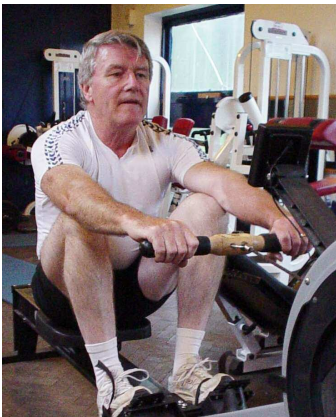


Comply and be damned

Compliance is killing initiative writes Bruce Bosworth



Bruce Bosworth

It has been reported that banks are withdrawing lending to small businesses. When recently I contacted my bank to renew my overdraft facility I was bracing myself for rejection. I need not have done. They not only agreed without question but also without increasing the arrangement fee from last year. So banks are being supportive of small businesses after all. But wait. Oh silly me. I should have known better. The bank renewed my overdraft because I rarely use it; they are taking no risk. What a courageous decision.

You might ask why would I request an overdraft when I don't need one? Because the best time to negotiate an overdraft is when you don't need one!

This does not mean I have escaped the fall-out of the bungled management of the banks. My wife and I sold the family home in 2006 to move to something smaller. With

the guidance of a financial adviser the surplus was invested for when we retire. Retire? Not now!

Our investments have plummeted and the returns now might not even pay for my annual beer bill. This is why I have changed my picture from the normal sober suited businessman to that of me in the gym. I want you all to know that I am alive and well and capable of handling any work you put my way for many years to come.

I have worked freelance for the last 24 years. It must be genetic or cultural – or both. My grandfather, my father, his four sons all were and are in business for themselves and so is my son. We make very bad employees. I think it has to do with an aversion to being compliant.

It is not because we are not team players it is just that we find it hard not to argue with wrong decisions and rules that are daft. Compliance is why the banks are in such a parlous state. I cannot imagine myself sitting in the boardroom of the Royal Bank of Scotland and nodding through some of the ideas of Fred Goodwin. But then Fred Goodwin would never have wanted the likes of me on the board. Megalomaniacs won't tolerate free-thinkers. This is why I have failed to climb the corporate pyramid.

Compliance is an aphrodisiac to bureaucrats.

Compliance can be likened to everyone being regulated about dripping taps and no one has noticed the dam is about to burst. Compliance is the root of much frustration in everyday business intercourse.

My sister and her husband went to a bank to open a deposit account because it offered an attractive rate of interest. They had to prove their identity. My sister was required to show a utility bill in her name. "But the utility bills are all in my husbands name" she explained as he was sitting next to her with a utility bill. She was told that was unacceptable.

They got up to leave without opening an account when my sister's name was called out. It was a member of staff of the bank who had known my sister, as a friend, for two decades. My sister asked if she would verify her identity. Her friend, the bank clerk, could not. "We have to follow compliance procedures." she said.

Recently while conducting a training course a customer 'phoned to complain about his direct debit being unpaid for the second time when sufficient money was in his bank account. He also said that the month before when he had complained the agent had told him the consequences of paying late (charges and damage to his credit status) when it wasn't him that paid late. The warning annoyed

him because it was wrong and out of place.

The agent with whom I was sitting, dealt with the call very well and reassured the customer that the mistake would be corrected. She now had to confirm it in writing and chose a template letter and made a few minor changes to suit the problem. The letter contained a paragraph about late charges and credit status. I advised the agent to cut the paragraph because the customer will "go up the wall" when he reads it. I said it is stupid to write such a thing when it is entirely unsuitable to the case. She went to her manager for permission to remove the paragraph that would undoubtedly have caused offence. The manager said the bank had to comply with procedures. I went to the manager to plead a good-sense ruling, to no avail. I was exasperated. I advised the agent to 'phone the customer and tell him that the paragraph has to be included in the letter for reasons of compliance but not to be upset by it.

Basel I and II, The Consumer Credit Act, the Regulators and the army of Compliance Officers have done nothing to avoid the present fiasco in the banking system and excess of personal borrowing. Banks and companies need to employ more free-thinking people.

Assessing Risk

Jean Pousson reminds executives about their duties and responsibilities

The recent “episode” about Bernard Madoff alleged \$50 billion “Ponzi” scheme is yet another reminder to businesses that years of hard work and profitability can be wiped out by fraudulent activities not picked up by diligent risk assessment procedures. While more facts have to emerge about the extent of this supposed fraud, what is already becoming clear is that warning signs had been there and had been flagged up, but no one seemed to act. The most obvious being his auditors who were literally a one-man-and-his-dog outfit, responsible for auditing funds under management of some \$50bn!

In 1995 many of us will remember how one derivatives trader, Nick Leeson, brought down an entire bank, ie Barings Bank. Add to this all the current woes of the banking sector where it has become abundantly clear that the full risks of products being sold and kept on the balance sheet were not fully understood. Huge writeoffs ensued which necessitated recapitalisations and government assistance.

Risk assessment will never be foolproof, but the odds of something going very wrong can be minimised. The Turnbull Report in the UK, which applies to Listed Companies only, and which is part of The Combined Code, provides guidance for directors in the field of risk management. This is well worth a look. ([www.frc.org/corporate/internal control](http://www.frc.org/corporate/internal%20control)).

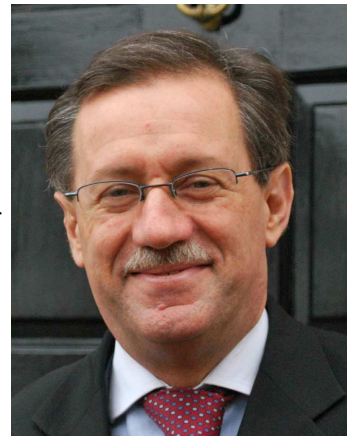
Some thoughts on the subject:

- Processes and monitoring activities are insufficient (by themselves) if the culture and values of the organisation do not support. Integrity and honesty regularly appear on organisations' values, but how often have these been decomposed, ie fully discussed for people to really understand how this translates into day to day operational behaviour. In one organisation, integrity received 85 different definitions and interpretations.
- New Business models bring about new dimensions and types of risks that often executives had not thought through properly, if at all! Industry dynamics change all the time and organisations should regularly review how the potential risks may have changed.
- Tools like external/environmental analysis (Pestle), industry analysis (5 forces) all help, but they must be undertaken regularly, and not always by the same cohorts. Personnel at all levels, no matter how junior, should be involved. Risk identification is not the sole preserve of the Board.
- Monetise the risk, ie what is the financial impact if this event were to happen? Could the business withstand that financial shock especially from a cash flow perspective?

- Having said that not all risks can be quantified. A far more qualitative approach needs to supplement the technical analysis. For example, risk is often only discussed in terms of calamities and financial mayhem. But what about strategic risks? Risk assessment discussions often highlight business opportunities. Oracle and Microsoft both grew out of distressed economic climates.

- Worst case scenario means just that. Far too often when organisations consider “worst case” scenarios, the assumptions are still quite optimistic, because the real worst case is a bad place to visit and we don't want to go there. Try running away day/workshops where the theme of the day is only bad news. The outcome will surprise you.

- And finally, never forget the ABC of risk assessment:
Assume nothing.
Believe nobody.
Check everything.
Good luck



Jean Pousson

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