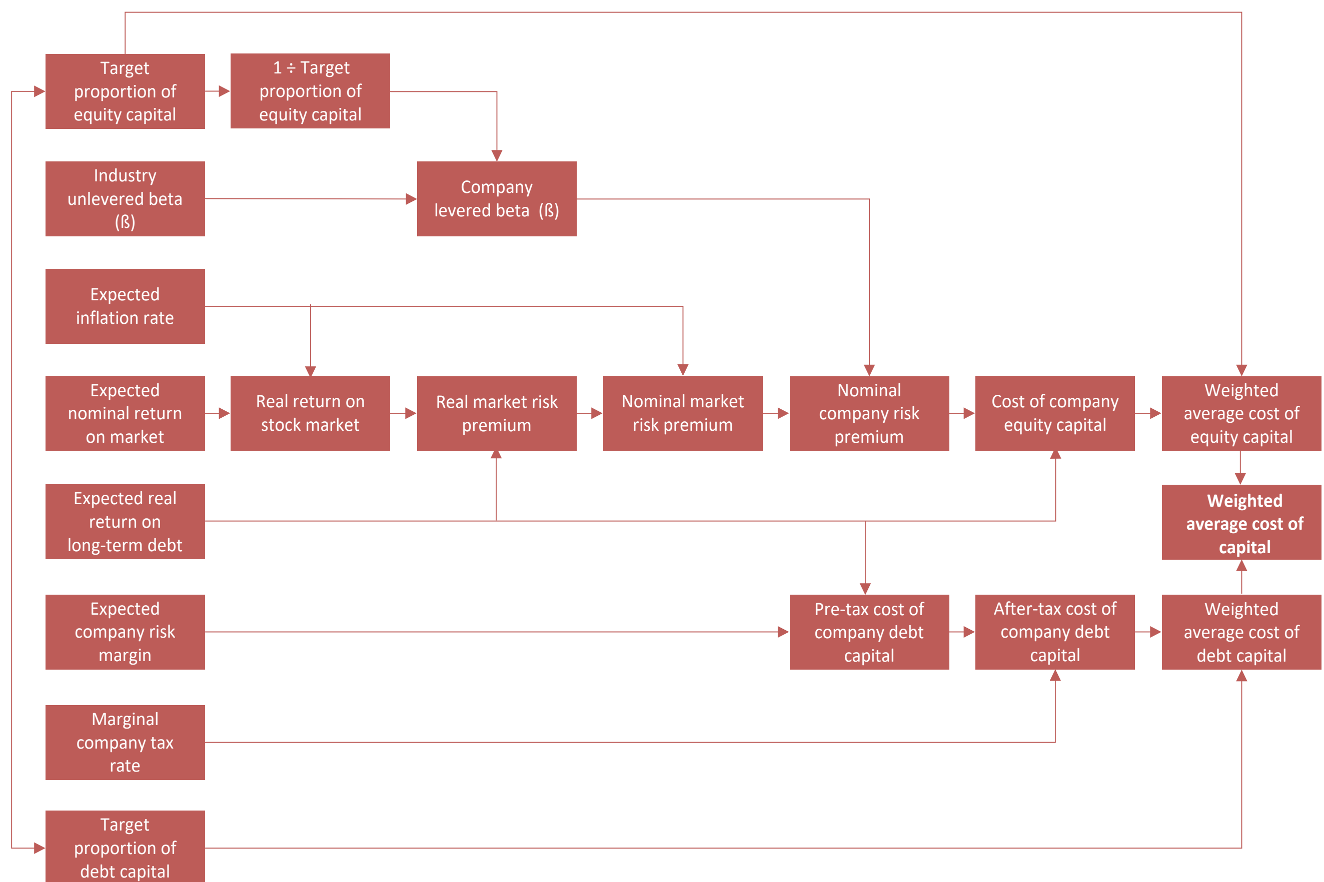
Discount rate

Any future values should be discounted at the appropriate WACC. It may be necessary to use different WACC values on various parts of the business to reflect varying levels of risk on those different areas.

In summary, WACC is derived from the company's cost of equity and after-tax cost of debt weighted in proportion to the target mix of funding from equity and debt.

The cost of debt can be identified

Example derivation of weighted average cost of capital using capital asset pricing model (CAPM)



relatively easily from the actual interest rate paid or that would be paid on any borrowings. However, the cost of equity is far more complex to determine, as, effectively, it is the return a company must provide shareholders to maintain a steady stock price. Technical guidance is to use a method like the capital asset pricing model (CAPM) to risk-adjust the expected market return, but the reality of actually doing this can be difficult (see the chart "Example Derivation of Weighted Average Cost of Capital Using Capital Asset Pricing Model (CAPM)").

Difficult as it may be, it is essential to have a view on your company's WACC. So long as this is in the right ballpark, then it can be used as a benchmark for comparison of returns from potential investments. In the event of a merger or acquisition, the precise WACC employed is more critical, but at that time there will also be various other factors, such as a takeover premium, which come into play and influence the valuation given to the business.

In the next article we will look at the second critical success factor — the creation of robust forecasts, which can then be discounted to provide a discounted-cash-flow valuation.

Time for action

Business valuation is a complex area, but a "do nothing" option is not sustainable. Realistically, it is not possible to create a definitive business valuation because so many factors are subjective and people will assign value differently. However, incremental improvements in this area can deliver significant benefits even whilst the capability is still being developed.

Some initial actions to take are:

- Design an in-house centre of expertise in value measurement and management.
- Improve understanding of intellectual capital and its impact on financial performance.
- Identify your industry growth rates.
- Establish an agreed view of the business's WACC.
- Start reviewing investments in intellectual capital alongside other investments.

The sooner the process is started, the greater the value opportunity or loss avoidance. ■

Paul Ashworth, FCMA, CGMA, is a Jersey, British Isles-based practising management accountant providing strategic insight and enabling business intelligence systems in financial and business services, and public-sector organisations. To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.

Budgeting travel in the pandemic era

Here's what CFOs should know when re-evaluating and adjusting COVID-19-era travel budgets.

By Andrew MacDowall

As the pandemic continues to present challenges for businesses and the workplace evolves, there are a number of reasons to believe that business travel may never be the same. Not only has the switch to remote working and meetings lowered costs for businesses, but COVID-19 safety concerns make organisations hesitant to send employees back on the road.

However, despite these shifts in the business travel environment, McKinsey & Co. estimates that only one-fifth of business travel is likely to cease permanently and expects a rebound in corporate travel to be driven by companies, led at first by small and medium-size enterprises, that have a "fear of missing out" on opportunities presented by face-to-face meetings.

Business travel will take time to recover, and for many organisations it will never return to pre-pandemic levels, but it still needs to be budgeted for. No matter where your organisation falls on the issue, the gradual return to travel provides finance departments opportunities to re-examine and reshape corporate travel policy. This can help reduce costs, increase efficiency, and spur innovation while ensuring that must-do travel continues.

Here are tips for planning and managing travel budgets in the COVID-19 era.

Acknowledge things have changed

The business landscape is markedly different than it was pre-pandemic, and finance departments need to carefully examine new conditions and expenses when crafting a travel budget in the age of pandemic uncertainty. New Zealand-based Kirsty Godfrey-Billy, global CFO at Xero, said it was reasonable to expect that travel budgets would decline now that people in business have a clearer understanding of what is possible to achieve virtually.

"When the pandemic hit, we all had to find new ways of working and connecting virtually," she said. "Many of these habits have become ingrained in the way we work, and we can all learn a lot from this when we consider what business travel will be needed in the future."

But that doesn't mean that business travel is going away because more people use Zoom. Many business operations still require physical presence.

"Sometimes nothing can replace being in the same room as others, particularly when it comes to relationship building," said Godfrey-Billy. "Because of this, there will always be some need for business travel, particularly in roles where relationship building is essential — some sales processes, for example."

On the other hand, travel now can have a much more significant impact on employees' nonwork lives as well, requiring more time, preparation, and equipment than before the pandemic. With the virus still active globally, these changes are likely to be here to stay for the foreseeable future and should be borne in mind by those budgeting for corporate trips.

"Ensuring the health and safety of employees should be at the forefront of all plans and budgets for travel," said Craig S. Horner, CPA, the CFO at Maryland, US-based benefits and payroll solutions provider Kelly Benefits. That means finance departments will have to expand their definition of travel expenses in 2022, according to Horner.

"Consider additional costs which may be required to ensure a safe travel experience, which may include PPE like masks and shields, COVID-19 testing, cancellation insurance, supplemental health insurance, and additional travel days to allow for quarantine away from vulnerable family members," he said.

Reshape travel policy

Now is the time for CFOs and their teams to drill down into company goals, strategy, and overall budgeting and ensure that travel policies and specific trips are aligned, Horner said.

Simone Buckley, London-based EMEA marketing vice-president at TripActions, a travel and spend management platform, agrees. "It's critical to look at your travel programme and policies with fresh eyes — for example, identifying crisis plan gaps and conducting a company-wide survey or focus groups to understand your travellers' unique needs," she said. "Create an exhaustive list of potential issues to address within your revised policy, processes, and systems, for use in travel, and expense platform and partner selection."

Technology can increasingly be used to support this decision-making, as well as travel planning, budgeting, booking, and management. Increasingly sophisticated platforms can help CFOs reduce costs while optimising the effectiveness of travel, and calculating when digital meet-ups might be preferable.

Anthony Jackson, US airlines sub-sector

IMAGE BY KLAUS MEINHARDT/IKON IMAGES

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leader at Deloitte, based in Dallas, Texas, in the US, suggested that organisations can switch to proactive rather than reactive approval of travel expenditure. Rather than measuring and evaluating costs after they have occurred, companies could plan expenses more closely before trips are confirmed.

"Companies can proactively ask employees to provide the value of proposed travel, a general itemised list of the costs to be incurred, which inherently drives discipline of spend," he said. "Financial management professionals should bring a firm understanding of corporate objectives — geographic expansion, growth markets, profitability goals, and they should ensure that the budget supports those goals and is in alignment with forecasts."

Think sustainably

Increasingly, one of those goals will be sustainability. Global CO_2 emissions fell during 2020 thanks to lockdowns and reduced economic activity but have rebounded to near 2019 levels in 2021. While few in business desire a return to lockdown conditions and travel limitations, 2020's drop in CO_2 gives food for thought, particularly at a time when organisations are under increasing pressure from the public, shareholders, and politicians to be greener.

"When the pandemic situation starts to really stabilise, executives will begin to implement the learnings from this prolonged pause and resume travel in a way that supports sustainability goals as well as the bottom line," Jackson said.

Employee travel is one of the leading contributors to corporate carbon emissions in the business sector. Research by Stefan Gössling, a professor at Sweden's Linnaeus University School of Business and Economics, found 50% of global aviation emissions come from 1% of the world's population, or "most-frequent flyers", many of whom are business travellers. Research suggests that business class travel — by taking more space per passenger — can be responsible for five times the CO_2 emissions per seat than those in economy class (though, of course, many business travellers travel in economy, and leisure travellers in business and first class).

Some companies, including leading accountancy practices, are already committing to reducing their business travel emissions: EY aims to cut them by 35% of 2019 levels by 2025; Deloitte to halve them per employee by 2030.

Katherine Edenbach, CPA, chief accounting officer at Emburse, a spend management technology company headquartered in the US, said that business travel planning has generally been measured by "three C's" — cost, convenience, and comfort.

"The other C in this equation is now 'carbon emissions'," said Edenbach, who is based in Portland, Maine. "Corporate ESG initiatives are driving the need for organisations to examine their business travel programmes in order to minimise and offset their carbon emissions. Consideration should also be given to areas like carbon offset purchases as a standard part of travel bookings."

Edenbach said that this may take a shift in mindset for some finance teams, as the most sustainable option is often more expensive than the lowest logical fare. Yet the benefits of meeting ESG standards and bolstering an organisation's reputation for greenness are increasingly significant.

"As there will be fewer dollars spent than before on travel, finance leaders should consider reallocating some of their organisation's travel budget to make trips more sustainable," she added. "Finance teams should consider increasing the tolerance within their travel policy to allow travellers to choose a more sustainable option." ■

Resources

Articles

"The Case for Flexibility in 2022's Budget", *FM* magazine, 6 December 2021

"Resuming Business Travel — It's Complicated", *FM* magazine, 20 July 2021

Andrew MacDowall is an independent consultant and writer based in France. To comment on this article or to suggest an idea for another article, contact Drew Adamek at Andrew.Adamek@aicpa-cima.com.

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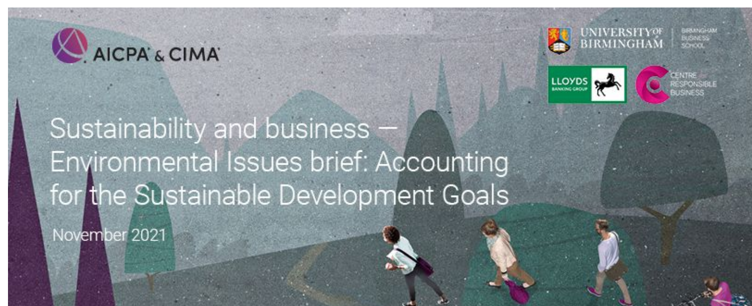
INSTITUTE NEWS

CIMA publishes annual report on anti-money laundering supervision

Under the UK's money laundering regulations (MLRs), CIMA is required to publish an annual report on its supervisory activity in this area. This requirement is relatively new, and CIMA has recently published its first report, covering the period 2019–2020.

Whilst the report is specific to UK Members in Practice supervised by CIMA for compliance with the MLRs, it refers to the guidance and help that CIMA provides members to enable them to understand money laundering and their role in addressing it in business.



Accounting for the Sustainable Development Goals

The first in a series of four AICPA & CIMA "Accounting for" briefs is *Accounting for the Sustainable Development Goals*.

Focused on the 17 UN Sustainable Development Goals (SDGs), this brief helps organisations consider the goals, how to integrate them into their long-term decision-making, and how to incorporate them into internal and external reporting. It has been developed jointly between AICPA & CIMA and Ian Thomson, ACMA, CGMA, professor at the University of Birmingham and director of the Lloyds Banking Group Centre for Responsible Business.

The brief includes a series of exercises and tools, which will help embed the goals within an organisation's governance, strategy, risk management, and metrics and targets.

It is also a reminder that the goals do not stand in isolation. They require systems thinking and offer a grand challenge: the engagement and collaboration of a diverse range of organisations and stakeholders across the world. The move from short-term horizons to longer-term outcomes that the goals promote also has the potential to fuel sustainable prosperity, not just for organisations, but for all.

The other three briefs in 2022 will explore the themes of accounting for carbon, accounting for biodiversity, and accounting for 2 degrees. This is in the context of the Paris Agreement's consensus among countries to limit global warming "to well below 2 degrees Celsius above pre-industrial levels".

Finance's role in improving children's lives

Financial transformation in a new regulatory environment is the topic of a CGMA research case study, which looked at Lucas County Children Services (LCCS) in Lucas County, Ohio, in the US.

The report, *Using Strategic and Finance Leadership to Improve the Lives of Children*, is available here.

Legislation, which had an implementation deadline of October 2021, provided for significant changes to the US federal child welfare financing system. The focus is on keeping children at home or in a more home-like environment by providing the necessary funding.

Leading the LCCS financial transformation is Ebonie Jackson, CPA/CITP, CGMA, the agency's CFO and director of Administrative Services, and a recipient of the 2020 AICPA Outstanding CPA in Government Impact Award at the local level.

At LCCS, the priority of safely reducing the number of children in foster care in 2023 by a cumulative 75% compared with the 2019 baseline required progress on initiatives that include:

- Establishing and implementing protocols for identifying implicit bias in decision-making in all points of the child welfare system's processes and eliminating racial and ethnic disparities.
- Entering partnerships with legislators, state agencies, and community partners to leverage strategic collaboration.
- Implementing best practice and evaluating policies and procedures in all agency departments, including IT enhancements, remote/mobile work, and paperless automated processes (both financial and nonfinancial).

Resources to combat fraud

Business losses from fraud increase year on year as criminals seek to be ahead of law enforcement and the professionals who identify this crime. Accountants can be instrumental in protecting their clients from being vulnerable to fraud, however.

The UK government Home Office has published an Accountancy Sector Fraud Charter designed to educate businesses about fraud and detailing how to identify and disrupt it. You can read the Charter, the Home Office's press release about the joint government-industry fraud task force, and useful articles and other guidance on CIMA's fraud and financial crime hub.

Whilst the Charter is primarily aimed at practising accountants and UK businesses, many of its outcomes will be of interest to members globally working in business. When finalised, a toolkit for use by professional body members and their clients will be hosted on CIMA's fraud and financial crime hub.

CIMA's Professional Standards' Committee has been considering how the Institute can help its members identify fraud and if there are tools or guidance that can be provided for management accountants. If you have had any experiences with fraud that you would be willing to share or ideas about how CIMA can help its members in the fight against fraud, please contact Samantha McDonough at Samantha.McDonough@aicpa-cima.com.

AICPA & CIMA introductory reports on ESG

AICPA & CIMA have now published three introductions to ESG issues — on environmental protection, social inclusion, and governance. When read together, they can help finance professionals navigate the complex sustainability landscape.

They show the interconnectedness of sustainability factors. An action under the governance pillar can have both positive and negative implications for the environmental protection and social inclusion pillars. The ESG factors set out in the table should not be viewed in isolation from each other.

The third report in the series, *Sustainability and Business — Governance Introduction: Putting the G in ESG*, examines the issues directly associated with a business's governance, including how it is led and managed.

The report highlights the six UN Sustainable Development Goals (SDGs) that are especially relevant in the governance context. They include SDG 9 — Industry, Innovation, and Infrastructure; SDG 11 — Sustainable Cities and Communities; and SDG 16 — Peace, Justice, and Strong Institutions.

For finance professionals, the range of topics coming under the governance umbrella includes enterprise risk management, board quality, stated purpose, and innovation and IP. These topics — and more — the report says are likely to have mature processes already in place around their metrics and targets, and their external reporting. These are also the areas that have the most mature regulatory requirements when looking across the three ESG pillars.

Together, the three reports ask organisations to reassess their focus across the ESG pillars and move towards a "systems value perspective" where "governance" is aligned with "social", and both are dependent on "environmental". ■

Environmental protection	Social inclusion	Governance
Climate change	Brand and reputation	Stated purpose
Greenhouse gas emissions	Gender equality	Board quality
Net-zero targets	Diversity and inclusion	Innovation and intellectual property (IP)
Energy	Health and safety	Infrastructure
Water	Skills and training	ERM
Waste	Supply chains	Anti-corruption
Recycling	Modern slavery	Remuneration
Keystone species	Key stakeholders	Material issues
Biodiversity	Decent work and jobs	Net investment and contribution

TOP: PHOTO BY GREMLIN/ISTOCK

Mining for talent

At a time when makers of electric vehicles, solar panels, and renewable-energy technologies are doubling down on production, mining companies are facing a talent crunch that could hamper the output of much-needed metals such as lithium, nickel, and copper. The trend is sweeping across the industry in the US, Canada, South Africa, and Australia, where enrolment in mining engineering programmes has been on the decline. In Canada, half of its current mining workforce is over 45, and 60,000 people are expected to retire in the next decade. To attract a younger generation of workers who see mining as dangerous and polluting, companies and colleges are funding research into environmentally friendly ways to process metals and launching courses in data analytics and autonomously operated vehicles and equipment.

An engineering student from the Colorado School of Mines stands in the college's experimental mine in Idaho Springs, Colorado, in the US, used by students to train on new technologies.

PHOTO BY KEVIN MOHATT/REUTERS