

# 'KEEP YOUR SHOWERS TEPID, EVEN WHEN THE BOILER IS BACK ON'

By Simon Hill

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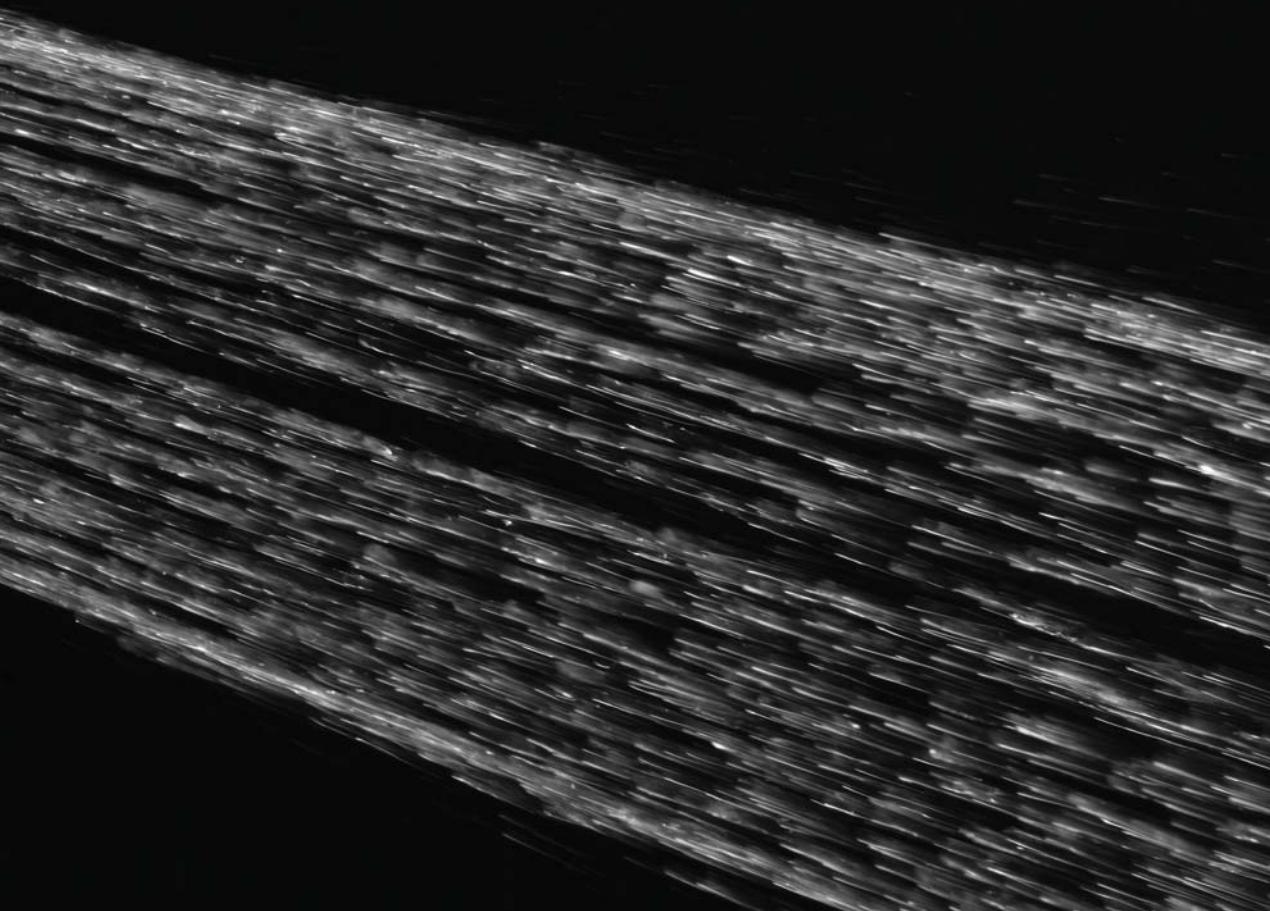
## COST MANAGEMENT

# KEEP YOUR SHOWERS TEPID, EVEN WHEN THE BOILER IS BACK ON

The tight cost controls imposed out of necessity in tough times, are also a good idea when conditions improve, says **Simon Hill**. Below he outlines his top tips for retaining those finance 'good hygiene' habits.



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Nothing brings FDs to their senses like the 'cold shower' of a recession. Excess is exposed. Spend is prioritised in line with strategy. Forecasts are scrutinised and refined like never before. Finance listens carefully to the business and the outside world, taking the temperature on the operating environment.

Yet experience shows that in the warmer waters of recovery, when things get more comfortable, all shades of cost creep back in... at least until the next economic 'boiler breakdown' brings another reality check.

Must we resign ourselves to being hapless slaves to this cycle? Or can we hope to retain some of the recent hard-learned lessons – turning those downturn disciplines

into continuing everyday practice as we emerge from this most recent slump?

Surely the latter. Perhaps the checklist that follows will help.

### **1. Recognise the cultural pull**

Change is tough when the good behaviour you are trying to instil runs contrary to what has been organisational custom and practice. Maybe the business has 'always' lurched from boom to bust. And perhaps this is seen to mirror the fortunes of an entire industry. If so, how can you convince people to take wage restraint (or a continuation of it) now, in return for job protection down the line? This requires trust which can only come from a record of clearly communicated promises which are

seen to have a record of being kept. Start now.

### **2. Systemise and monitor**

Getting to grips with cash and working capital has required a heroic one-off effort for far too many businesses in the latest recession. Yet this really ought to be a 'given' of sound financial management and, as such, the subject of regular, routine reporting. Make sure it is.

### **3. Wage war on waste**

Does anyone 'suffer fools gladly', despite for one reason or another putting up with foolish people from time to time? Similarly, what FD would declare themselves in favour of wasting money? Yet it happens on everyone's watch. It

## ‘Work out a sensible review process and timetable to avoid the creeping death of poor behaviour infiltrating the culture’

can be tough holding the line, even on demonstrably ‘bad’ cost. It calls for principled action, plenty of energy and an acceptance of the inevitable unpopularity that will result.

Switching the management off-site day from Barbados to Bognor in a bad year is one thing – but keeping it there as things pick up is a real test of character.

### 4. Beware going from blanket ban to carte blanche

Be alert to the danger of relaxing temporary bans by too much, too soon.

Take the issue of travel and entertaining spend – an area which is commonly clamped down upon when times are hard, not least in order to send the clear signal that ‘we are all having to cut back’.

A ‘zero tolerance’ policy on this has the benefit of clarity, but inevitably risks unintended consequences. A ‘no business class travel’ rule is a case in point, since (even in the toughest times) there are plenty of reasonable exceptions – eg the undoubted ability (given room and facilities) to work productively on long haul flights, the train etc. So, as things improve, it is natural to relax rules and allow these exceptions.

What is harder, though, is avoiding or arresting a rapid descent into ‘on business matters we always travel business class’. Unless senior managers stand firm, and demonstrate frugality with their own behaviour, then the potential for continued savings through curbing unnecessary excess will be lost.

Similarly, any thaw in a previous hiring freeze comes at the risk of spiralling spend. If managers are so impatient for change that they rush to add permanent people, and if

they perhaps also try to crack a backlog of initiatives through use of external resources, then recruitment agency costs will re-surge and an influx of consultants/contractors appear.

So watch these cost lines like a hawk and continually challenge the value these new bodies will bring.

### 5. There is mileage in the mid-course

Wild swings in corporate behaviours are very confusing for staff – black bags and sackings one week, induction training and new hires the next. So perhaps it is better just to ease back from absolute austerity towards what’s fair, reasonable and needed by the business. To walk this line, you’ll need good forecast data for a relevant set of metrics.

### 6. Make strategy your touchstone

Irrespective of where we are in the business cycle we should be able to assess how proposed expenditure squares with strategy. If it doesn’t fit, challenge it and clamp down. If things that really need to happen start falling by the wayside, or you start losing key staff, then you have probably pushed too hard/deep and need to ease back a little.

### 7. Explain the judgement calls

In tough times, it is acknowledged you have to be seen to be fair. This is keenly felt in the vexed area of redundancies. The staff you keep will judge you by the way you treat those that leave. Don’t just hope for a positive interpretation of the action. Putting your side of the story across won’t necessarily make friends but might earn some respect. And when things are going better, why should the level of communication dip?

### 8. Build in a ‘temperature gauge’

The downturn triggered a long hard look at the way things are done. But shouldn’t we be doing this from time to time in the normal course of events? Work out a sensible review process and timetable to avoid the creeping death of poor behaviour infiltrating the culture. Implement a regular ‘temperature gauge’ to ensure things never rise much above ‘tepid’ on the spend front.

### CONCLUSION

Principled, disciplined, professional control of costs sets the best FDs aside from the rest. The businesses in which they operate will benefit from disciplines forged in the fire of one of the toughest downturns in living memory. Others will just have to brace themselves for the next cold shower... if they last that long.