



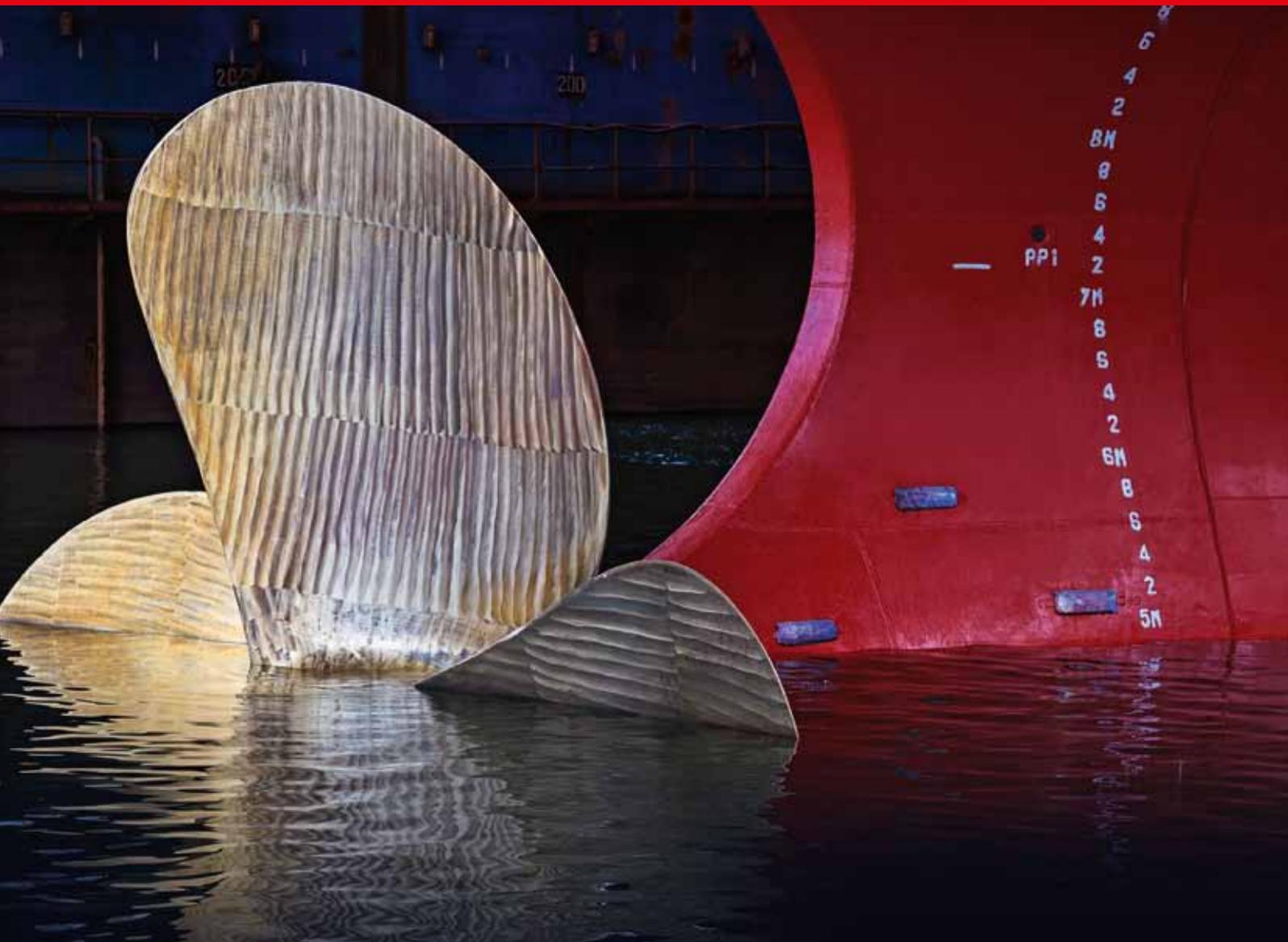
FINANCE &  
MANAGEMENT  
FACULTY



# FINANCE IN THE BROADEST SENSE

STANLEY HARDING'S VISIONARY 1963 LECTURE  
ON THE ROLE OF FINANCE WITH COMMENTARY

FINANCE DIRECTION INITIATIVE



# FINANCE DIRECTION

*Finance in the broadest sense* forms part of the *Finance Direction* thought leadership programme of the ICAEW Finance and Management Faculty.

Building effective finance functions is a key concern of organisations and finance professionals. At a time when many claim we face unprecedented challenges, Stanley Harding's 1963 lecture on the finance function reminds us that there are many lessons we can learn from history. This report reproduces the lecture in full and complements it with expert commentary.

ICAEW's Finance and Management Faculty provides its members with up-to-date business ideas; the latest management tools; unbiased and independent information and helps them to become an effective part of the management team. Membership is open to finance professionals with an interest in financial management.

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The report's principal editor is Rick Payne.

We would like to thank Richard Harding and Wendy Thomas for their support and granting permission to republish the lecture.

We are also grateful for the help received from Souli Bouchla, John Etty, Sharon Grant, Robert Hodgkinson, Debbie Homersham, Robert Russell, Alison Quest, Nick Toyas, and Neil Williams.

The cartoon on page 36 originally appeared in *Krokodil*, a satirical magazine published in the Soviet Union. *Krokodil* was available in the UK in 1963 but this is a reproduction. Many UK newspapers, magazines and socialist publications sourced material from *Krokodil*. Richard Harding tells us that his father would often take cuttings from newspapers and magazines for the rest of the family to read.

# FOREWORD

Business partnering, key performance indicators and the impact of information technology are often seen as relatively new considerations for finance managers. But go back to 1963 and substitute the terms 'a playing member of the management team', 'yardsticks' and 'computer systems' and it's clear that we have been talking about these ideas for at least 50 years.

When researching ICAEW's finance function framework<sup>1</sup> we discovered a 1963 lecture by the deputy controller of Shell, Stanley Harding, FCA. The topics and issues he discusses resonate so closely with current day concerns that we decided to republish the lecture. It provides some sound advice for finance professionals, lays to rest the idea that business partnering is a new concept and gives us the opportunity to learn from history. Harding's clear and concise writing style is also worth noting, although the use of the word 'men' to describe the entire work force will jar with the modern reader.

We are pleased to complement the lecture with some excellent additional material:

- An interview with Simon Henry, Group CFO of Shell, which relates the lecture content to finance in Shell today.
- A commentary by Professor Stephen Walker, Cardiff University, which discusses the economic and professional context at the time of the lecture.
- A commentary by Professors Gudrun Baldvinsdottir, John Burns, Hanne Nørreklit and Robert Scapens which considers how business partnering developed after the lecture, with a focus on the 1980s and 1990s.

Harding was deputy controller at Shell when he delivered his lecture. It was attended by around 200 ICAEW Chartered Accountants as part of an ICAEW summer school held at Emanuel College, Cambridge. In 1938, at the age of 23, Harding took a job with Eagle Oil in Argentina, which was subsequently acquired by the Royal Dutch Shell Group. His finance career was interrupted by his service in the RAF during the Second World War. Over his 20 year career at Shell he had a number of senior finance roles in South America, including finance director of Shell Brazil. He took up the deputy controller role at Head Office in 1957, a role which also included significant overseas travel. He left Shell in 1965 to become finance director of the Tillings Group, which grew significantly during his 12-year tenure. Subsequently he held a number of non-executive director roles.

From the lecture and his unpublished draft autobiography it is clear that Harding had wide-ranging opinions on how businesses should be managed and how the accounting profession should develop. He was also a keen sportsman and captained a large London golf club during his retirement.

We are very grateful to his son Richard Harding, also an ICAEW Chartered Accountant, and his daughter, Wendy Thomas, for providing additional material, giving us permission to re-publish the lecture and their overall support for the project. Our thanks also go to Simon Henry and the Shell Group for their input and financial support and to Stephen Walker and Gudrun Baldvinsdottir, John Burns, Hanne Nørreklit and Robert Scapens for investing their valuable time in writing their commentaries.

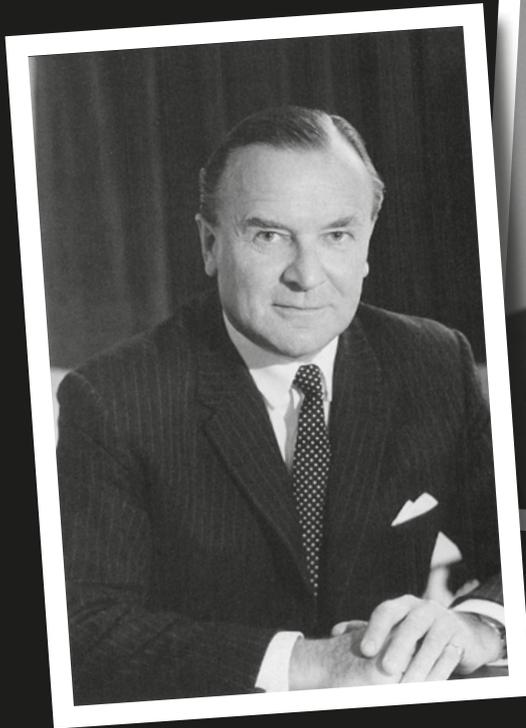
Anyone with an interest in developing effective finance functions, the role of finance managers or business history will enjoy reading this publication. As ever we are always interested in any feedback or comments you may have – please email [rick.payne@icaew.com](mailto:rick.payne@icaew.com).

**ICAEW**  
January 2013

<sup>1</sup>ICAEW, *The Finance Function: A Framework for Analysis*, London: ICAEW, 2011.

'We expect a finance manager... [to be] an active (not a non-playing) member of the management team.'

STANLEY HARDING 1963



'It has always seemed slightly odd that anyone would perceive that finance is only there to keep the books or be a non-playing member of the team – what's the point of being in a team if you're not a playing member.'

SIMON HENRY 2012

# INTERVIEW

## THE FINANCE FUNCTION: ALWAYS THE SAME AND ALWAYS DIFFERENT

**Commentary on Stanley Harding's lecture based on an interview with Simon Henry, CFO of Royal Dutch Shell plc by Rick Payne of ICAEW's Finance and Management Faculty.**

'It's remarkable that nearly 50 years ago the challenges and some of the actions to address them remain the same today, even if the language is different – whether it be automation, cost management, returns enhancement, the need to think in cash terms or the need for finance to be very close to the business, understand the business and display leadership qualities.' This comment from Simon Henry, CFO of Royal Dutch Shell plc, highlights the broad scope of Stanley Harding's 1963 lecture. In this commentary, based on an interview with Henry, we relate the role of finance in Shell today to the views expressed in the lecture.

## Professional management

'I was surprised that by 1963 there was already so much of an emphasis on professional management techniques and measurement etc. I had this impression that British Industry had not moved to this stage of development like the Americans. The use of time and motion studies and cooperating with business schools seems quaintly un-British. Although recognising that the Shell Group was not a British Company the lecture was clearly written from the perspective of a Brit,' says Henry. Indeed in the late 1950s and early 1960s closer connections were being made with Shell's large US subsidiary, the most senior finance executive was from the USA and US management consultants from McKinsey had been involved in developing Shell's matrix management structure.<sup>2</sup> 'Yes this was a few years into the early matrix operation which became McKinsey's poster-child to tell the rest of the world how multinationals should be governed.'

## Striking the balance between decentralisation and centralisation

In his lecture Harding emphasised the need to decentralise authority in any large organisation while co-ordinating only certain key decisions from the centre (para 6).<sup>3</sup> 'A lot has changed but it has taken a long time to get the right balance between centralisation and decentralisation.' Shell was successful for many years as 'a true federation which prospered by doing things the more centralised competition could not. It prided itself on being nimble and taking decisions close to the customer and wherever commercial opportunities arose – as long as you met technical engineering standards, maintained financial controls and met your financial targets you would pretty much be left alone.' The result was a lack of co-ordinated strategy and moves into non-core businesses such as forestry and coal. By the 1990s with globalisation, changing competition and technological developments this 'was no longer a viable business model.'

The depth of the federation culture meant that it took a number of years to get to a position 'where individuals have a clear line of sight with defined accountabilities and the organisation has the right balance between central direction and appropriate autonomy on the ground. In some cases we went too far towards centralised direction and in other cases the autonomous operating units had to be dragged kicking and screaming into a more standard and central approach.'

Shell is now able to 'allocate capital more effectively across its operations and work with differentiated returns for different parts of the business. These parts are brought together as a whole portfolio which through its diversity and different characteristics mitigates risk as seen from the top of the organisation as opposed to just bottom up.' In addition Henry points out that 'it is essential to implement global standards across the organisation whether it be for processing invoices or drilling wells – for regulatory reasons, for engineering reasons and for cost reasons.'

However, given the size and complexity of Shell and with fierce competition along all of its value chain 'accountabilities have to be pushed a long way down the organisation in order to remain competitive and generate returns for shareholders. We have nearly 100,000 employees and half-a-million contractors operating assets and working on projects at any one time. As well as competing with the few integrated energy companies, we have to match Tesco in retailing, Goldman Sachs in trading, Schlumberger in sub-surface analysis and British Gas and Qatar Gas in liquid natural gas production and marketing, all of whom have different business models to us. There is no one person in the organisation who can define what we should be doing on a day-to-day basis or even in medium-term strategic delivery. All you can do is set strategic intent, allocate resource and be clear about defining who gets to choose and on what issues. We also have a sensible appraisal process in place that gives us confidence and assurance that we are moving in the right direction and we are holding people accountable for delivery. This is a long way of saying that if anything the pendulum has swung back away from a centralised approach already compared to five years ago.'

## Finance managers as playing members of management teams

Harding emphasised the need for finance managers to be playing members of the management team (para 17). Henry goes further, 'It has always seemed slightly odd that anyone would perceive that finance is only there to keep the books or be a non-playing member of the team – what's the point of being in a team if you're not a playing member would be my view. Perhaps I was successful because it never crossed my mind to play anything other than a full part.' For Henry this was facilitated by his operational background in engineering, marketing and IT and having undertaken his professional accounting training while working in the business.

<sup>2</sup> Howarth, S. and Jonker, J. (2007), *A History of Royal Dutch Shell, volume 2*, Oxford: Oxford University Press.

<sup>3</sup> Paragraph numbers refer to Stanley Harding's lecture reproduced in this publication.

However, 'provided finance managers brought to the table some business knowledge, the humility to know what they didn't know and sound finance capabilities in the broadest sense, there has never been an official block on finance being business partners.'

Culture and circumstances play a part in how easy it is to become a playing member of a management team. In Shell's downstream business (eg, refining) finance has long been accepted as a business partner with a seat at the table by right. In the upstream business (oil and gas exploration and extraction), 'with its drilling, building and operating culture things were different. Influential petroleum engineers, most of whom had done a little economics at university, just wanted someone to keep score. They thought they could run all the commercial side of the business. It took longer post 1963 to establish the same kind of role in the downstream business that finance played in the upstream business. In fact I would say it was only in the late 1990s that we really got the same kind of business representation as a matter of right, rather than on an ad-hoc basis because you happened to be good at it.'

Even in the upstream business there were exceptions. 'I worked in the early 90s in the Egyptian upstream business. I was very quickly welcomed into the leadership team there and in particular on commercial negotiations because, in the words of the exploration director: "I am here to drill wells, that's what I like doing and all that commercial nonsense I am quite happy to leave to somebody else." I took this as a welcome invitation. But this was not so common in the upstream business at the time. Indeed it was probably not until around 1999 that the global exploration and production business had a recognised CFO who was part of the leadership team.'

The position of finance in the business changed further after the oil reserves reporting crisis in 2004. 'The new CFO coming in quite rightly stated that he'd expect everybody in finance to report to him, that there would be a finance seat at the table and every single major decision would have two signatures – the business line accountable with finance support. So from the top, by diktat, with support from the board, whether the business wanted you there or not, they actually needed you. That was very symbolic for any part of the organisation that hadn't already got the message; to be honest it was already 80% there. The bigger shift for us at the time was rather than seeing finance "going native" by being too close to the business, they were all brought back under a finance umbrella. It was made clear that they were independent and objective and if they had a problem with anything the business was doing they should go up the finance line – in terms of risk, controls, behaviours and reporting. There was a real push for transparency and integrity. So that I, as CFO now, can rely upon any data I receive and if I have a question I can pick up the phone to a relevant finance individual, even three levels below me, and ask: "Are you happy with this?" or "Could you just explain this to me?" '

So the events of 2004 'enabled us to get to a place we should have gone to anyway but much more quickly – never waste a crisis. It did, however, challenge the capabilities of some individuals. Some people coped with it fairly well, but it made many quite uncomfortable – they'd been happy with "going native" with the business in the first place or they were on the other side of the fence and being asked to be much more pro-active as a business partner but had too much of the control and objectivity mind-set.' There was a focus on developing a 'one-finance mind-set', whether people worked in a business, corporate functions or finance operations. This played an important part in shaping finance's agenda and helped ensure that finance could play a business partnering role as well as meeting its obligations to the corporation as a whole – 'right up to and including the audit committee there is an independent, objective assessment of risk, in its broadest sense, throughout the company, whether it's fraud or bad business decisions or external issues or regulatory changes. It's the finance individual who has that obligation to report. Whether you do it through the business line or the finance line depends a little bit on circumstance, but as a minimum you must fulfil that obligation.'

The way in which business partnering has developed in Shell seems to be quite a nuanced story. At least since the 1960s finance managers have often taken the opportunity to get closely involved with business decision making. 'We have long had a collaborative culture – so if someone had a problem and you were prepared to get involved it didn't really matter what your job title was, as long as you met the responsibilities in your job description as well. It was a meritocracy, and probably always has been because of its multinational nature. Therefore if there was an opportunity to take part in M&A-type activity, commercial farm-outs,<sup>4</sup> new licences or divesting assets they would naturally gravitate towards finance so you'd find yourself doing the deal. That to me proved to be a great opportunity.'

<sup>4</sup> The assignment of part or all of an oil, natural gas or mineral interest to a third party.

Also 'on the strategy side, depending on which unit you found yourself in, finance sometimes ran planning, sometimes didn't, sometimes you had the economics, sometimes you didn't, but whether you ran it or not there was always the possibility of getting involved. There was a culture which enabled you to find your own space... So we were a bunch of gifted amateurs who gravitated towards areas that personal interest and capability tended to take us. You had an awful lot of leeway to succeed or fail and a meritocracy that then recognised you on whether you did or not.'

The way in which finance supports the business is much more structured now. With respect to the informal gravitation of M&A activity to finance, Henry says, 'We wouldn't let anybody do it like that today at all. There is a very professional group of commercial negotiators with a similarly professional group of finance support and legal support. They are managed as a skills pool that handles all of the portfolio transactions.' Overall, 'what we have moved to is what I hope is a better balance – much higher levels of professionalism, much more clarity about who gets to choose at any given time.' Challenges remain though, 'maybe we have narrowed down the individual roles and taken away some of that early career initiative that can maybe make people stand out as having potential. Something we wrestle with a bit at the moment is whether we turn out too many people who fit a certain mould and not enough who will question the status quo or go and do something different in a difficult and unpredictable environment.'

### **International differences in the perception of accountants in business**

Harding was extremely interested in the development of the UK accounting profession but globalisation means we need to be much more aware of how accountants are perceived in different countries.

'We are a European/British company. On the European side most of our finance executives if not all the finance function, come from an economist background because continental Europe does not really have a background or a history of professional accountancy in the same way as the UK does. Europe tends to develop people as either accountants or finance managers. It was a while before I realised that both the Americans and the Europeans use the word accountants and finance manager as mutually exclusive sets of people. If you're in the finance group then it's OK, you can work with the business team because that's what you're there for. In the US if you study finance or accounting at university you end up in accounting, if you study business or economics you end up being a CFO or supporting the business. So while this is very much a UK-based paper the rest of the world has had a more obvious distinction. In the UK it is often assumed that a good accountant can be a good business partner.'

Perceptions in China are also different to the UK. 'I have to have a different job title in China so that I can get to see the right people. I am Regional Business Director for Asia Pacific and specifically for new business in China. If I have CFO on the job title only the chief accountant will see me because they are protocol driven. We have to do quite a lot of explanation and play up the regional business director role. The chief financial officer in China is often only really a chief accountant. I present at Cambridge on a Chinese leader programme each year to senior people from state owned enterprises. This year I spoke about the role of the CFO, particularly in the business appraisal process and in understanding of the business. The first question I got was from a chief executive who said: "How can you possibly have a sensible business appraisal discussion when the guy you are talking to in the business knows far more about what is going on?" He then went on to say "and anyway it's not your job to do so." I had to stop him and ask – what makes you think that the guy in the business knows more than I do about what's going on? We then had a very good discussion about what you could do with the right mechanisms in place.'

### **The importance of leadership, motivation and team development**

The quality of Shell's people remains a key source of competitive advantage and for both Harding and Henry, 'the ability to lead, inspire and motivate matters. Whether it's serendipity or good planning, because looking back to 1963 they were obviously planning then, we have a really high-quality pipeline of finance leaders, and indeed our Chief Executive is the ex-CFO. It might be a bit of luck me getting where I am, but in my leadership team and the next level down the people are very, very good at what they do. And they are great role models,' says Henry. These role models have been instrumental in achieving the level of influence that finance has in the business.

Leadership qualities and business skills have to be nurtured and developed and Henry has played an active role in developing appropriate training and development programmes for finance staff. 'We are working hard and refreshing our ideas about how to develop business partnering skills not just in terms of learning and development programmes but through on-the-job learning, role descriptions, expectations and the way that we appraise performance to develop much more rounded integrated skills, rather than just being able to read balance sheets or advise on cash flow management.'

'However, one of the challenges we have is that too many finance staff aspire to be business partners.' There are many other important and equally challenging roles to be played in finance for example technical specialists and 'end-to-end process managers where I think finance brings a set of skills that expands out beyond finance. We have to find ways to inspire and motivate people to run the engine very well, not always be thinking about building a new engine. It remains one of the challenges in developing staff, because I think that in order to carry out more senior roles you have to have done both earlier in your career. There's too much incitement, partly in the profession as well, that business partnering is where all the kudos is.'

One solution 'is to hold career development and personal development conversations with staff when they are around the age of 30, when someone has five to ten years' experience. Hopefully they've begun to form their own honest appraisal of what it is that interests them, what will keep them motivated and what they are good at. It's horses for courses – don't try and put the treasury guy into a more generalist role or vice versa. Individuals should be able to have the discussion much earlier in their career than may be was happening in Shell. We can discuss where their preferences may actually lie and emphasise that it's OK to specialise or to develop in a more general sense, provided you accept the capabilities you need to demonstrate and the fact that you can't go backwards once you have made a particular choice.'

In addition, the challenge identified by Harding of motivating staff to do necessary administrative work remains, but Shell's approach today is very different. In Shell's finance centres in developing countries 'we have people where the average age is around 27 or 28 years of age, many of them are CPAs, and they come in for three to five years to gain experience and then move on. So we have had to develop a completely different operating model and way of doing things that I doubt would have been possible culturally in the 1960s or achievable technologically.'

### **Streamlining and information technology**

Shell today maintains a focus on streamlining processes through its 'eliminate, simplify, standardise, automate' framework. Finance has been extremely successful in applying this approach and has achieved significant cost reductions in the finance function. There is an aspiration for 'the provision of transactions and standard reports to be almost free at the point of use and trouble free for the user'.

There is a sense in which Harding's lecture 'reads a little mechanistically. It's all about the same things but it's mechanistic in the way it's dealt with. On the other hand a lot of what he talks about has indeed been automated. You could also say the way we manage a global process is quite tightly defined whether it be the month-end close process or statutory reporting or the production of management information. It's much more tightly defined than it used to be. In those days you just said: "By date X at the quarter end provide me with this report and do it however you want," on different systems etc. Now there isn't that option. This results from developments in technology, globalisation and organisational capability, where you focus on the extent you can minimise the cost of doing business, particularly doing business with yourself, and concentrate on value-add activities and choosing which activities you actually do.'

Harding predicted the need for finance managers to develop an understanding of computers and advised that promising finance managers should spend some time working in the computer division. For Henry IT remains an important focus but with a more strategic emphasis, particularly given that he is also head of IT.

### **Reporting, information and key performance indicators**

While Harding seemed to be reasonably satisfied with around 40 days to complete a full quarterly Group consolidation, Shell now achieves this in seven – three days to close in the operating units and four days to consolidate globally. 'Why does it take longer to add up the numbers than to produce them in the first place? Well we are working on it. Interestingly one of the big challenges is intra-group billing given the large number of entities and transactions on an intra-group basis – which I strongly suspect was a problem in 1963!'

The potential to report non-essential information more frequently than necessary is still resisted in Shell given the long-term nature of the industry. 'We try to encourage our leaders to think about next year, three years out and ten years as much as about next week. Sales areas – yes of course they are interested daily, the guys running the refineries, the production units, very much daily – but that's where it stays, it does not come up to me. I once worked on a project to effectively report daily margins for the UK downstream business. We could do it, up to a point, but to what possible purpose? What do you do with this information in an industry which only has a certain number of levers on even short-term performance, let alone the long-term returns? I'm very much a believer in a few basic principles such as the accounting version of the Heisenberg Uncertainty Principle – the smaller something is or the shorter the time period you look at the less sure you can be of what you are looking at, because you have to make more assumptions to fit the data into more granular periods of time or a smaller segments of the business. I am quite happy to look at a more holistic picture to understand, and then only to drill down on the metrics which actually are managed on a daily or hourly basis where necessary. Importantly don't waste the time of executives spending too long looking at numbers that they can't really understand because they haven't got the perspective.' There are clear parallels here with Harding's discussion of the information focus of different levels of management (para 29).

Key performance indicators, or yardsticks in Harding's terms, remain important in Shell, but there have been significant changes in what is viewed as important. Revenue-based ratios have become meaningless because of oil price volatility and Shell's significant commodities trading business. However, 'return on average capital remains extraordinarily important to investors in the long term and so it should be. Unfortunately it has been used as a short-term performance measure in our industry in the past which has led to bad things, think of Enron, and strategic errors, think of the entire industry under-investing, which is why the oil price is so high today. Investment, investment quality, return on that investment remain absolutely core differentiators for the business but as a measure to actually manage the business, return on average capital is possibly the worst measure you could choose. Almost everybody becomes an accounting expert if you choose return on average capital employed as a measure on which to target and then reward people. You can end up having some bizarre discussions with engineers on balance sheet items!'

So a focus on cash generation perhaps takes on even greater importance when compared to 1963. 'I think it's fair to say that both my boss and I are very cash-flow focused for a variety of reasons. One of the reasons is we are in this industry where net revenue can go up and down by US\$10-15bn a year depending on where the oil price is. You need to have a cash mind-set to enable you to work through that volatility without losing sleep and to be able to continue both the dividend and the investment programme where the typical project is four years long. You don't really want to be stopping or slowing those down in the middle and thereby destroying value. You need a very strong balance sheet. You can only grow through the right investment choices and maybe sometimes more investment. You can only do that and grow the dividend as well by growing cash generation. So we have very much a cash generation based framework that's obviously linked in to the financial framework around gearing, balance sheet and dividends.'

Broader non-financial measures, which do not feature in Harding's lecture, also have a much higher profile today. Safety in particular is a key measure on which managerial performance is judged.

### Approaches to costing

Harding argued that full cost allocations were necessary to set prices, but in the same sentence, noted that such prices were rarely achievable (para 37). This idea is picked up by Henry, 'It's an interesting point that Harding thought that cost allocations had anything to do with pricing because we work in a free market, so pricing is set by the market, not by us, unfortunately. There are only a few areas with chemicals or lubricants where it might be entirely cost driven but, even in those markets, it has to be a pretty specialised product to be able to set your own price based on cost. We are essentially a commodity-based industry and we can differentiate on quality to an extent and service – it is meeting the customers' overall requirements that actually matters more.'

'For cost allocations it's easy to try and be too clever. Because of the centralisation of functional activity in real estate, IT and finance etc., about a quarter of our operating expense is what we call a central function, even though a lot of it is embedded out in the business. How that gets allocated out is a source of constant tension – even if the majority of it is actually directly billed out, for example per computer used or square metres of office space. It's done more for efficient use of resources – to create benchmark unit cost management at the functional

level and demand management through sensible conversations with the ultimate consumer or sponsor. Ironically I think that with improved systems, which on the surface may be more capable, it's not clear they are any more helpful in doing the work because of the complexity of trying to take this to the right level. We almost have explicit bans on some of the discussions about cost allocations – anybody caught discussing these internally will be banished!

However, accurate cost allocations do become much more important when it comes to joint ventures, cost recovery agreements with partners or governments and tax computations which need to meet the local requirements of all the countries in which Shell operates. 'These areas are much more complex than they would have been 50 years ago.'

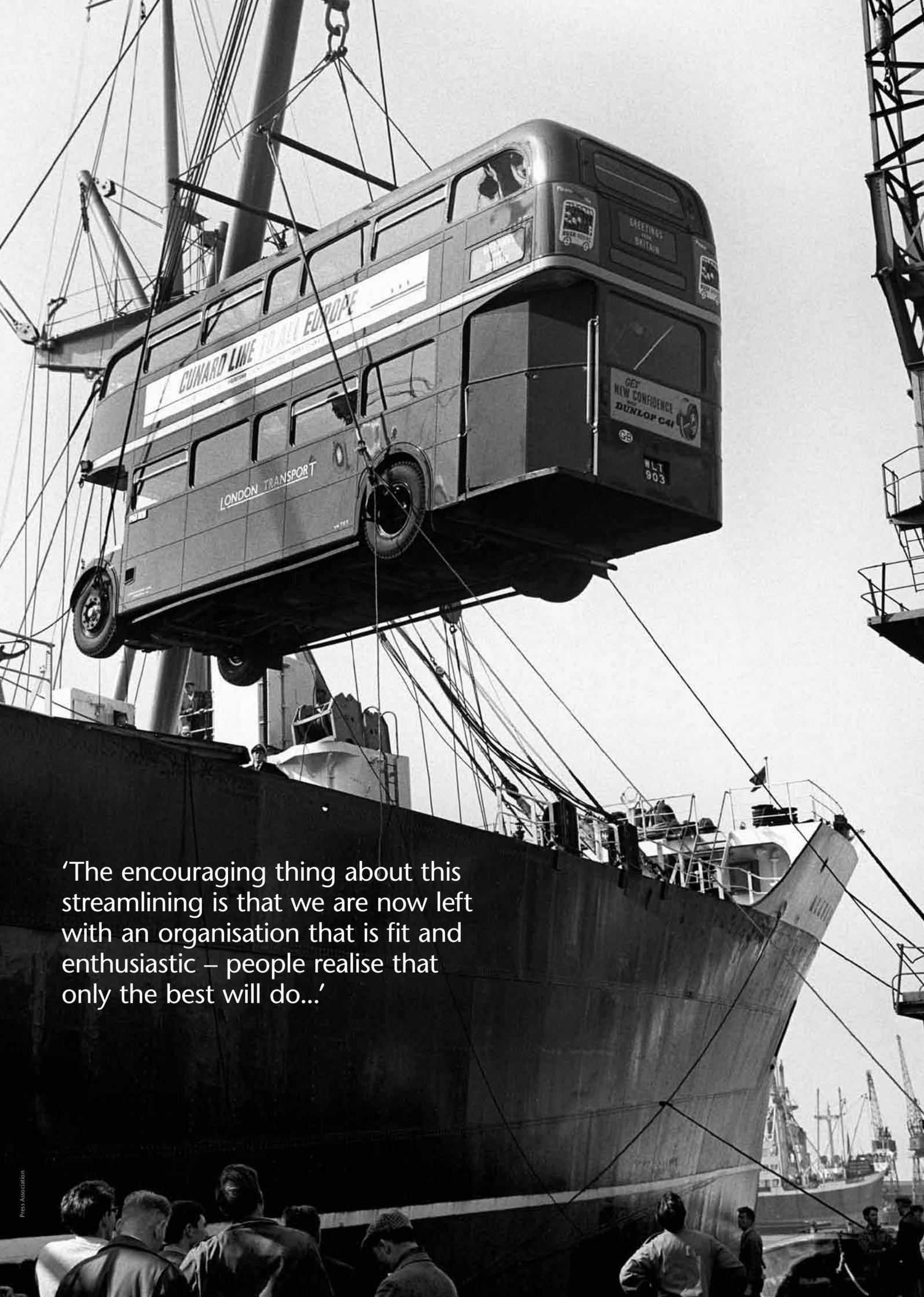
## Diversity

'The one thing that grates for the modern reader is the constant reference to men as though women do not exist – this leaps off the page.' This language in the lecture is of its time but at least serves to show that much progress has been made. 'It is notable that the proportion of women in senior leadership roles in Shell is increasing year on year, although in finance the current level of 50% of female graduate recruits does narrow down at senior levels to just over 20%. This matters far more than in the 1960s, as diversity of talent within an organisation is so much more important now we work in a world which is rapidly changing around us, with customers, governments and stakeholders generally increasing their expectations. We need to be both diverse in our DNA, and inclusive in the way we use our talent, to react to important trends, threats and opportunities. Diversity in our DNA is not a slogan; it is a matter of competitive edge as well as Darwinian survival.'

## Learning from history

Henry is very conscious of the long history of Shell, the privilege of being part of its leadership team and the value of examining the past. 'We can learn a lot from history. There was a *Time* magazine article around this time about John Loudon, who was effectively Shell's CEO, where there were also some fascinating parallels but also some stark differences.'

He notes that Harding's lecture was delivered about half way through Shell's history providing a fascinating insight into the organisation of the time. The lessons are still very applicable today. 'We tend to think everything we do is new and fresh and we were the first to think of it but often it's not the case I'm afraid.'



'The encouraging thing about this streamlining is that we are now left with an organisation that is fit and enthusiastic – people realise that only the best will do...'

# COMMENTARY

## THE ECONOMIC AND PROFESSIONAL CONTEXT

**Stephen P. Walker, Cardiff Business School**

The early 1960s were an interesting time. On the international stage the Cold War was being fought. In 1962 the world had stood on the brink of nuclear conflict during the Cuban Missile Crisis. The entrenched position of the Superpowers had been tangibly demonstrated by the construction of the Berlin Wall and in June 1963 John F. Kennedy delivered his 'Ich bin ein Berliner' speech to the divided city. Closer to home, in 1957, the Prime Minister, Harold Macmillan, had famously declared that 'most of our people have never had it so good'. But by the time that Stanley Harding delivered his address the idea was gaining ground that the Conservative Government was presiding over what critics later described as '13 wasted years'. The diminishing potency of Macmillan's administration was illustrated by President de Gaulle's veto of British entry into the EEC in January 1963 and the publication, in September, of the official report on the political scandal of the age, the Profumo Affair.

Important social movements were also underway in 1963. Early in the year Betty Friedan's *The Feminine Mystique* was published in the US, a pivotal moment in the emergence of second-wave feminism. On 28 August the civil rights campaigner Martin Luther King, Jr. delivered his 'I Have A Dream' speech on the steps of the Lincoln Memorial in Washington DC. The cultural shift later characterised as the 'Swinging Sixties', with its emphasis on the new and the modern, celebrity and consumerism, began in earnest in 1963. Its advent was signalled by the release of the first Beatles album *Please Please Me* and the first James Bond film *Dr. No*. The style icon, Jean Shrimpton, was named 'Model of the Year'.

### The economic context: Harding and the 'productivity problem'

The state of the British economy was not quite so eye catching. Economic indicators at the end of 1962 were generally unfavourable. In its opening editorial of 1963 the weekly magazine for chartered accountants, *The Accountant*, related:

By no standard can 1962 be adjudged a satisfactory year for the British economy. Nevertheless, few people expected the series of depressing economic news items which preceded Christmas: the fall in the index of industrial production from 118 to 115 between September and October; the increase in registered unemployment to 560,000 in mid-December; and the depressing out-turn of Britain's overseas trade in the third quarter of the year. Taken together these various aspects of the economic scene make up a sorry picture of the present state of affairs (5.1.1963).

The country was considered to be in recession, though the downturn was not quite on the scale of that experienced in the year that Harding's paper is receiving renewed attention. Unemployment, for example, stood at less than 2% at the end of 1962. Some of the causes of the recession were familiar to modern day observers, others less so – economic uncertainty following unsuccessful negotiations over British entry to the Common Market, weak exports, a deflationary budget the previous spring, and restrictions on the availability of credit. Then, as now, there were calls for more expansionist policies and from late 1962 the government responded with measures to encourage bank lending, increase public investment and stimulate consumer demand. By the time Harding made his speech there were signs of an uncertain recovery in output (Blackaby, 1978, pp23–26). However, lurking behind the economic headlines of the day was a deeper, more enduring concern, the problem of the comparative inefficiency of British industry.

### The productivity problem

The priority of economic policy after the Second World War had been full employment. From the late 1950s however, attention began to focus on economic growth and the 'productivity problem' (Tomlinson, 2002). By 1963 productivity had become 'a key term in debates about economic performance and policy' (Tomlinson, 2002, p194). In 1957 the Conservative Government had established a Council on Productivity, Prices and Incomes. Discussion of the productivity problem was also fuelled by a 'what's wrong with Britain panic' which focused on comparative economic decline (Tomlinson, 2002, p196). The publication of books such as Michael Shanks' *Stagnant Society* in 1961 identified the need to improve productivity and growth in order to arrest national deterioration.

In fact, Britain's record on industrial productivity has been described as 'janus-faced' (Millward, 1994). By previous standards the levels attained after the Second World War were impressive. But the concern of contemporaries focused on the UK's performance relative to other industrial nations. British productivity compared unfavourably with the gains made in Germany following post-war reconstruction, and in France following programmes of industrial modernisation (Owen, 2010, pp30–53; Broadberry, 1997, pp292–394). In continental Europe there appeared to be greater receptivity to the new methods preached by 'the US productivity gospel' (Tiratsoo and Tomlinson, 1998, p167). It was feared that if the UK joined the EEC its comparative weakness would become all too apparent.

As it became more clear that improving productivity was central to future competitiveness and national prosperity the Conservative Government became more proactive. In 1962 a White Paper was published on wages and productivity, and, reflecting its conversion to indicative economic planning, the National Economic Development Council was set up. This determined that a 3.3% annual increase in productivity was essential to meet its target of 4% annual growth in national product (Tomlinson, 1994, pp248–249; *The Accountant*, 30.11.1963). This was an ambitious objective. During the 1950s productivity had only grown at 2% a year.

## National Productivity Year

It was in this context that Harding was invited to speak at Emmanuel College, Cambridge in September 1963 on the role of finance in increasing productivity. And, as he notes at the start of his address, this was 'Productivity Year'. In fact it was 'National Productivity Year', a venture which had been launched in November 1962 at the instigation of the British Productivity Council (formed in 1952), an organisation representing both sides of industry. The non-partisan campaign was intended 'to enlist every interested organisation, whether employer, professional, management or trade union, in an effort to raise the standard of industrial efficiency' (Lord Crook, *Hansard*, HL 12.7.1962, vol. 242, cc. 393–452). The Chairman of the British Productivity Council declared that National Productivity Year would represent the 'biggest cooperative effort ever made by British industry. Its scope is tremendous, its potential enormous, and its urgency unchallenged' (*The Times*, 26.1.1962). The campaign would foster a new determination to improve efficiency, lower costs and restore Britain's place in the industrial world (*The Accountant*, 17.2.1962).

Nearly 2,400 events were held in the name of National Productivity Year (Tiratsoo and Tomlinson, 1998, p40). The movement had the support of Prime Minister Macmillan (*The Times*, 26.1.1962) and the leaders of the Labour and Liberal parties. It also boasted royal approval. The patron of National Productivity Year was the Duke of Edinburgh (*The Accountant* 22.9.1962) who illustrated the importance he attached to the venture by announcing that a work study would be undertaken of all departments in the Queen's household (*The Times*, 15.11.1962). ICAEW was also actively involved in National Productivity Year. Its President was a Vice Patron, the Vice President represented ICAEW at the National Productivity Year conference and the district societies organised various local functions in pursuit of the campaign (*The Accountant*, 25.4.1964).

An important component of National Productivity Year was ensuring that the achievements of successful companies would 'be given the widest possible currency as an encouragement to others' (*The Accountant* 17.2.1962). According to Harding, his employer, the Royal Dutch Shell Group, was the 'third largest industrial organization in the world' (1963, para 4).<sup>5</sup> In 1960 Shell had been labelled the 'largest commercial undertaking outside the United States' (*The Times*, 10 August 1960). Along with other industrial giants (such as ICI), Shell was identified as a leader in attempts to improve productivity. As Harding proudly boasted during his address, at Shell 'We have concentrated on getting more work out of the people we have got' (1963, para 11). Refinery output had increased by 330% since 1950 but 'the number of men employed by only 34 per cent' (1963, para 14).

Other accountants gave presentations during National Productivity Year. In fact ICAEW arranged a series of five papers on the potential contribution of accounting and accountants to improving productivity (Bostock, 1963; Dew, 1963; Hay Davison, 1963; Most, 1963; Robson, 1963). Harding's address, which was given as part of ICAEW's annual programme of summer courses at Oxbridge, emphasised the role of finance in improving productivity. He was particularly interested in the scope for the finance function (broadly defined) to take a lead in generating more efficient processes through 'cutting out the fat' and (possibly his favourite word) 'streamlining'. Harding was especially exercised by 'the paper problem' (1963, paras 76–79). His urging 'the critical examination of every procedure and piece of paper' (1963, para 13) should be read in the context of the contemporary popularity of Parkinson's Law. This stated that 'work expands so as to fill the time available for its completion' and that 'there need be little or no relationship between the work to be done and the size of the staff to which it may be assigned' (Parkinson 1955). Parkinson's Law had been articulated in 1955 and was published in book form a few years later (Parkinson, 1958). In 1961 ICI had launched an assault on bureaucracy and unleashed a 'reorganization to beat Parkinson's Law' (*The Times*, 14.7.1961).

Historians of the British 'productivity problem' have concluded that the debate during the early 1960s was 'just another version of the long-running saga of blaming the workers for Britain's economic weaknesses' (Tomlinson, 2002) and that the government's response was 'too little, too late' (Tiratsoo and Tomlinson, 1998, p170). The practical effects of National Productivity Year in particular remain uncertain. The British Productivity Council proudly announced that a survey had shown that 42% of managers and trade unionists in manufacturing found the venture helpful. The campaign had assisted 24% of firms in their efforts to become more efficient (*The Accountant*, 30.11.1963, *The Times* 14.11.1963). However Tomlinson (2002) contends that 'the impact on public debate and consciousness seems to have been small'.

<sup>5</sup> Paragraph numbers refer to Stanley Harding's lecture reproduced in this publication.

## The professional context: Harding on recruitment, education and the work of the accountant.

Following the publication of Harding's address, R. Ian Tricker, ACA wrote to *The Accountant* to express the view that Harding's comments 'represented some of the most provoking thoughts that *The Accountant* has carried for some time' (2.11.1963). Tricker's favourable opinion was largely formed on the basis of Harding's views on recruitment and training for management, broadening the work-base of the profession, and establishing courses in management accounting. As an expression of the problems confronting accountants in industry his views were something of a rallying call and thus deserving of 'deep consideration by all members of the Institute'. Tricker exhorted the Council to reflect on whether the chartered accountant should be merely an auditor and tax expert or an active participant in the roles demanded by modern industry. These responses alert us to the way in which Harding's address touched on important questions. Can Britain's comparative industrial decline be explained by inadequate provision for the education of managers? What are the limits of the professional accountant's work jurisdiction? How should vocational preparation for the profession be configured given that significant numbers of accountants build their careers in industry rather than in public practice?

## The productivity problem and management education

Harding's contemporaries recognised that improving Britain's productivity required action on several fronts. It involved outlawing restrictive practices, better industrial relations, incentivising labour, improved supervision and management, replacing out-dated machinery, and taking advantage of the opportunities presented by new technology. The concern about labour productivity in particular was aligned to a renewed debate about education and training and the need to ensure that the workforce was possessed of the requisite skills to increase efficiency and competitiveness.

Harding argued that the efficient organisation depended on 'a steady inflow' of high-quality recruits. As is often asserted in the modern-day these recruits were not only required to have a record of academic achievement and display technical knowledge, they also needed to possess certain skills. Successful businessmen required 'personality and character', thinking skills, analytical skills, the ability to exercise judgement and to 'handle people'. Harding questioned the extent to which current educational and training arrangements in management were adequate in these respects. He contended that 'The number of properly qualified management teachers in this country is negligible and the volume and quality of business training far too low' (1963, para 109). For Harding, management education was the most important issue addressed in his paper.

These concerns about educating managers align Harding's lecture to debates about the sources of British industrial decline. According to Owen (2010, p407) 'Britain is widely believed to have entered the post-war period with a training and education system unworthy of a leading industrial nation'. Inadequate management education, and its consequences for the quality of management in corporations, is alleged to have been a particularly important contributor to the UK's disappointing economic performance. It was widely assumed that management techniques and skills could not be taught but were gained through experience or were instinctive. The 'anti-industrial' culture of British universities, their focus on imparting a liberal education and aversion to instituting programmes in business and management, contrasted with developments in the US and Germany. Although some universities had offered undergraduate degrees in business subjects since the early twentieth century, and attempts to offer postgraduate management education emerged in Britain after 1945, there was limited advance by 1963 (Tiratsoo and Tomlinson, 1998, pp66–81). The rapid expansion of business schools was to be a feature of later decades (Owen, 2010, pp420–422; Matthews et al, 1998, pp255–257). As Harding indicated (1963, para 8), in the absence of a widespread network of business schools major companies such as Shell were obliged to provide management education and executive training in-house.

Harding's concerns thus chime with post-war anxiety about management education and its role in addressing the productivity problem. In April 1963 the National Economic Development Council identified education and training as central to creating 'Conditions Favourable to Faster Growth'. Improved productivity required instruction in, and the adoption of, modern management techniques. A business school along the lines of that at Harvard was considered necessary in the UK (Tiratsoo and Tomlinson, 1998, pp72–75). In 1960 a Foundation for Management Education had been established by business and political leaders to encourage the development of the field. The Foundation was one of a number of supporters of management education who mandated Lord Franks in July 1963 to advise on the form that business schools

might take (*The Times*, 12.11.1963). In summer 1963 the Federation of British Industry had also published a pamphlet on *Management Education and Training Needs of Industry* (*The Accountant*, 6.7.1963). National Productivity Year ended in November 1963 with a conference, opened by Edward Heath, the Secretary of State for Industry, on 'Productivity-the next five years' (*The Times*, 27.11.1963). The education and training of workers and managers featured as one of four main conference themes and the possibility of establishing university-affiliated business schools was mooted (*The Accountant*, 30.11.1963).

The latter prospect was to be realised in the mid-1960s. In 1961 the government had remitted the Robbins Committee to investigate the future of full-time higher education. On 23 October 1963, a few weeks after Harding's address, the Committee's eagerly awaited report was published. In addition to its recommendations for the creation of six new universities and a considerable expansion in student numbers, the Committee, having heard that the management education necessary for Britain 'to hold its own in the modern age' was not being provided, argued that 'at least two major post-graduate schools should be built up' in major cities (Robbins, 1963, p135; *The Times*, 24.10.1963). The first two business schools in the UK were established soon thereafter in London and Manchester. By the early 1990s they were joined by 100 others (Matthews et al, 1998, p257).

### The profession and business education

Clearly, Harding was aware of the current debates about management education. His address concluded with 'a suggestion for post-graduate training' (1963, paras 109–113). He was not convinced that the universities were the best place for learning practical business skills. While he conceded that the initiatives of the Foundation for Management Education might offer opportunities for future generations, he argued that ICAEW might take the lead in the short term. The ICAEW should instigate or participate in the establishment of a 'post-graduate course for newly-qualified men, a Department of Management Education and Research at a high level on the lines of the Harvard Business School or M.I.T.' (1963, para 110).

It is not surprising that Harding should suggest ICAEW involvement in the development of business education. In light of the subsequent growth of MBA programmes the decision to participate or not in this field was strategically important to the profession. As at 1963, in the absence of significant provision by the universities, qualifications in accountancy served as the most important foundation for a career in management (Matthews et al, 1998, p261; Owen, 2010, p421). The implementation of the recommendations of the Robbins Report implied that in addition to the establishment of institutions for post-graduate management education, universities might also offer more undergraduate degrees in accounting and business and these might prove an attractive alternative to the ACA (Shackleton and Walker, 2001, pp46–48).

Underpinning these issues was the fact that an increasing number of chartered accountants were occupied 'in business' as financial executives, company secretaries or general managers. According to Matthews et al (1998, p138), the proportion of ICAEW members so occupied was 1% in 1911 but rose to 12% in 1931 and 28% in 1951. By 1963 ICAEW was receiving subscriptions from 11,330 'members in practice' and 21,127 'members not in practice' (*The Accountant*, 25.4.1964). One contemporary noted that 'the public image of the chartered accountant is now created as much by men who are in charge of industrial finance departments, as by the bronze plates passed on the way home' (*The Accountant*, 13.4.1963). As the profession soon recognised, the prospect of the expansion of undergraduate degrees in accounting and business, and the appearance of specialist post-graduate degrees in management, had potentially serious implications for recruitment to the profession and the career trajectories of its members currently 'in business' who did not possess university-conferred credentials (*The Accountant*, 28.3.1964).

While the increasing proportion of members 'in business' suggested that the range of opportunities for chartered accountants was broadening it also posed a problem. The founding ideals of the profession had emphasised the notion of public practice. Indeed, it was 1948 before the first fully non-practising members of the ICAEW Council were elected (Noguchi and Edwards, 2008). Until 1959 members not in practice were debarred from becoming Fellows of ICAEW (*The History of the Institute*, 1966, p134). The system of training and qualification, with its emphasis on articled clerkship, was primarily orientated towards the supply of future generations of accountants 'in practice'. However, competing professional bodies, representing certified and management accountants, were offering training systems more aligned to preparation for an accountant's career in industry or commerce, and were expanding as a result. It was legitimate for Harding to question whether the system of vocational preparation for chartered accountants was sufficiently attuned to the increasing number of recruits intending to pursue a career outside public practice.

Indeed, early in 1964, as the expansion of business education in the universities loomed and the status of their qualification as a passport to senior corporate positions was weakening, one correspondent to *The Accountant* (25.4.1964) observed: 'service under articles in a professional office is necessary for the man who is going to stay in the profession, but what about the man going into industry – does he want to know all about auditing, or trust accounts, for example?' Unless ICAEW altered its syllabus and training arrangements it would regress into 'a society of auditors'. ICAEW had to address important issues about how to develop its presence in the field of industrial accountancy while retaining its eminence in public practice. Devising an appropriate education and training system in this context presented a major challenge.

### Recruitment, education and training

Evidently, education and training were high on the professional agenda in the late 1950s and early 1960s. Indeed, the President of ICAEW described them as a 'major preoccupation' in 1963 (*The Accountant*, 9.5.1964). A reconfigured Education Committee with a broader remit was established by ICAEW at the start of the year and within 18 months similar committees were set up in each district society (*The Accountant*, 12.1.1963; *The History of the Institute*, 1966, pp134, 190–191).

During this period there was a keen recognition of the fact that standards of education and training were of fundamental importance to the status of chartered accountancy and attracting high-quality recruits. A strategy paper submitted to the President of ICAEW in 1959 had argued that: 'The chartered accountant must be accepted by the public as *the* accountant, and to ensure that this is so our standards will have to be raised' (quoted in Shackleton and Walker, 2001, p35). Education and qualification systems were also tied up with inter-organisational politics. The aforementioned strategy paper was written at a time when ICAEW was concerned about the growth of the Association of Certified and Corporate Accountants. Differences in the entry, training and examination standards of the major accountancy bodies were proving an impediment to organisational integration, and were to feature large in the formulation of ill-fated plans during the 1960s to achieve the ultimate goal – a statutory ring fence around a unified profession (Walker and Shackleton, 1998; Shackleton and Walker, 2001, pp19–43, 54–56).

In 1958 the ICAEW had established the Parker Committee to review education and training (Solomons and Berridge, 1974, pp22–26). Its report appeared in 1961 but the complexities of implementing its 70 (albeit relatively minor) recommendations meant that the Council was still working through its responses in 1962 and 1963 (*The Accountant* 6.5.1961; 11.8.1962, 17.11.1962). Today, accountancy is a graduate profession. Over 80% of current ICAEW students possess a university degree. By contrast Harding observed that only 10% of articled clerks have 'been through a university' (1963, para 113; Solomons and Berridge, 1974, pp41–43). During the early 1960s the main issue was how to transform chartered accountancy from 'an 'O' level profession' (with entry at 16 followed by five years of articles) to 'an 'A' level profession' (with entry at 18 followed by four years of articles). It was assumed that a move towards the latter would elevate chartered accountancy from a vocation with entry standards associated with banking, insurance and other commercial occupations, to one for school leavers contemplating university and careers in higher professions such as law and medicine (*The Accountant*, 16.3.1963). According to the President of ICAEW, these 18 year olds plus graduates, were 'the types we want to attract into the profession' (*The Accountant*, 9.5.1964; also 4.5.1963). Relatedly ICAEW was working hard to build stronger relations with the universities with a view to enticing undergraduates into articled clerkships (*The Accountant*, 25.4.1963).

Harding was strongly of the view that entry standards should be raised to a minimum of two 'A' levels: 'I should like to stress that I regard six 'O' levels as an inadequate standard of entry into the profession – leading, I suspect, to a good many failures and disappointments.' (1963, para 112).

Having found that qualified accountants were often at a disadvantage when compared with graduates he supported proposals which offered opportunities for chartered accountants to study at a university following qualification. In this his views chimed with the findings of the Robbins Report which was critical of the 'narrow technicality' of professional training and suggested that graduates benefitted from the receipt of a more rounded education (Shackleton and Walker, 2001, p47).

At the time of Harding's lecture there were also concerns about the effectiveness of training under articled clerkship. The Parker Report argued that this traditional mode of career preparation should be retained and continue to be generalist in its orientation. Specialisation was deemed a post-qualifying matter. Harding argued that training under articles should be improved by incorporating developing areas of work such as management consultancy and information technology. Should this prove infeasible he recommended the eventual establishment of

specialist routes for those intended for the profession and those intended for careers in industry.

There were also issues about whether the syllabus should be altered. Following Parker, ICAEW determined that the curriculum should be broadened somewhat with more rigorous testing of subjects of increasing importance. New examinations in 'advanced accounting' and a 'general paper' would embrace management accounting and aspects of economics and finance (*The Accountant*, 17.11.1962). However, the primary focus of the intermediate and final examinations would be on the conventional subjects of bookkeeping, financial accounting, auditing, taxation and English law. In this Harding was in tune with ICAEW's responses to the Parker Committee's recommendations but would perhaps have preferred to see a more determined response given the opportunities he envisaged for accountants in business and finance. The content of his address and suggestions for the subjects of specialist courses to be sponsored by ICAEW indicate that he would have envisaged the inclusion of computing, finance, business forecasting, internal audit, and management control in the educational programme for the next generation of chartered accountants.

Harding's comments also suggest a preference for a training regime better attuned to nurturing business awareness and the skills necessary for the accountant to progress in industry. In his view the professional accountant would be more appreciated if he was trained to 'act as business men with a responsibility to increase the efficiency and productivity of the business with which they are in contact' (1963, para 102). Given his prediction that IT developments would ensure that the traditional financial accountant would be 'pushed into a back room' or even find that there are 'no books to keep' (1963, para 97), and his suggestion that the profession should broaden its work beyond the narrow confines of accounting, audit and tax, Harding is likely to have found the heavy emphasis on technical subjects in the ICAEW syllabus problematical and short-sighted.

### Gender and the profession

There is one final aspect of the discussion of entry standards, education and training in the profession which is inspired by a reading of Harding's address – gender. Contemporary professional discourse indicates limited sensitivity to the prevailing gender imbalance in the vocation. In the book mentioned at the outset of this chapter, *The Feminine Mystique*, Betty Freidan explained that numerous women were discontent because they had been encouraged to confine their aspirations to the narrow roles of housewife and mother as opposed to pursuing education and a career. The content of Harding's lecture suggests that it is unlikely that such findings had penetrated its author's consciousness. No doubt reflective of the gender composition of those in his professional vicinity, Harding's references were invariably masculine. His was a world where the 'finance man' prevailed, of methods studies conducted 'by the right men', of efficient organisations dependant on 'a steady inflow of good men'. Accountancy was a profession to be rendered attractive 'to the young man' and in which 'our young men' would be trained 'to act as business men', and where the 'drift of good men into industry' was a consequence of the number of 'men who have no hope of partnerships' in practicing firms.

Although ICAEW had been compelled to open its doors to women since the Sex Discrimination (Removal) Act was passed in 1919 the number of females among its ranks remained abysmally low. By the month that Harding gave his address there were 400 'lady members', a mere 1% of the total membership of ICAEW. In January 1963 the Council had published a careers leaflet titled *The Chartered Accountant: a Career for Young Men and Women* (*The Accountant*, 20.4.1963) and at the annual dinner of the Women Chartered Accountants Dining Society in December some comfort was taken from the fact that 4% of registered articled clerks were women (*The Accountant*, 14.12.1963). Sorrow was also expressed at the dinner. The office in which many women had received their training, that of Ethel Watts, the first woman to qualify for admission by examination, and who had 'championed the acceptance of women in the profession on equal terms', had died on 19 November 1963.

### The jurisdiction of the chartered accountant

One of the themes that Harding spoke about at the end of his lecture was the work base of the profession. The range of services offered by accountants in Britain has long been broad and flexible. It is usually assumed that the work of the profession shifted from an initial focus on insolvency towards corporate auditing (from the late nineteenth century), supplemented by the development of tax work (especially after the First World War) and recently advanced into management consultancy. Historically, this adaptability has proved a considerable advantage, allowing the jurisdiction of the profession to expand into new, developing areas of work. It has also been problematical. Devising syllabi which encompass the manifold fields in which future practitioners might be occupied represents an on-going challenge to professional organisations.

Securing the support of the state for the regulation of the whole professional field is also extremely problematical when defining exactly what an accountant does is so elusive (Walker and Shackleton, 1998).

Such issues featured at the time of Harding's presentation. At the annual meeting of ICAEW in spring 1963, the President stated the following on the subject of 'Registration':

It must be clear to all of us that accountants cannot seriously expect to obtain exclusive rights to act as liquidator, receiver, trustee, executor, financial adviser, secretary, business efficiency consultant, or as professional agent in taxation matters. A careful examination of this problem leads to the conclusion that 'registration' legislation for accountants could apply only to those services, particularly auditing, which involve the giving of an independent professional opinion on financial statements (*The Accountant*, 4.5.1964).

Harding was fully supportive of extending the work of the professional accountant into the field of management consultancy. This view was consistent with his generic notion of 'finance' in an organisational context wherein accounting was a practice interconnected with the performance of diverse other 'indivisible' corporate functions and where individuals were 'freely transferable' between departments (1963, paras 16–22, 70). This notion of malleable work boundaries was easily applied to the wider professional realm. For Harding, moving beyond a narrow conception of accounting, audit and tax work was important to securing the livelihoods of future generations of practitioners and to establishing the accountant as a pivotal figure in the business world. Advancing further into management consultancy was not only an opportunity for accountants to extend their jurisdiction, it would also render their work more interesting and encourage the recruitment of those who might otherwise have bypassed ACA for direct entry into the more exciting world of industry.

Harding observed that other, less qualified occupational groups, were ready to colonise the expanding field of management consultancy. He concluded: 'Industry needs the advice and help of the profession and the door is still open, but unless we move in quickly others will do so and a great opportunity will have been lost' (1963, para 108). Consequently, the organisations of the profession – its institutes and firms – needed to be more proactive in staking the accountants' claim. Accounting firms, and medium-sized practices in the provinces in particular, 'should lose no time in getting to grips with this management advisory work' (1963, para 98). He observed that the training and education systems of the profession would need to be extended to produce the knowledge experts who would provide such services. Further, the dictates of professional etiquette in relation to advertising might need to be relaxed. The adoption of such commercial practices was necessary if the field was to be captured by the profession.

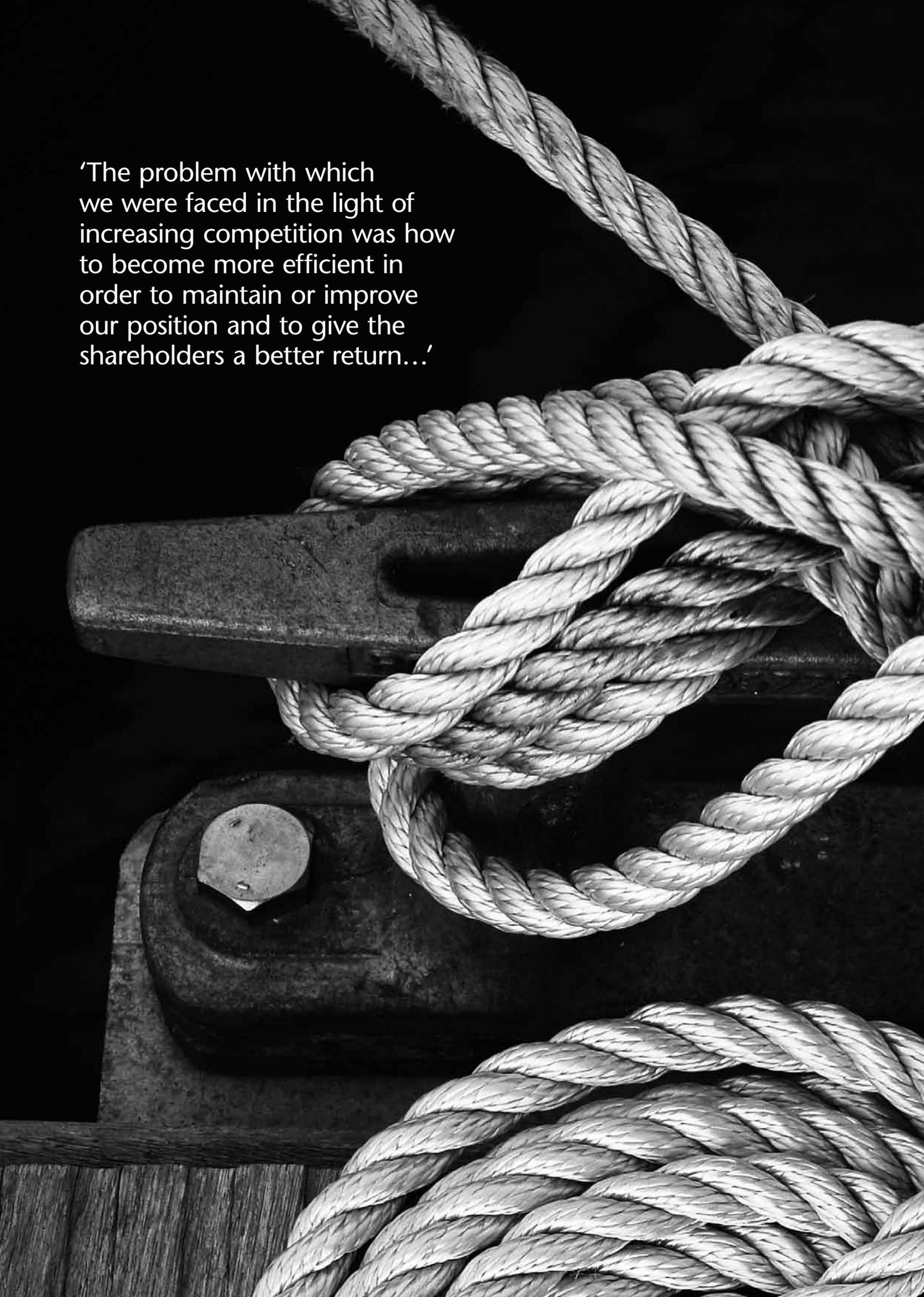
As subsequent events have shown, accounting firms offering management consultancy services and selling themselves as 'business advisers', were to have major implications for auditor independence and the integrity of the profession (Zeff, 2003a, 2003b). But Harding, without the benefit of hindsight, foresaw no difficulty. For him the provision of audit services offered the profession a distinct advantage in the competition for a growing area of work. Consistent with his thesis on the role of finance in increasing productivity, supplying both audit and management consultancy services to the same client was simply a case of being more efficient.

The 'productivity problem' of 1960s Britain was not solved by Harding and his contemporaries. In fact some historians refer to a 'productivity debacle' in the decade which followed (Broadberry and Crafts, 2003; Broadberry, 1997, pp14–15). However, Harding's deliberations on that subject illustrate the potential contribution which chartered accountants could make to important issues of the day. His observations on subjects such as the jurisdiction of the accountant, standards of entry to the profession, the need to attract the best recruits, the importance of generic skills to career success, keeping ICAEW's syllabus relevant and responsive to developments in the business and professional world, and delivering a vocational education and training which permits chartered accountants to excel in manifold, shifting career destinations, serve as a timely reminder of the enduring nature of many of the issues confronting the accountancy profession.

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'The problem with which we were faced in the light of increasing competition was how to become more efficient in order to maintain or improve our position and to give the shareholders a better return...'



# The Institute of Chartered Accountants in England and Wales

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SUMMER COURSE

Emmanuel College, Cambridge

September 1963

## INCREASED PRODUCTIVITY – THE ROLE OF FINANCE

(Financial reporting, business controls, the elimination  
of paper work, and mechanisation)

An address to be presented on

Thursday 19th September, 1963

by

S. R. HARDING, F.C.A.

*(Royal Dutch/Shell Group)*



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## Introduction

1. I welcome the opportunity to introduce this subject in Productivity Year, at a time when we read that the return on capital employed in some spheres of British industry compares unfavourably with that in many other leading industrial countries. I feel sure that big organisations, such as our own, which have been in business for a long time and produced most of their own timber, have much to learn from the newer and smaller organisations represented here today.
2. My own career has been exclusively with the Royal Dutch/Shell Group, mostly abroad, but for the past five years in London during which I have visited some forty countries in the course of my work. In general what I have to say reflects the experience and attitude of my Group, and I have drawn freely on this as a basis for discussion, keeping away from accounting technicalities since there is a stream of literature on this passing across our desks, or into our brief-cases, every day – all adding to the paper problem. I have endeavoured to develop the subject in the later stages, possibly with more questions than answers, towards consideration of how the Institute and its members might make a more active contribution to productivity in the future. This I feel to be a more valuable use of the time at my disposal than to become involved in taxation, financing and investment matters which are complete subjects in themselves; this need not, however, exclude them from our discussions.
3. A brief outline of our organisation and something of the problems in the oil industry may be a logical starting-point. You will know from your experience as a motorist that the oil business is extremely competitive – new service stations springing up and the introduction of cut-price petrol in this country will have brought this home to you. The same applies to the chemical industry, in which we have a big stake. If you hold shares in any major oil company you will know too that some three years ago the investment analysts were suggesting that the big integrated companies had, like dinosaurs, become too slow-moving to face up to the attacks of the aggressive new-comers who were making their presence felt in the market. You will since then, if a shareholder, have studied the results and you may have concluded, as have the market analysts, that the giants will survive and that it will be the sabre-toothed tigers which have to worry about growth in reverse.
4. The Royal Dutch/Shell Group, of which Royal Dutch and Shell Transport and Trading are the parents, is represented by some five hundred odd companies operating in almost every country outside the Russian/Chinese bloc and is the third largest industrial organisation in the world, only General Motors and Jersey Standard Oil being bigger. Size is vital in the international oil business where the risks involved (political, devaluation, etc.) are great: the swings must take care of the roundabouts. Our profits in isolation may look large – they are several times larger than those of Unilever or ICI – but the capital employed and the money we have to plough back each year into the business are also that much larger, and much of this is in exploration which may or may not be successful. If unsuccessful then one may have put as much as £10 million into the search for oil in a country before deciding to call off the hunt. You have probably read reports of a temporary surplus of oil and may ask why we should continue to seek fresh sources at such cost. The answer is that this is a long-term business, at least for the major oil companies, and one's source of supply must be well spread both geographically and in quality – crude oils vary enormously in quality. Furthermore, if oil is likely to be found in an area which is to be a natural source of supply for big markets, e.g. Algerian/Libyan oil in relation to France and the Common Market, we must be there. Nobody will deny that long-term profits are the main object of being in any business – and in our case they also have to be large in total, if not per unit sold: whether one's performance, in this respect or any other, is satisfactory must be measured against the performance of competitors, which we watch very closely.
5. A net 9 or 10 per cent is about the return which we and some of the other major oil companies are making at the moment on capital employed. I may say that Shell regards this as insufficient and we are doing our best to improve it.
6. In an organisation of this size, in which many of the individual companies are themselves very large by any standards, it is essential to decentralize authority to a great extent and there are considerable economies to be made by so doing. The general manager of each of our companies therefore has a great deal of autonomy: he is supported by a management team in which the finance manager is becoming more and more a key man as we supply from the centre, or take on locally, more 'business men' for these jobs. There is co-ordination from the centre on such matters as the supply of crude oil and products – as there must be in a vertically integrated organisation, capital expenditure, long-term financing, top level personnel matters, etc. Otherwise the role of the central offices in London and The Hague

is to give service and advice, to co-ordinate the group's activities and to review the plans and performance of the individual companies by a system of objectives, targets and quarterly reporting of performance against targets.

7. We publish a statement of the group's quarterly results within about forty days of the end of each quarter – despite the fact that this must be one of the most complicated consolidation jobs in the world – and our accounting standards are well up to the Jenkins recommendations. With quotations in many of the world's stock-markets it is necessary to file, particularly in New York, a lot more information than would be required in the United Kingdom. This we regard as a good thing and a policy of the fullest possible disclosure also runs throughout the organisation itself. Our view is that everybody in the business should know the results of his activities and be aware of his contribution.
8. One of our main preoccupations at the moment is how to give non-finance men a better appreciation of the group's financial affairs – I shall touch on this in more detail later and hope to learn something from your own experience of this problem. We are laying on special finance courses, over and above our normal contribution to the group's executive training programme, to fulfil this need and as a first step recently published a simplified illustrated guide to our group accounts, explaining exactly what is behind each figure in the easiest possible terms; this has been in great demand and I have arranged for a copy to be placed in each of your group discussion rooms.

### Increased productivity

9. The problem with which we were faced in the light of increasing competition was how to become more efficient in order to maintain or improve our position and to give the shareholders a better return on their money in terms of earnings and dividends. The confidence of our shareholders and of the world's money markets is all-important.
10. I can frankly admit that until recently the organisation for which I work looked in much worse shape than it does now. During a long post-war period of rapidly increasing demand, and general inflation, the urge to control one's costs had become somewhat thin, with the result that the expense curve on our graph tended to rise at just about the same rate as the volume curve. In other words we, and other members of the industry, had lost sight of the fact that the way to make money and to get a good return from investment, is to see that volume increases at a quicker rate than expense, both revenue and capital. That our results and condition are now so much better than they were, is mainly a reflection of the fact that the cold winds of circumstance forced us to re-learn this lesson, and once again to give our full attention to the vital importance of the trend of unit costs. If I mention that in the Royal Dutch/Shell Group we are currently spending some £5 million a day, you will realise that the difference between good and indifferent expenditure control can rapidly tot up to a figure which has a very significant effect on our net income and return on capital.
11. I shall describe briefly how we are tackling this problem by being more selective in our investment programme, making better use of our existing assets, getting more for our money in day-to-day spending, streamlining our methods and procedures and of course our organisation. With some 225,000 employees of all nationalities there must always be scope and our numbers have been coming down, largely through retirements and normal wastage: we have in fact reduced overall numbers by 10 per cent over the past four years whilst increasing sales by more than 40 per cent. We have concentrated on getting more work out of the people we have got, with the aid of better equipment, and putting bigger volume through our plants – going out not so much for economy as for increased efficiency, i.e. getting more for our money.
12. As in any organisation there had been a tendency for fat to accumulate in the central office and by tackling this aspect with a will we were able to set the example and show the operating companies that we meant business. Today we have some 30 per cent less staff in London and The Hague than we had three years ago and this has been done without farming out any additional work to the operating companies, which have been doing their own streamlining.
13. The performance of finance in streamlining has been on a par with the general average – our numbers in the central office fell from 900 to 630 over this period. A vigorous screening of the need for all returns was made and a formidable amount of these were dispensed with – greater flexibility was obtained, and the need for staff reduced, by cutting out whole layers of supervision and breaking down small watertight compartments (or boxes on the organisation charts) many of which had a section head and a very few staff.

Some of Parkinson's laws were demonstrated very clearly in this process, which spread throughout the operating companies. More work was transferred to machines, and computers started to show pay-outs – but the initial savings on the clerical side were achieved mostly by common sense and the critical examination of every procedure and piece of paper, especially those in existence for any length of time. Nothing was sacred and finance was well to the fore in combating the conservative approach sometimes encountered – a nostalgia for the old-fashioned methods to which people had become accustomed. Operational savings in every aspect of the company's increasingly complex business gathered pace – in the oilfields, the refineries, the fleets, in sales organisations and in research, we began to get more for our money and unit costs started to drop. There had been a time when operators were satisfied to maintain the same rate of unit costs, but with the increasing squeeze on selling prices this was no longer good enough if we were to maintain, or avoid a cut in, margins. In 1962, with an increase of almost 12 per cent on 1961 in our sales volume, operating, selling and administrative expenses rose by only just over 1 per cent: but this was exceptional and it is a constant struggle to compensate for the rising cost of salaries and wages.

14. As an example of achievement in the oil industry as a whole – and Shell's performance has been as good as the best – refinery output since 1950 has risen by 330 per cent and the number of men employed by only 34 per cent. We know that increased productivity cannot be measured simply as output in terms of manpower – money tied up in capital expenditure, and operating expenses, must be taken into account – but the figures are significant. On the clerical side it has not been so easy to get grips with the problem – office work is difficult to measure – and we shall be going into this in detail. There are some sizeable problems to tackle – for instance the Shell company in the United States, where the motorist unfortunately seldom pays cash for his gasoline, has to handle on its computers about a quarter of a million credit entries per day; luckily this is exceptional!
15. The encouraging thing about this streamlining is that we are now left with an organisation which is fit and enthusiastic – people realise that only the best will do and good men welcome the challenge, which is easier to meet when they no longer have to carry passengers and they know that the work they are being asked to do is of real value.  
The important thing of course is to maintain, and improve on, this healthy state of affairs.

### The contribution of finance

16. We are here today to discuss the role of a finance organisation in such a situation; success to my mind depends a great deal upon the extent to which finance men are capable of looking outside finance (not only within their own company but, more important, at the financial affairs and situation of competitors) and playing an active, rather than a passive, role in the business.
17. We expect a finance manager in an operating company, where most of the money is made or lost, to wear three hats. The first as the financial expert, the second as an active (not a nonplaying) member of the management team and the third as the manager of the financial and accounting staff which, including office services as it usually does, is generally the largest administrative unit in any of our companies.
18. His job in the short term, with his first hat on, is to put his finger on the weak spots in respect of volume, operating costs and proceeds – the component items of profitability, and in the longer term in respect of cash generation, liquidity and investment. He is also the man who can speak with authority about financial controls and safeguards, e.g. how big does the internal audit really need to be, to what extent is it desirable to borrow funds locally or obtain foreign exchange as a hedge against devaluation, is it better to finance subsidiaries by loan or equity, what is the effect of marginal costs, discounted cash flow, etc.
19. With his second hat on his task includes the need to satisfy himself that forecasts are genuine targets and not just vague hopes, that his company is out to influence the market to suit its own purpose rather than to be influenced by it, and that it is looking five years or more ahead in planning its operating and selling policy, developing the organisation well in advance to meet the changes foreseen. As a man who should have time to think and plan, and as a trained administrator, he should be able to stop the management team nibbling at a variety of problems and help to fix priorities in terms of what to tackle next – be it volume, costs, proceeds, cash generation, selective marketing and investment or what have you. His role as a member of the management team is particularly important in the planning cycle, when long-term objectives and shorter-term targets are being set, capital expenditure budgets approved, and pricing policy, cash generation and dividend policy under review.

20. With his third hat on his job is to stimulate the interest of his staff in these and other matters which lead to increased productivity and efficiency. For clerks at the lower level there is not the same stimulus or glamour as there is, for instance, in selling products: this makes it all the more important that the finance manager should not only be first-class himself but that he should also have outstanding leadership qualities.
21. We are making increasing use of computers but in general the techniques used in Shell are straightforward and all the better for that we feel – some of the articles we read today about financial and accounting techniques make too much of simple things and we view with suspicion the use of methods which are unnecessarily complicated: these inevitably increase the gap and lack of understanding between finance and non-finance management. I suspect that industry in general has suffered from this lack of understanding – there has been too much slickness and jargon about the techniques of some finance men, too much ‘professionalism’ and too little effort made to appreciate and learn about the problems of the operators. At the same time there has been too much respect, or possibly timidity, on the part of the layman in not getting to grips with finance matters.
22. It is impossible at the top to separate the various aspects of finance, i.e. accounting in all its aspects including budgetary controls, internal controls and audit; treasury work covering financing, investment, banking, insurance, pensions and payrolls; and taxation. This we have always recognised in each of our operating companies where the finance manager speaks as a member of the management team on all finance matters. In our central office, however, these aspects were handled as fairly watertight divisions under the group finance co-ordinator until this year when we decided that in so far as the co-ordination of operating company finance work is concerned they overlap and are indivisible. Without going into the details of the reorganisation which is of purely domestic interest, though I shall be pleased to discuss it if you wish, I mention this in order to stress that to us at the top level there is no such person as an accountant – what matters is finance in the broadest sense. Of course we still have teams of specialists who deal with problems affecting the group as a whole – the production of the group accounts is an example on the accounting front – but when it comes to dealing with the operating companies we split the world into four geographical regions, each with a regional finance adviser.

### Forecasting and yardsticks

23. I am against too much routine financial reporting, because so much of it is never used in practice. However, no well-managed business of size is today managed ‘by ear’ and finance is the focal point, where management’s flair and sense of judgement can be confirmed against facts and forecasts based upon sound controls and information.
24. We have decided that a realistic interval for assessing past performance, at group level and in most operating companies, is quarterly. This we do against a background of forecasting and target setting, with a series of easily understood yardsticks – and by forecasting I do not mean projecting the cost but deliberately planning the future.
25. In most organisations it is possible and productive to match to some extent the performance of one company or operating unit against another’s, but this implies a reasonably standard system of reporting which is not as easy as it may sound when dealing with operations in many different countries and currencies. Our experience is that in general the figures used in the consolidation of sterling accounts are not suitable for assessing the operating companies’ performance since exchange fluctuations and other matters, outside the control of local management, can have such an impact on the operating results. It often happens that some of our companies, particularly in South America, make a solid profit in local currency which is largely offset by a heavy write-down of working capital despite all our efforts and experience of avoiding exchange losses. Supervisory management in the operating companies and co-ordinators in the central office must have figures which both recognise and which are common ground for discussion.
26. The future being so much more important than the past, we get our operating companies to review their forecasts for the year at the end of each quarter, and to explain variations between the latest forecast and the initial target which they themselves played the major part in setting. The targets are, of course, critically examined in the central office before being set as ‘par for the course’. It takes a courageous man to set himself a difficult par and a really good manager to set something which is realistic – human nature being what it is there is a tendency to set a target which will not be too hard to meet; this in the aggregate, in a group of any size, can mean that the overall forecast of profit, cash availability, etc., can be quite seriously out and

thus affect forward planning. Unless there are valid explanations we take almost as poor a view of underestimated as of overestimated profits, and we consider the ability of our finance managers to forecast the effect of changing operating conditions with speed and reasonable accuracy as more important than their ability to account accurately for the past. The basic figures underlying profitability and cash generation are, of course, volume, proceeds, expenses and fluctuations in fixed and working capital. These items all come under the microscope separately and there is no question of a plus on one item being offset by a minus on another, without satisfactory explanation.

27. Leaving aside for the moment the measurement of integrated profit, by which I mean the overall profit after charging all expenses from the hole in the ground, three of our basic yard sticks in assessing the profitability of individual operating companies (which may be involved in production, manufacturing, transportation or selling) are:

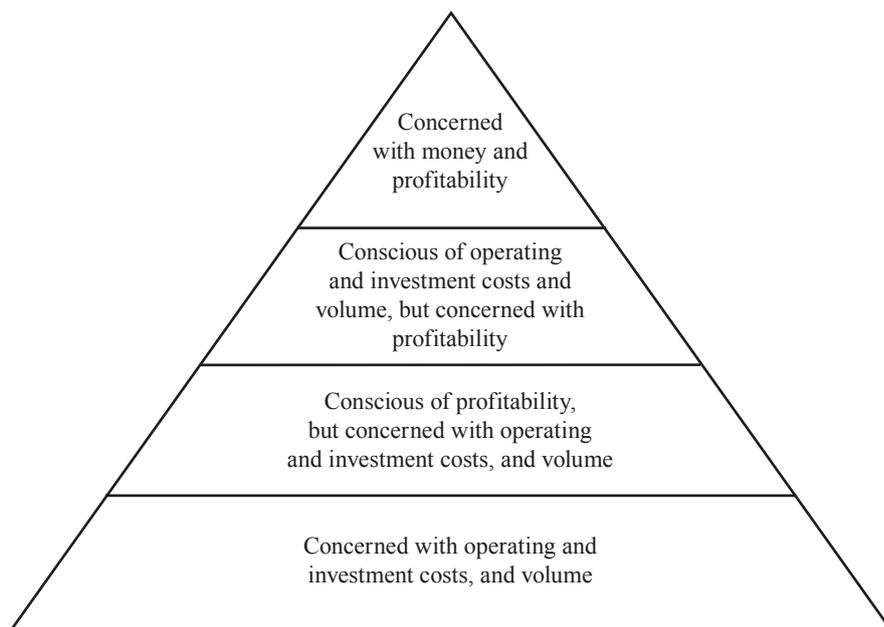
- (1) the utilisation of capital employed ( $\text{proceeds} \div \text{capital employed}$ );
- (2) the net margin ( $\text{net profit after tax} \div \text{proceeds}$ );

and the equation of these two, viz.:

- (3) the percentage return ( $\text{net profit after tax} \div \text{capital employed}$ ).

You may query the use of the ‘after tax’ figure for profit: the figure ‘before tax’ has its value but a profit is of no interest to the shareholders unless it is free of any strings and to me tax is just another item of expense.

28. To look at the percentage return in isolation can be misleading – one must know why this is going up or down. One also has to watch the trends of volume, unit proceeds, unit operating expenses, staff/labour numbers, capital employed (particularly working capital), cash generation, etc. All these yardsticks are of course most valuable when looking at trends in the same company, but comparisons between companies can be misleading.
29. These to my mind are the barometers for top management to watch. As you go down the line and nearer to the individual operating units, e.g. factories, sales branches, depots, etc., the emphasis becomes less upon profitability and more upon cost and volume control. The relative emphasis at different levels of management can be depicted as follows:



30. The message here is that it is just as much a waste of time for top management – those at the top of the pyramid – to get involved in too much detail, as it is for those at the foot of the pyramid, e.g. depot superintendents, to worry their heads about profitability, cash generation, etc., when they may only be responsible for, and able to do something about, operating costs and volume.

## Cost control

31. Everybody in charge of a self-contained unit in Shell is required to plan the expenditure for which he will be responsible in the coming year and this forecast is carefully screened by his supervisor. This is an annual forecast, although with seasonal fluctuations it is usually compiled with an eye on the individual quarters. In the case of some fixed, i.e. non-variable, expenses it is possible to set a budget, which is more restrictive than a forecast in that authority is required before it can be exceeded. As I have said, the reporting of actual expenditure by finance is usually quarterly: we make a great point of discussing variations between forecasts/budgets and actuals with the operators and not just sending them the cost statements. These cost forecasts/budgets contribute to the profitability and cash generation forecasts, of which more later.
32. We prefer to insist upon a proper control of expenditure by the approved authority, before the money is spent, than to get involved in the enormous amount of detailed paper work which some costing systems involve. This implies proper tendering procedures, the avoidance of conflicts of interest etc., all of which are watched carefully by the internal audit.
33. Some of our operating companies had reservations about the value of forecasting, when we put it in, and there were indeed cases of companies spending more time in forecasting than in getting on with the business, but it is now agreed that the psychological effect on operators of being asked to forecast, and being made accountable for variations between actuals and forecasts, is of value. Staff and labour numbers are given special attention in this forecasting process in view of the overheads which each extra man on the payroll attracts, and there are other aspects of costs which are more susceptible to control by physical than by financial yardsticks.
34. To be successful any system for controlling operating expenses by matching actuals against forecasts needs:
  - (a) management support at top level;
  - (b) careful explanation and ‘selling’ to all concerned, who should be made to realise that this is a tool to help them as well as a yardstick by which their performance will be judged;
  - (c) a common base for all financial figures, and a sound accounting code which makes the matching of actuals and forecasts realistic. Conflicting sets of figures, purporting to relate to the same thing, raise doubts about the soundness of any system.
35. I do not think we need go into more detail here about methods of controlling costs – let us leave that for the discussion. We can pass on to the more difficult problems of the allocation of costs against products, price build-ups, marginal costs, etc.

## Measurement of profitability and selective marketing

36. This subject, in a vertically integrated business such as our own, presents a major problem. Not only has one to assess the results of individual operating companies and forecast the effect on these of future events and action, but also, and much more important, to assess the effect of these events and action upon the business as an integrated whole. The cost of our products includes elements of research, exploration, production, manufacturing, transportation, marketing and overheads – incurred probably in many different countries and companies. It is in general impossible to say what is the individual cost of producing the different products from a barrel of crude oil: the various processes are closely interlocked and seldom produce simply one product. This, however, is a problem peculiar to only a few industries and I shall not enlarge upon it unless you wish me to do so in discussion.
37. However, the allocation to products of marketing and overhead expenses presents a tricky problem in most industries. It is clearly necessary to have a justifiable basis for allocating indirect expenses to individual products in setting prices – although in our experience, due to competition, such prices are rarely what the product will fetch in the market. What matters is the gross margin return on each product, i.e. its contribution to profit and indirect expenses, after charging truly direct expenses, and each product should be given its ‘par for the course’ on this basis, the total being designed to cover all overheads and produce the target profit. One cannot, however, look at this as one figure – the product may be sold in many different ways and you cannot control and guide your business unless you can indicate which are the most rewarding classes of trade in terms of gross margin. In measuring one class of trade or product against another should one relate the gross margin to the proceeds or to the volume sold? It seems to me that the former yardstick, i.e. gross margin as a percentage of proceeds, is the most meaningful since this is usually a reflection also of the return on the money tied up in doing the business, subject to comparable stock levels, credit terms, etc.

38. It is a mistake, therefore, in my opinion to attempt to allocate indirect expenses, on an arbitrary basis as this must be, to individual products except when setting prices. To do so can be dangerously misleading and result in a wrong emphasis in the sales effort – such information is apt to be accepted by those who do not understand figures as accurate and factual, whereas it is based upon nothing firmer than a series of arbitrary assumptions. It is most important that every manager should understand the principles underlying the calculation of profitability, pay-out periods, etc.
39. Direct and indirect expenses are not, of course, synonymous with variable and fixed expenses. For example, the cost of running a gasoline pump is a direct charge against gasoline but it does not vary, except as a unit rate, with the amount of gasoline sold through the pump. In all phases of our business we look at variable and fixed expenses mostly in the course of detailed special studies when considering, for instance, the effect on profitability of marginal increases or decreases in trade, the average figures presented in most historical accounting statements being useless in this connection. A point to watch here is that the information for such special studies should be available within the accounting system, if required, through a well thought out system of coding; but the fact that it is available most emphatically does not mean that it should be produced on a routine basis for people to look at, with or without interest, and file without action.
40. The problems of cost allocation and the measurement of integrated profitability, and their effect on the policy of selective marketing are matters about which I look forward to hearing your views in discussion. To be more profitable than one's competitors it is obviously necessary to look further ahead and more selectively – imitation of others can only lead to lower margins for everybody. Also, selectivity must be aggressive and not defensive: any voluntary withdrawal from selling must be based upon very firm figures regarding the effect of such action on profitability.

### Cash generation

41. This is one of the most important single aspects of forecasting but it is not a subject which is open to many different opinions – except regarding the period of time one should look ahead, which must depend on the type of business. The role of finance here I think is to impress upon the operators that the overall future objectives (long-term plans) and targets (shorter term aims) depend largely upon the accuracy of their forecasts of production, manufacturing, and of sales which usually set the pattern for the other two. This calls for very close co-operation at top level between finance and the other functions. The effect of slipshod and faulty estimating must be brought home to operators and the use of graphs, showing actuals against forecasts, is a good way of doing this. Where the money tied up in stocks and receivables varies substantially between classes of trade in the same product it is necessary to indicate the effect, in terms of money tied up in working capital – although this is not, I suggest, a subject for continuous routine reporting. It can give a lot of work and we shall touch on this aspect later when we come to discuss the elimination of paper work.

### Control of working capital

42. Insufficient attention is in general given to working capital which is often allowed to increase more easily than expenditure on the so-called fixed assets, the latter being subject to strict capital expenditure approval procedures. Capital expenditure, being of a permanent nature, needs careful scrutiny at the top but working capital is every bit as much a part of the total investment and paper profits can be tied up unnecessarily if this is not watched equally carefully. The artificial distinction between the various types of assets, as required by the United Kingdom Companies Act, may tend to direct more attention to the control of fixed assets than of working capital.
43. It is convenient to deal with working capital under the following headings;
- Trade debtors.* The expression of the total outstandings in terms of average days credit sales from the appropriate period is generally regarded as the best index of performance. To use total sales as the base is also significant, but comparisons with previous periods will be distorted if there has been an increase or decrease in the proportion of credit and cash sales. The two yardsticks side by side probably give the most complete picture.
44. There should also be a summary of debts, grouped according to their ages, and of course a spotlight should be put on to anything which is exceptionally large or doubtful. A large percentage of the value of the total debts is usually accounted for by a small percentage in the number of the debtors, and it is on these that the main effort should be

concentrated. In a company with tens of thousands of credit customers it is unnecessary to list and analyse every month all the small debts, the majority of which are usually regular payers. Furthermore, for the average customer, monetary credit limits are a waste of time and if he pays regularly it would be uncommercial not to encourage him to buy more. With this policy our experience of bad debts has on the whole been good – but I should like, in the discussion, to touch on the question of responsibility for credit and collection controls in your own organisations.

45. Some form of summary statement should be tabled at top level meetings every quarter, whilst those managers individually responsible for the sales and collections should review the detailed position each month. Credit is an important marketing weapon: a nice point of business judgement, and for discussion, is to decide how far to let the credit index increase in order to get more business. It seems to me that this depends very much on what else one has to offer in the way of quality, service, etc., both of which are likely to produce more lasting advantages than credit since the latter is usually matched immediately by competitors. The average business man is I think influenced more by these, in his choice of supplier, than by increased credit.
46. In 1962, for the first time for several years, the percentage increase in our accounts receivable did not exceed the percentage increase in proceeds, i.e. the overall credit index remained unchanged.
47. *Debtors other than trade debtors.* These tend to be over looked by management and are too often reviewed only by the accounts department, at a lowish level. Everything owing to the company other than by customers goes under this heading, which may hide a multitude of sins, including improperly authorised payments and even entries covering frauds. Experience in my early days as an internal auditor taught me that, quite apart from assessing the amount of money tied up, a thorough probing of these accounts will always repay the time spent.
48. *Stock levels.* It is unusual for those selling products or using materials to pay much attention to stock levels – it is much easier to do business with plenty of stock available ‘in case’. Finance can help to free working capital by setting a value on the stocks which would be surplus to requirements if the operators could be made to operate on minimum stocks and take the calculated risks which any good business men should take. Various indices can be worked out, as for trade debtors, which will bring the figures to life, alongside an expression of the cost of the stocks in terms of interest on the money tied up etc.
49. At the end of 1962 we were pleased to find that, despite an increase in volume of nearly 12 per cent, the value of stocks of oil and chemicals remained virtually unchanged except for additions resulting from the inclusion of stocks in companies taken over.
50. *Creditors.* Here again there is insufficient appreciation of the cost in terms of working capital of paying creditors before it is strictly necessary. There may be occasions when one will not take the full period of credit, but as a general rule it is downright uncommercial not to do so. People who talk about the prestige attached to paying creditors before due date should not be in business.
51. To put this problem of working capital control into perspective as we see it, the benefit to our cash position by reducing trade debtors and stocks by 5 per cent would be some £45 million and by increasing creditors by 5 per cent it would be another £20 million. Sixty-five million pounds to us represents, for instance, the cost of building two large refineries, or more than 10 per cent added to our short-term funds. Big figures create their own problems but they do have the advantage that an all-out attack on such matters as working capital can produce startling results.

### Internal audit

52. We are going out more and more for quality rather than quantity, for auditing in depth in place of superficial ticking, and above all for an increase in efficiency and productivity through insistence upon internal controls which are practical and not excessive.
53. Internal audit can either be productive and helpful to the operators, or it can be an unproductive overhead in the worst sense – a hindrance and irritant to the operators. Everybody has their own ideas on internal audit which is usually tailor-made to suit the individual business. I should like to tell you how we run ours in Shell – you may then wish me to expand on certain features and I hope you will raise some points which may help to improve our system.

54. *Organisation.* In our operating companies internal audit is entirely in the hands of local management, there being no team operating out of the central office. The internal audit manager in each operating company reports to his finance manager, either directly or through an audits and methods manager, depending upon the size and shape of the operating company. In a few areas, e.g. the Caribbean, Central America and East Africa, where some of the companies are too small to warrant an internal audit of their own, the audit works out of one country and gives service to others, including advice on clerical methods and procedures.
55. We have from time to time considered the possibility of setting up an audit team to work out from the central office, but up to now it has been considered that the value of this would not justify the cost and that it would be difficult to obtain sufficient suitable men with a knowledge of languages who are willing to travel permanently. It would also tend to undermine the authority of local management, whom we encourage to be as autonomous and self-reliant as possible.
56. A survey of the internal audit work in the operating companies is, however, carried out during visits from the central office. These cover every aspect of finance, with a lot of emphasis on increased efficiency and sound internal controls. In an average company this 'inspection' takes about a week or two of a senior man's time, at least one day being spent on examining the internal audit work.
57. In general we prefer the internal audit in an operating company to be centralised, i.e. we do not recommend that auditors should be based outside the head office of the company. The number of men in the audit team of an operating company varies from one in the smallest companies to perhaps fifteen in the largest companies. Some of these men are doing the job as part of their career development, in which case they probably spend no more than two years on the work, whilst others with less potential may stay a good deal longer as audit assistants.
58. The group's views are laid down in an internal audit guide, which also goes into some detail on each aspect of the audit, but there are no rigid rules or regulations governing the scope, establishment or running of the audit. This is dictated by local judgement, matching the cost against the value and calculating the risks involved. It would, however, be most unlikely for an operating company to run their internal audit in a manner contrary to the advice of the central office.
59. The guide highlights the essential internal controls and draws attention to what can happen when these are not enforced. The auditor's primary responsibility is to ensure that built-in controls are comprehensive and sound, without causing excessive work, and (most important) that they are operating in practice. The guide also emphasises the importance of operational controls – in the sense of helping operators to control their activities and increase efficiency by avoiding the waste of manpower, money, materials and equipment. It does not, of course, imply that it is part of an auditor's job to query technical or business judgement.
60. We encourage the setting up of audit committees, including members of top management from various functions, to survey extracts from the audit reports and to agree on future programmes. This, we have found, helps to overcome the tendency for the audit to be considered exclusively as the tool of finance.
61. Case study reports of actual frauds and large bad debts in the group are circulated to all operating companies, with an indication of the lessons to be learned: experience is that less than half of these are discovered by the internal audit.
62. With the development of computers we are paying increasing attention to the controls which need to be built into data processing machinery, and to the need for the internal auditors to keep in touch with these at the programming stage.
63. The internal audit programmes in the operating companies are drawn up in co-operation with the external auditors. It was recently decided to limit the external audits to a 'once every three years' basis in certain small companies where an annual external audit is not a legal requirement, and this has laid additional responsibility upon the internal audit.
64. A small audit team is located in the central offices in London and The Hague, covering the work in these offices, but they play no part in the internal audit of operating companies.
65. *Policy.* To complete the picture it may be of interest to give some idea of the way in which we expect the internal audit to work.
66. There was a tendency in the past for the audit to become stereotyped, or to be dictated too much by the desire to link up with the external audit, thereby losing flexibility and

restricting the use of imagination. We now stress that the quality of the auditor is much more important than the quality of the programme and that the internal auditors are the ‘eyes and ears’ of management, penetrating dark corners and staying there until the job is completed. To do this they must of course derive their strength and authority through support from top management.

67. Records are generally right and the detailed checking of records, which is a necessary occupation on the part of the external auditors who have to certify the accounts, is an unprofitable occupation for the internal auditor. Except in the least sophisticated countries, with a low standard of clerical work, a ticking audit is a waste of time and we encourage the audit teams to use their initiative until they hit on something which really needs attention and then to do a thorough job on it. We consider that a rigid programme can do more harm than good and recommend that audit programmes should be used as reminder lists and not as something to be covered 100 per cent.
68. *Other points.* You will have noted that I have made no reference to ‘sampling’ and I should like to hear your experience of this technique. Personally I find it hard to believe that auditing is something which can be well done by any formula or short-cut method, though I am open to be convinced. A sense of smell for the weak spots, based upon instinct and experience, imagination, perseverance, and an ability to encourage people to open up rather than cover up when they are being audited – these to me are the essence of a good auditor.
69. I do not want to leave this subject without saying, with respect, that industry would feel much better when they pay their external audit fees if they could be sure that their internal controls had been scrutinised by the external auditors – and if they could also be sure of receiving a note of constructive suggestions for tightening these up, or for cutting out unnecessary work. I understand that this is being done more and more but I suspect that there are still a few clients about who feel that they are paying for work which is largely of a routine nature.

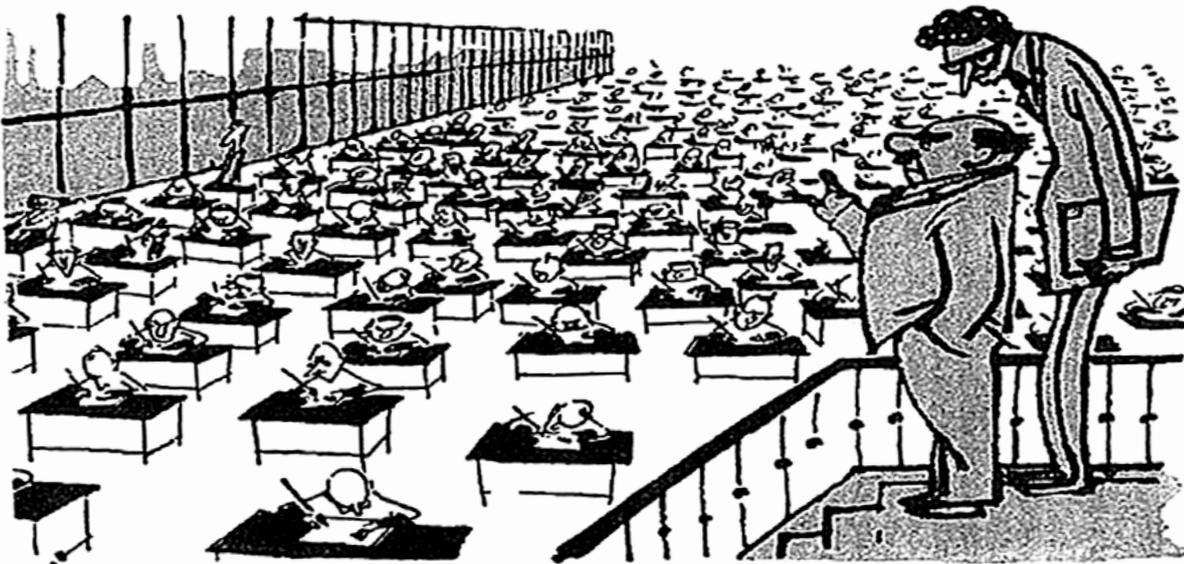
## Communications

70. Good communications at the top depend upon the ability of managers to understand each other’s problems and for that reason I am a great believer in a flexible organisation in which top potential men are freely transferable between functional departments. This is something which already exists, but is being developed as a matter of urgency, in Shell.
71. As regards communications on the finance front, I mentioned earlier the question of visits from the centre to the operating units – in our case from London and The Hague to our operating companies. Apart from visits in connection with some specific matter, such as taxation or large-scale local financing, each operating company is visited once every three years. By experience we have built up a check list of points covering every financial aspect of the business, with the emphasis upon internal controls, increased efficiency and less paper work; these visits are invaluable to us and in general much appreciated by those running the companies. They are particularly valuable in assessing the ability of staff – sometimes the men who show up indifferently when they visit us in the central office prove to be towers of strength on the job. Visits are also useful as a means of obtaining first-hand knowledge of the operations; in a week one can learn more about what is going on than one can learn from months of reading correspondence and files.
72. Occasional meetings of top level finance men help to build up a valuable link of communication on a personal basis. Over the past six years we have held meetings in Rio, Kenya, Hong Kong and London for our representatives from companies in the Western, African, Eastern and European regions. At the European meeting at the end of 1962 we concentrated on the stream lining of office procedures and it was encouraging to note that in the Common Market companies and the United Kingdom there had over the past three years been an increase of the order of 40 per cent in the volume sold with a reduction of finance staff over the same period.
73. The screening of requests for management accounting information calls for good communications with the operators and an understanding of their problems. Accountants have the reputation of being gluttons for paper work and sometimes a bad name for requiring everything ‘accurate’ to the last penny. Nevertheless I have found recently, since the pressure has been on to cut out unnecessary work and save staff, that I am frequently defending the finance representatives in the operating companies from the insatiable appetite of others for figures of all sorts. Seeing the whole picture one is in a strong position to point out to the operators that many of their requests are unjustified and to suggest other more useful information which may be easier to obtain.

74. An important point on communications with one's own staff is that they do need a deliberate effort from the top and they must be seen to exist. Our experience is that there is a demand from the lower level of management for information about the company's affairs, whereas the rank and file are often, unfortunately, not so much interested in this as in an opportunity to make a point about matters which affect them personally.
75. A constant danger to be guarded against, sometimes said to be justified in the interests of communications, is the large meeting, packed with amateurs and non-experts, which sits for hours to 'exchange views' and never reaches any conclusions.

### Cutting out unnecessary paper work

76. In most large organisations a proportion of the clerical work is non-productive and can be classed as 'doing business with oneself' – an unprofitable pastime. There is also a common tendency to insist upon an unnecessary degree of perfection in figure work, which costs money and gives no return.
77. British industry is in a phase when profit margins are being squeezed more and more by competition from Europe and, though increased volumes may offset this to a certain extent, returns on capital employed will fall unless efficiency can be increased by cutting will out the fat. The initiative must come from top management who will have to manage 'by exception' and no longer allow a costly mass of information to be kept 'in case they should ask a question'. The problem is put into perspective when we consider that, with tax at 50 per cent, every £1 saved is the equivalent of selling another £10 worth of goods in a business where net profit margins are 5 per cent. Therefore:
- (a) no office procedure and no information produced should be taken for granted; everything going on in the office should be critically examined, and periodically re-examined. If it does not spark off action which increases profitability, or usefully appraise past performance, it should as a rule be cut out;
  - (b) what is left in the way of office work, the bare essentials, should if possible be mechanised.
78. This being agreed I should like you to give consideration to the points listed below, and to anything of this nature in your own organisations which may be of interest in the discussions – particularly 'success stories'. Some of the points confirm the thoughts which I have expressed elsewhere in this paper and they should produce some fruitful discussion. If you have not already seen it I think you will enjoy the cartoon below which sums the problem up rather neatly, and shows that the Russians also 'mean business':



*No matter how many people we take on we still can't find out why production costs are so high. - From Krokodil.*

- (1) The middle layer of clerical worker in most companies, i.e. the men with (say) twelve others responsible to them, may have a vested interest in paper work. What can be done to make them profit and cost conscious? What incentives can be offered and what yardsticks of efficiency can be applied?
- (2) The best way of reducing numbers in a head office is to reduce and then standardise the flow of reporting and other paper from the field. What are the minimum essential head office requirements in organisations of different shapes and sizes, i.e. what do top management get and what do they do with it?
- (3) At what level of operating unit is it of value to establish profitability figures, involving a lot of clerical effort, bearing in mind that some of the vital elements of profitability, e.g. purchasing, selling prices, etc., may be outside the control of the manager of the operating unit?
- (4) Efficient budgetary control and forecasting is essential, but ‘warmed up’ figures of past costs are useless as targets. The preparation of budgets and forecasts takes time as does their comparison with actual results. What are the essentials?
- (5) If costs are properly controlled before the money is spent it might be said that no ‘cost controls’ on paper would be necessary. How far can one go along this line? How often and in what detail should cost figures be produced which are both meaningful and of value as a basis for action?
- (6) Is the historical allocation of overheads and indirect expenses to operating units, or to individual products in a marketing organisation, worth-while except as a special study? Are notional profitability figures worth having?
- (7) Organisation charts are a good thing but if taken too far they can tie up an organisation by setting up a number of small watertight boxes – each with a chief: too many staff result through loss of flexibility. Similarly too many layers of authority lead to a duplication of effort and over-staffing. What views are there on these points?
- (8) There are very few jobs in the office which cannot be done with less staff when the pressure to economise is on. In most businesses staff and labour numbers, with the overheads which they attract, are the key to costs. This being so, should not greater attention be paid to staff numbers?
- (9) Are monthly financial figures, e.g. of profits, costs, etc., always worth the work involved in producing them when, over such a short period, the figures are apt to be distorted by exceptional items?
- (10) Statistics of output and sales are interesting but do not necessarily lead to increased profitability. Is the cost of producing statistics always matched against their value?
- (11) The important matter of collection and credit control receives a varying degree of attention in different companies and the procedures also vary. What are the essentials?
- (12) A lot of clerical work often goes into the control of returnable containers. Is this worth-while and what are the possible short cuts?
- (13) What about stock control and stock valuation? These are key figures when arriving at profitability results, but how detailed do the controls and valuations have to be?
- (14) The physical control of material not for resale, i.e. stores, construction material, etc., is vital but is it necessary to allocate the cost of every nut and bolt to operating units or expense headings? Is there any disadvantage in the greater use of ‘non-costed’ stores, the cost of which are written off on purchase?
- (15) Bulk stocks of valuable liquids, e.g. oil, are often measured at 15° in order to improve loss control by eliminating the effect of temperature variations. These calculations call for a lot of clerical work and, since a fraud can in any case be carried out by falsifying the temperature, is there not a case for taking a calculated risk by measuring the liquids at natural temperature?
- (16) Is it necessary to make a 100 per cent check on suppliers’ accounts or to send monthly statements of account to customers who are quite capable of keeping their own record of what they owe?
- (17) Time is wasted in some organisations by the need to obtain several signatures before a payment can be made. Since the first signature is invariably the one which matters, and on which subsequent signatures are apt to be based, are the others necessary?

- (18) The presentation of the same information in figures and in graphs is a common source of wasted clerical effort. Is this luxury worth the cost in clerical time?
  - (19) Some form of internal audit is essential but it can be expensive and completely unprofitable if based on routine checking. Has the efficiency audit, the audit of built-in controls, and the audit in depth of selected aspects of the business been sufficiently developed?
  - (20) In the field of punched card machines, is it necessary to employ people whose sole job is to check the holes punched by others in the cards – should not ‘key punch verifying’ be restricted to spot checks?
  - (21) To what extent are manuals or procedures, job content, etc., essential?
  - (22) How detailed do staff reports and records need to be?
  - (23) To what extent can office services be streamlined, work contracted out, etc.? (In most of our companies office services are, unfortunately, the responsibility of finance.)
  - (24) Do time clocks or books for office workers serve any real purpose – they involve some checking which may be unproductive?
  - (25) Methods studies can be expensive if they are not carried out with urgency by the right men, and so can conferences and courses. Do they always show a pay-out?
  - (26) Machine developments make it increasingly easy to obtain information but the input has to be prepared in a form which the machine can handle, i.e. on cards or tape, and when the information is produced it has to be studied by somebody – all this and the machine time cost money. Who is to say what work should be put on to a computer or tabulator, and allocate priorities?
  - (27) Should data processing machines be the line responsibility of the finance organisation in a company or should they be run by an independent group as a ‘service bureau’ within the company?
  - (28) With rapid developments in the field of data processing machines, and constantly improving machines on offer, it is all too easy to lose sight of the original pay-out target. Is there always a sufficiently hard-headed approach to the use of computers, with a frequent review of achievement against the pay-out target?
79. All these are questions which we have been profitably asking ourselves recently and I feel sure that you will have other points to add to them.

## Office services

80. In many organisations finance is saddled with the responsibility for office services and this paper would not be complete without some brief reference to the problem.
81. With our recent move into Shell Centre, giving us a concentration of some five thousand people who were previously spread over many different offices in the city, two points particularly have struck me. One is that there is a tendency for bureaucracy to creep in when services have to be organised on such a massive scale. The benefits of concentration can be lost if people, left to operate without the close supervision inherent in a small organisation, build up an empire in, say, stationery, laying down unnecessarily rigid rules, getting people to fill up unnecessary indent forms, etc. The other point is that the built-in resistance to change can sabotage good ideas unless a few people at the top interest themselves and experience the effect of the changes personally.
82. On the whole I think that the U.S.A. is ahead of the United Kingdom in taking advantage of the improvements in office equipment: there is an excellent booklet by Mr J. J. Hickey, an American management consultant, on this subject. They have been less willing than us to accept the excuse that ‘something works’ as a reason for not trying to improve it. Quick reading is a good example – they estimate that the average executive spends four hours each day reading and this I can well believe: it has been proved that speed can be more than doubled and comprehension increased through quite a simple method of training. This could obviously produce quite startling results in a big office, provided that executives do not read twice as much! Absenteeism is another: surveys have proved that some 30 per cent of absenteeism is usually attributable to about 10 per cent of the employees – often due to a weakness at supervisory level. Greater efforts have been made to reduce paid overtime and I read recently that one firm eliminated overtime altogether by insisting that it should be worked at the beginning instead of at the end of the day! They run courses to teach people how to be brief in dealing with correspondence and they encourage handwritten notes in order

to eliminate typing and filing. The relationship between good output and adequate lighting, especially for older staff, has been proved. They are prepared to put senior people on the spot if inefficiency is being tolerated – for instance, by exhibiting all forms in use and getting executives to initial those which they say they need. I do not imply that we are doing nothing in this respect but I feel sure that there is plenty of scope in the United Kingdom for increased productivity in these matters – even if we do not go so far as to weigh our executives each month and enrol those who are over-weight in the ‘Fat Men’s Club’.

## Computer developments

83. The emphasis in this paper so far has been upon straight-forward methods and common sense – a tremendous amount of streamlining can be done in this way to increase productivity, but in a large organisation a great deal more can then be achieved with the use of the latest machinery. Mr W. G. Melrose, who is the head of our data processing division in London and a member of the Scottish Institute, has kindly come here today in order to answer any questions of detail on this subject.
84. In North America we have been using computers for a long time, both for data processing and technical work, and some other Shell companies are not far behind. Our annual bill for the rental of computers and other data processing equipment is formidable, about 50 per cent of this being spent in the U.S.A. and Canada and 25 per cent in France. Belgium, Germany, Holland, Italy, Venezuela, the Dutch West Indies and the United Kingdom are also making good use of computers, as we are in the central offices in London and The Hague. About a dozen other companies are planning to replace their punched card systems with computers in the very near future.
85. There are of course opportunities on the technical side of our business, e.g. in the programming of yields in refineries, in the planning of supply routes, etc., but I must concentrate here on the contribution made by computers in the paper problem, i.e. in data processing. We have tackled all the obvious applications, that is to say, payrolls, cost control, sales statistics, invoicing and customers’ accounts, stock and materials control; we have had our teething troubles, but an increasing number of success stories are beginning to come in. We judge success strictly on the basis of pay-out, i.e. through reduced costs or new and quicker information of real value: and here one has to be careful not to attribute cost reductions to computers if they could have been achieved by improving the systems with the existing equipment. A couple of years ago we were concerned about this question of pay-out and called a meeting of major user companies at which we made this clear.
86. One of the snags about renting any machine is that it is all too easy to change it for something more up to date or more attractive, before one has had to face up to the discipline of showing a pay-out. For this reason, among others, we now consider very carefully when installing new machinery whether we should rent or purchase – although I must admit that most of it is rented.
87. Unlike some of the American oil companies we have not standardised on any one make of computer although some of us feel that we might have saved time and money had we done this to a greater extent. The pros and cons on this point are too obvious to go into here, neither do I want to go over all the usual computer ground again as there have been some excellent articles written recently on this subject – notably I think those by Mr Hooper of the Coal Board. It may be of interest to you, however, if I outline some of the problems we have come up against so far:
- (1) We have found that this highly technical and rapidly developing field is one in which our operating companies need a good deal of advice from the central office when choosing and installing a machine. We are building up a useful pool of experience and we can help by sending men out during the planning and start-up periods. So far, however, we have not achieved much in the way of standardising computer programmes.
  - (2) Our policy is to run the computers as bureaux giving service to their organisations as a whole, but since the data processed up to now is largely based on, or stems from, information for which finance is responsible, the computers are almost without exception placed within the finance organisations of the operating companies. This pattern may change as the computers tackle more work outside of finance, when the computers will tend to be run by independent bodies who are not themselves users of the computers’ output. We shall then have to keep a tight hold on time-tables, etc., in order to meet financial deadlines.

- (3) I think more could be done to perfect the appreciation courses laid on for the users of computers. It seems to me that one should tailor-make these courses for the various groups of people, e.g. internal auditors, in order to emphasise the aspects of greatest value to them – and above all avoid too many technicalities.  
I hope to learn something from you on this point.
- (4) I am not too happy personally about the career development of computer experts. What does one do with a good man aged 35 who has been running the computer organisation in a big company for five years?
- (5) In our costing process, we are finding it increasingly important to make a charge to the users in order to stop them making unnecessary demands upon the computer's time or making constant changes in their requirements, since reprogramming is a big job.

88. By experience we have learned the following lessons:

- (1) The starting-point for a study regarding the acquisition of a computer is to determine the exact requirements. A clear statement of objectives is required from management and the need for each existing report must be ascertained and justified. It is a waste of time and money to introduce a computer before this has been done: a good system without a computer is better than a bad system with a computer.
- (2) On the introduction of a computer an all-out effort must be made to inform management at all levels of what it can do – with a minimum of detail about how it works – and to enlist their support for systems analysis studies. The effect on personnel and staff morale, even at the investigation stage, needs careful attention at top level.
- (3) Centralisation of work is necessary and this means that there must be strict observance of laid-down procedures, based on a uniform code.
- (4) Sufficient time should be allowed to train staff, or recruit if necessary: morale will be more easily maintained if existing staff are redeployed. The problems of the time necessary to programme operations adequately is one which computer-manufacturing companies tend to minimise.
- (5) The latest high-speed machines are expensive to operate so that the correct coding of input data has become increasingly important in order to avoid a waste of money and effort through stoppages. Clerical staff numbers in the field are being reduced but it is felt that coding should be decentralised with the minimum of subsequent control. This includes the possibility of transferring the responsibility for coding to the operational units and thus cutting out queries on the information fed back to them from the computers.
- (6) During the period of change-over to computers it is necessary to make use of a small group of trouble-shooters, to smooth customer relations when errors occur.
- (7) It is essential that the internal and external audit should accompany the development of computer (and also punched card) procedures so that the building into the system of satisfactory internal controls is agreed upon by all from the start.
- (8) In general we have found that the cost of a medium-sized computer is roughly equivalent to that of three tabulators and there is the advantage with a computer of quicker information and the ability to absorb increased work-loads.

89. A significant step forward in the profession was the announcement by the Council in August this year that there is to be a pilot course in January 1964 following which the Council will consider running a series of courses with special reference to the control aspects.

### Recruitment into finance and training for management

90. The most efficient organisation will soon deteriorate if it does not attract a steady inflow of good men, and I should like to touch on our recruiting policy and on what is required of young men in industry – a subject admirably dealt with by Mr Searle of B.P. at Oxford last year. In general we look for a blend of qualified accountants and graduates (regardless of what they have read): if we can get good men with both a professional qualification and a degree or up-to-date knowledge of computers etc. we count ourselves lucky. There are about eighty chartered accountants on our payroll, the majority working overseas, and there is always room for more if they have what we want in the way of personality and character, with potential as

business men. We are aiming high because we know that more and more of these men will be called upon in the future to leave finance and manage autonomous operating units, and I am sorry to say that we sometimes find the essential qualities lacking in the qualified men we interview. This I regard as due to the facts that (a) the academic standards for entry into the profession have not up to now been high enough – I should have thought two ‘A’ levels the minimum essential, and (b) the training under articles could still be improved – this I touch on later. But we are convinced that, other things being equal, we could do with more qualified accountants of the right type since they can be put straight into a job of some importance and give us an immediate pay-out.

91. Mr J. W. Platt, a director of Shell Transport & Trading and chairman of the Foundation for Management Education and of the United Kingdom Advisory Council on Education for Management, has pointed to the need to replace what is outdated, whilst preserving what is valuable, in our efforts to increase business skill. He stresses the need for training in the effort of thought – something which, to my mind, is given insufficient mention in our exams which set a premium upon the ability to memorise facts rather than to analyse situations and reach decisions. If we do not watch this point young chartered accountants are going to be at a disadvantage when matched against graduates coming into industry with minds trained to think and reason. Mr Platt has also pointed to the danger of specialists missing promotion, to which they are otherwise entitled, through the lack of broader education and experience of being subjected to the discipline of hard constructive thought. He has made the interesting observation, often overlooked, that the speed with which accurate information can now be made available to management through the use of computers, whilst in a way simplifying the manager’s task also makes it more gruelling since the consequences of misjudgement are more clearly revealed. The development of computers, he suggests, cannot therefore be regarded as a support for weak management but rather as a tool which is increasingly essential to the able and those equipped to use it. He considers that management education and training, in which we should include our own professional training as more and more young chartered accountants go into industry, should be more directly tied to the real needs of business and reflect changes in those needs.
92. Whilst there are plenty of good brains about, there is a shortage of top-flight management potential in the United Kingdom today – a notably weak spot being the lack of a thorough understanding of finance. Top management’s job, in a nutshell, is to exercise judgement over a very wide field and to do this they must, firstly, know how to handle people in the broadest sense and pick the right men, and secondly, I think, have a good working knowledge of financial matters, without which they can be no more than amateurs in business.
93. The door seems wide open therefore for young qualified men if we can train them not solely in the technical aspects of finance but also in the development of their powers of thought and imagination. In management, character and personality are as important as technical skill, and these can only be developed by exposure to problems to which there is no exact measurement of the answer, to the challenge of taking risks and decisions however small, and to responsibility. It should not be impossible to take this more into consideration in our system of training under articles. In Shell we are doing everything possible to expose our young men in these things – I can think of some around 30 years of age who are responsible for the financial work in small operating companies in remote parts overseas and others, younger than 40, who are holding down really big jobs looking after the financial affairs of companies producing, refining and selling oil with annual proceeds of the order of £50 million. Obviously, to do these things, usually in a foreign language which has to be picked up on the way, there is a need for a good measure of character, personality and ability.
94. I have been talking exclusively of what we are looking for in young men today. What about the other side of the coin – what do the young men expect of us? I suspect that a career in such a very large organisation may have a limited attraction because they fear that they will get lost or forgotten about, and proceed peacefully from the cradle to the grave with Shell playing a bigger and bigger part in their lives and sapping their individualism. If this is so I should like to take this opportunity to put the record straight. Recruitment, training and career development are aspects of our business of which we are proud and it would be short-sighted to make economies in our investment in high quality men. Without wishing to advertise, I think it is less likely that men will get lost in Shell than in a smaller organisation which may be unable or unwilling to spend the same amount of time and money on this sort of thing. As regards the other point, in an increasingly complex world, where the readiness to assume responsibility is all-important, young men are encouraged from the start to stand on their own feet. The pendulum of our staff pattern, after swinging from the inevitable patchwork resulting from the war to a somewhat too even pattern produced by the intensive

post-war training programme, is now back in the middle where it should be. The top prizes are going to business men with individualism, character and sound technical knowledge, coupled with the ability to get along with people without always giving way to them.

### A broader base for the work of the profession

95. Some professional firms have moved into management consultancy, but when one watches the progress being made in this field outside the profession (and I should stress here that this is entirely a personal view) one wonders whether enough is being done and whether there should not be more official encouragement from the Institute to its members in this direction. The profession has an entry to industry second to none through the statutory audit, and a wide experience of all types of industry. It is disappointing therefore to see high management consultancy fees going to firms no better qualified than our best men to do the work, in which financial aspects are usually the most important although there are of course other operational aspects. Are developments being unduly restricted by the somewhat narrow definition of what constitutes advertising and promotion in the profession? There is increasing reference to this point in our technical journals but these are only read by us; what may be necessary is a stronger public relations effort aimed at the potential customers. The recent booklet issued by the Institute was a good start.
96. A by-product of a move in this direction must be that the profession will become more attractive to the young man who wants to make an active contribution to productivity in industry, both whilst under articles and after qualifying. The statutory audit is a most important matter, but we should be sticking our heads in the sand if we thought it either stimulating to those doing the work or as productive as industry would like it to be. The training programme would need broadening: most men going into the profession would welcome an opportunity to study management consultancy work and the potential of machines, which will in their time revolutionise clerical work, and it is necessary, in my opinion, for some period of the articles to be spent in close touch with management consultancy and computer work. It may be that this additional work would be too much for a man to absorb in the time available; if so, the answer must be specialisation in two streams, for the profession and for industry, at a certain point.
97. In Shell we are putting all our promising young finance men, and some others, through our computer division as soon as possible since we are convinced that a sound appreciation of what the machines can do, and some knowledge of how they work, will be essential for any top finance executive in the future. The lack of this will mean that accountants will be pushed into a back room – they will not even be the book-keepers since there will be no books to keep. They may no longer be required in industry – their places being filled by efficiency men, computer experts and economists.
98. Professional firms should lose no time in getting to grips with this management advisory work (including the use of modern machinery) and I should like to discuss the possibility of a series of courses (sponsored by the Institute with the assistance of people who have had practical experience of the problems in industry) for those who feel themselves inadequately equipped. I have in mind here not the big London firms, many of which are well into this field already, but the medium-sized provincial practice which may be missing opportunities by not getting into this work. In my opinion advice from the Institute in printed form on such matters as management accounting is no substitute for what I have in mind. The exchange of views, discussion with experts and the time to concentrate on the subject can only be obtained at courses or conferences.
99. I can see no incompatibility between the audit and a management consultancy service – indeed there must be duplication and wasted effort if the two are not performed by the same firm. I doubt if professional firms in general are making enough use of their wide experience in order to advise their clients on how to run a more efficient and profitable business.
100. In industry, also, men with financial training can do more. It is still too common in the United Kingdom for the role of finance to be purely accounting and advisory, i.e. as a service to ‘line’ management who have the ultimate responsibility for decision-making. To be ‘on tap’ and not ‘on top’ is not a role which satisfies everybody’s ambitions or makes full use of their potential and the best men today are being drawn to industrial firms which encourage them to forget that they have been trained as specialists. It is not only the money in industry which attracts – it is the opportunity to become a manager instead of an accountant. In Shell those ‘line’ managers who have come up through finance are doing a first-class job, partly because near the top of the tree almost every management decision has a financial angle and a manager who understands finance can take this in his stride. It is significant that the top executives in General Motors, Fords and Chryslers in the U.S.A. are all ex-finance men.

101. I do not know what view the Institute takes regarding the references which appear from time to time in the Press regarding the public's – sometimes unflattering – image of the accountant: my own view is that they are food for serious thought. Unless we can broaden the base of our activities, as I suggest, and cease to rely so exclusively upon the historical accounting, audit and tax functions, we may be allowing difficulties to build up for our successors in the profession. The criticisms one reads are either that we are back-room men, too remote from and disinterested in action, or that we are flooding the boardrooms, through our ability to play around with balance sheets, yet with insufficient knowledge of the operations of the business to justify this position.
102. We shall be more appreciated if we train our young men and encourage those already qualified (whether in the profession or in industry) to act as business men with a responsibility to increase the efficiency and productivity of the business with which they are in contact, and looking more to the future than to the past.
103. The majority of the big industrial firms have their own organisation and methods departments and can therefore do a lot of this work for themselves, as we do in Shell. Being big they also usually have the advantage of widespread international experience, although even they – and one can quote I.C.I., K.L.M. and Shell as examples – have recently felt it necessary to call in outside consultants. The majority of firms in industry, however, are smaller and cannot afford to keep highly-paid men on their payroll for this work, neither do they have the spread of experience. Yet a friend of mine, with a sizeable industrial business in the provinces, recently wanted his organisation overhauled and was told that there was only one firm in his county capable of doing the job; he said that his own accountants, quite a well-known firm in the provinces, would not in his opinion even know how to set about such an assignment. There must be a big opening in this field and I suggest that the hesitancy shown by all but the larger professional firms may be due to a lack of confidence in their ability to do a good job.

#### A suggestion for courses in management accounting etc., to be sponsored by the Institute

104. Although it is possible for a professional firm to send representatives to courses run by management consultants and others in order to study the techniques, I doubt if many do this – the courses are expensive and may be over-done. But if courses were to be sponsored by the Institute, with the programmes and material drawn up with the aid of those of us who have had this experience in industry, I feel sure that they would be well supported. The discussion leaders might be a blend of active and recently-retired industrialists. A few subjects which come to mind are:
- (1) techniques of management accounting;
  - (2) mechanised accounting;
  - (3) clerical procedures – the elimination of paper work, staff economies, etc.;
  - (4) forecasting and targets;
  - (5) cost control;
  - (6) working capital control;
  - (7) business yardsticks – measurement of profitability, selective marketing, etc.;
  - (8) efficiency audits;
  - (9) internal controls;
  - (10) financing and investment;
  - (11) pay-out and profitability calculations—discounted cash flow;
  - (12) practical foreign exchange problems;
  - (13) organisation;
  - (14) case studies;
  - (15) financial 'education' for management.
105. Given this opportunity I think that professional firms will feel that they are being actively encouraged by the Institute to tackle the problem: the fact that the courses are sponsored by the Institute will be concrete evidence of this – mere exhortations are not enough.

106. How would this be put to practical use? With a little salesmanship (if one can use this term without being unprofessional) any business, however small, should be glad to have an objective assessment of its efficiency in these matters from time to time – perhaps every five years. As regards the cost I should imagine that the time involved on such a survey would be much the same as that spent on an annual audit. We do a similar job when we visit our operating companies and I cannot remember a visit which has not amply repaid its cost through increased efficiency; with a comprehensive check list one is able to cover quite large companies single-handed in a surprisingly short time. We have the advantage that our companies are similar, although they deal with many different functions of the business and in different languages, but as against this a firm of auditors would start off with a very detailed knowledge of how each business is run.
107. One of the great things about such a development would be that it would make the work of those below the level of partner in professional firms a great deal more interesting, thus probably raising the standard, and new intake would welcome this broader horizon if it is reflected in their training programme. It should also help to stop, or even reverse, the present drift of good men into industry: this must be a bad thing for the profession which as a result is, I suspect, overloaded at present with men who have no hope of partnerships and perhaps too little confidence in their ability, or too many domestic commitments, to try their luck in industry.
108. Industry needs the advice and help of the profession and the door is still open, but unless we move in quickly others will do so and a great opportunity will have been lost.

#### A suggestion for post-graduate training, to be sponsored by the Institute

109. The number of properly qualified management teachers in this country is negligible and the volume and quality of business training far too low. According to The Financial Times some five thousand students in the U.S.A. take a Master's degree in business studies each year and another one hundred are awarded Doctorates for specialised research. There is a vacuum to be filled here and the universities and others are aware of this: but I am not convinced that business skills will best be taught and studied in the atmosphere of universities, unless they have the close co-operation of industry and of our own profession.
110. There is a strong case in my opinion for the Institute to participate in, or even set up as a post-graduate course for newly-qualified men, a Department of Management Education and Research at a high level on the lines of the Harvard Business School or M.I.T. I believe that this would attract a number of high-quality people from industry (and possibly a few from professional practice) as tutors – I have in mind particularly those from organisations such as my own who retire at the early age of 55 if they have done a lot of overseas service. This incidentally would represent a contribution by industry to the training of the coming generations – I believe there has been criticism of the fact that industry absorbs such a large proportion of our members but plays little or no part in their training. If successful, as I have no doubt that it would be, it should at least cover expenses and amply repay the effort by producing more all-round financial managers, both for the profession and for industry. We are still regarded in the United Kingdom as the leading professional body in the business world and should be well qualified to tackle this problem. A public demonstration of foresight and energy such as this might have considerable public relations value.
111. The short courses for existing members of the profession referred to in paragraph 104 (which might be run centrally for a year, after which the district societies could probably continue them more conveniently) would serve as an admirable 'pilot plant' for the more important post-graduate courses, if it is considered feasible to set these up ourselves. The latter might last for about three months each, extending well beyond the field of subjects which I have suggested for the other courses and covering every aspect of business management with the emphasis on discussion, case studies, etc. The newly-qualified men would be made to think for themselves and to weigh the solutions to practical problems with experienced tutors. If three courses of, say, one hundred men each could be handled annually it might be a good idea to invite twenty to each course by the award of scholarships on the basis of their performance in the Institute's final examination, and interview, in which case the remaining eighty places could be filled by application, interview and the payment of whatever fee is necessary to make the project solvent. If the overall annual cost were to be in the region of £75,000, including interest on capital and the salaries of, say, eight first-class tutors, the 240 paying students would have to find about £300 each for a course lasting three months.

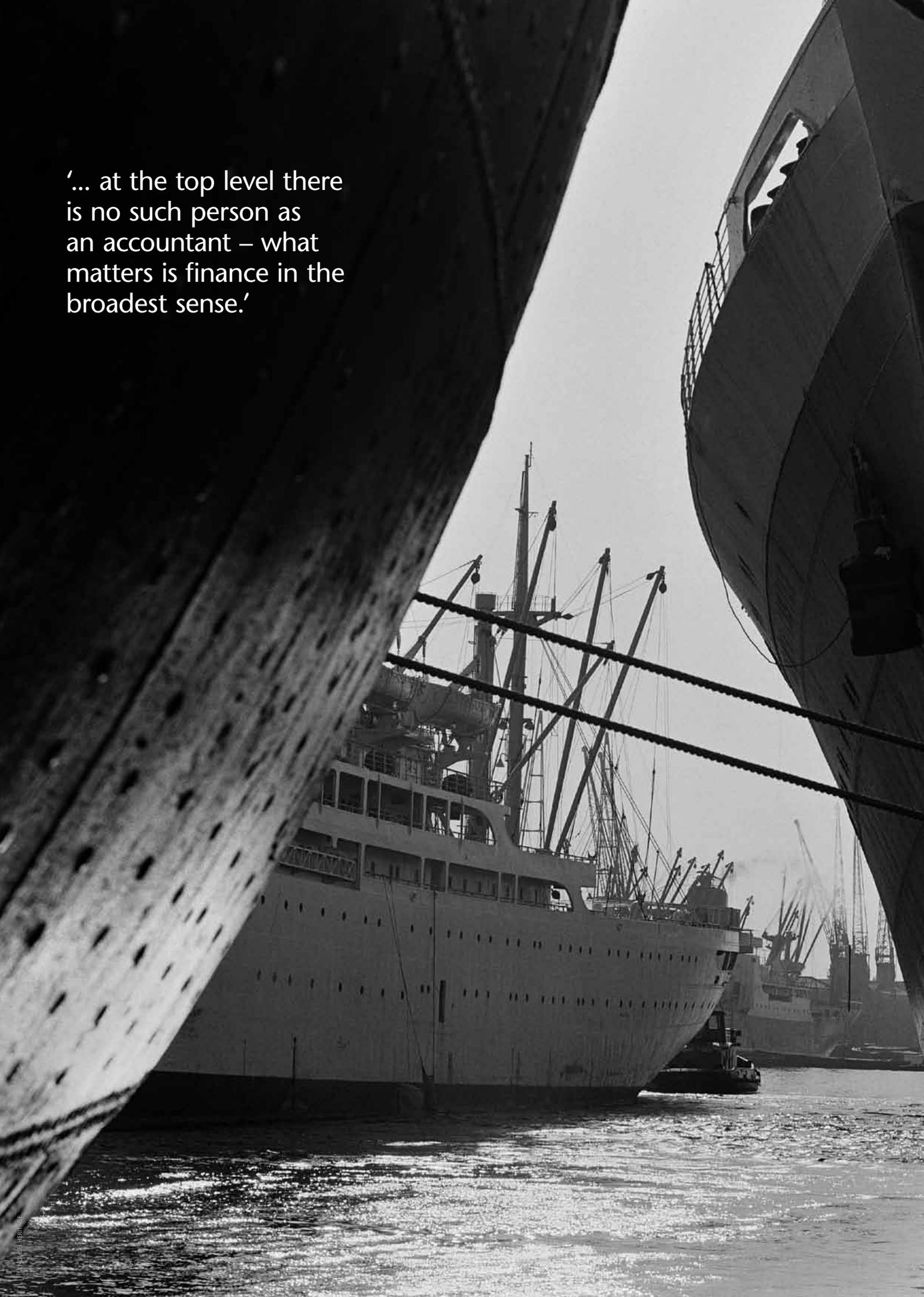
112. A criticism of such a scheme might be that after studying and working under articles for anything up to five years, on a very low salary, many young men want to earn a living wage and stand on their own feet: but an increasing number will I feel sure take a longer view than this, or be encouraged to do so by their parents, as they already do in the United States and most other European countries; indeed, this post-graduate course might have the effect of attracting better quality into the profession, whilst the scholarships might supply the extra stimulus to do outstandingly well in the examinations and not just scrape through. And here I should like to stress that I regard six 'O' levels as an inadequate standard for entry into the profession – leading, I suspect, to a good many failures and disappointments. It has been said that undertaking is the job for a boy with 'O' levels in divinity and carpentry – we do not want similar comments about six 'O' levels and our own profession!
113. At the time of writing, the position, which may be overtaken by developments before our meeting in September, is that there are three groups pressing for the provision of advanced business studies. These are:
- (1) The Foundation for Management Education, which has secured the support of Government funds and is backing schemes in a few universities.
  - (2) A group which would like to see a single university, not yet built, chosen as the principle centre for these studies.
  - (3) A group which at one time considered that industry should set up a new centre, apart from the universities, but now seems likely to combine its efforts with the first group.

It should not be too late for the Institute to play an important part in any of these schemes or, to set up its own scheme: Mr Platt has told me that the Foundation for Management Education is keen to get our co-operation and I support this route, rather than to 'go it alone' which would mean a further dilution of the national effort.

In my opinion we should cater for existing members on the lines set out in paragraphs 104–108, whilst for the future generations we should give strong support to the Foundation for Management Education. I believe that no more than about 10 per cent of our articulated clerks have been through a university, although many more would have had this opportunity in other developed countries where university places are less tight. Anything we can do to give these men the chance of even a year at a university after qualifying is worthy of strong support.

I regard this as by far the most important issue touched on in this paper, and if we do no more today than formulate our views on this subject alone, we shall not have wasted our time.

'... at the top level there is no such person as an accountant – what matters is finance in the broadest sense.'



# COMMENTARY

## A BUSINESS PARTNER IN THE 1960s

**Gudrun Baldvinsdottir, Trondheim Business School**

**John Burns, University of Exeter<sup>6</sup>**

**Hanne Nørreklit, Aarhus University**

**Robert W. Scapens, Manchester Business School  
and University of Groningen<sup>7</sup>**

In recent years we have been researching the changing role of the management accountant and Harding's lecture provides fascinating insights into the role of the management accountant (or in his terms – the finance manager) in the 1960s. Our earlier work had suggested that management accountants are increasingly providing business support to managers. In surveys taken at the turn of the new century we saw "management accountants working alongside managers, in cross functional teams, using their analytical and interpretive skills, together with broad business knowledge, to provide business support" (Scapens et al, 2003: p29).

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More recently, the term 'business partner' seems to be increasingly used to describe such a business support role, and a number of research studies have been undertaken to assess the extent of the change from the traditional role of the management accountant (often stereotyped as a 'bean counter' – see Friedman and Lyne, 2001) to a new business support or business partner role (for example, see Byrne and Pierce, 2007). While these studies do show some movement towards a business partner role, the evidence is mixed as many elements of the traditional 'bean counter' role remain. Thus, it seems that the bean counter and business partner roles co-exist, and both may be essential elements of the work of the management accountant (see Baldvinsdottir, et al, 2010).

In our current work we are studying the extent to which a business support role was part of the work of management accountants in earlier decades. In other words, we are re-assessing whether the notion of the management accountant as a business partner is really that new. We are currently analysing tape recordings of interviews with accountants which were conducted over the past 30 years. In these recordings (management) accountants describe their day-to-day activities. Although the interviewees had various job titles, they performed activities which we would conventionally consider to be management accounting. In this work, rather than seeing a shift over the years from bean counters to business partners, we are seeing management accountants seeking, at different times and with varying degrees of success, to find ways to support their managerial colleagues. Although in the earlier periods they were more involved in the day-to-day record-keeping (the bean counting role), they were nevertheless still involved in providing business support.

Many of the interviewees saw their role as bringing a financial discipline to management decision making. A financial controller at the UK head office of a US owned manufacturing company commented that:

It's a great source of personal satisfaction that in this company ... I can be a commercial manager rather than just a controller.... not just an accountant, but bringing financial techniques to management decision making. [22 May 1984]

Now, reading Stanley Harding's lecture we can see that he was similarly seeking to provide business support to managers in Shell in the 1960s. His 1963 lecture discusses many of the issues that were raised during the interviews in the 1980s and 1990s which we are analysing. As such, he could be described as a visionary. His lecture describes what he was seeking to achieve in Shell in the early 1960s. He was clearly at the forefront of thinking and his lecture was an attempt to persuade members of ICAEW of the important role 'finance' could play in improving the productivity of British industry. He uses the terms 'finance' and 'financial managers' for what in our research we refer to as 'management accounting' and 'management accountants'. At the time he was writing Britain was still going through the period of post-war reconstruction, while facing increasing competition from around the world which was challenging the pre-war global superiority of British industry. His analysis of the issues and the way he describes the potential role of finance clearly shows that he had a very analytical mind which enabled him to be reflective and self-critical about his own role and the role of finance more generally.

In many ways he was seeking to enact what it meant to be a 'business partner' in the 1960s. For him, finance managers should support the non-financial managers and help them understand the financial affairs of the business, so as to maintain shareholder returns despite the increasing competition. In paragraph 8<sup>8</sup> he says: 'One of our main preoccupations of the moment is how to give non-finance men a better appreciation of the group's financial affairs...' Then in paragraph 9 he goes on to say: 'The problem with which we were faced in the light of increasing competition was how to become more efficient in order to maintain or improve our position and to give the shareholders a better return on their money in terms of earnings and dividends.' Although his advice was inevitably based on the context of the 1960s and consequently the specifics might differ from what a business partner might do 50 years later, he could be said to be seeking to be a 'business partner' in the context of the 1960s.

In the following sections of our commentary we will explore the extent to which the advice Harding provides, although shaped by the context of the 1960s, reflects similar concerns to those raised by the interviewees in the 1980s and 1990s. In the next section we will discuss how the context of the time shaped the nature and role of the finance function. Then we will comment specifically on Harding's views on forecasting and cost control and subsequently on his advice about understanding the business, before providing some concluding comments.

<sup>8</sup> Paragraph numbers refer to Stanley Harding's lecture reproduced in this publication.

## Context and the role of finance

As discussed in Stephen Walker's commentary, following the Second World War the UK went through a period of reconstruction during which many British companies were seeking growth and improved profitability. However, this was at a time when there was also increasing international competition. There were various attempts to learn from experience in the USA, which was perceived to be a more competitive and more productive economy. Various groups (some organised by the British government) went to the USA and returned with initiatives to introduce some of their ideas and methods into British industry. As it was a global organisation Shell will have been quite aware of the activities of its US competitors. In his introduction (1963, para 4), Harding mentions that Shell is the third largest industrial organisation in the world, with only General Motors and Jersey Standard Oil being bigger.

In some ways the global pressures and the need to improve the productivity of UK manufacturing businesses in the 1980s was similar to the experiences of Shell in the 1960s. Harding emphasised the importance of promoting profitability and controlling costs within Shell in the 1960s. Associated with this cost reduction was a decline in the number of staff in the finance function, but this was compensated to a great extent by the increasing use of automation and also by the early use of computers. In this context it was necessary to rationalise clerical work as the clerks making entries in ledgers and calculating variance reports were being replaced by automated bookkeeping machines and in some cases by computers. This mirrors to a great extent what we are finding in various areas of British industry in the 1980s and 1990s: reducing numbers in the finance function, rationalising clerical work and greater use of (computer) technology. Although we need to recognise that the nature of the computer technology was different in the 1960s and the 1980s/90s, nevertheless in both periods technology was affecting the role and shape of the finance function. Thus, both increasing (global) competition and developments in technology were important in shaping the role of the management accounting/finance function in the 1960s and in the 1980/90s.

In the 1960s, and still to a large extent also in 1980s, the accounting system was the primary source of financial information for managers. Managers who needed financial information for decision making had to rely on the information provided by their accountants/finance managers. This was to change somewhat in the 1990s with the introduction of Enterprise Resource Planning systems (ERPs), and the use of data warehouses and integrated information systems. This change had a quite significant impact on the role of management accountants, as they were no longer the sole custodian of the management/financial information, although responsibility for the new information systems often remained within the finance function. Nevertheless, the increasing use of ERPs changed the way in which managers could access the financial information they needed; in particular, they no longer needed to go to their management accountant to get management information. However, in the 1960s the accounting system was the only/main source of financial management information, but in a large company this could be very difficult to organise.

Harding argued that in an organisation the size of Shell there was a need to decentralise, and to give autonomy to business units, but this made it important to provide local finance support. This is very similar to the picture we are getting from the interviews in the 1980s, with head office providing the services to support local business units, and local (divisionally-based) accountants providing the accounting services to the managers of the business units. For example, the group financial controller of one large British company explained the role of management accountants working in the divisions as follows:

They are divisionally-based and they're responsible within their own division for making the profits that they say or plan to make. (3 July 1984)

As mentioned above, Harding talked about the need to help non-financial people understand accounting and financial information. From the evidence of our recordings this was still necessary in the 1980s. For example, the divisional management accountant of a medium-sized British company explained that 'our role in the last two years has really been about putting the division straight in a way which will enable that strength of product to reflect itself in the profitability of the division.' (8 February 1984)

In a similar way, Harding argued that the finance function should play an active, rather than passive, role in the business (1963, para 16), and he suggested that the finance manager should wear 'three hats': first, as a financial expert and second as an active member of the management team. These two roles, especially the second role, was increasingly being emphasised in the 1980s. As the divisional accountant of a large British multinational explained:

The accountant should be part of the management team, .... while essentially initially contributing in providing figures and advice to the general manager of the site, he will see himself as contributing to all areas. (31 January 1984)

Harding's 'third hat' was as the manager of the finance and accounting staff. However, as mentioned above, the numbers in the finance function were declining with automation and the increasing use of computers. Nevertheless, Harding emphasised the importance of the finance manager's leadership qualities in stimulating the interest and improving the productivity of the (remaining) members of the finance function. This role, although remaining important, was mentioned rather less in the 1980s/90s as computers were taking over (or had taken over) many clerical functions. Nevertheless, the finance managers were often responsible for the information technology and for the staff operating and maintaining the computers.

Harding recognised that previously his finance team had been too remote and there had been a 'lack of understanding between finance and non-finance management' (1963, para 21). Then, in talking about the role of the finance manager in operating companies, he said: 'in each of our operating companies (...) the finance manager speaks as a member of the management team on all finance matters' and he went on to emphasise that this is not just accounting, but 'finance in the broadest sense' (1963, para 22). This is quite similar to many of the comments that were being made in the interviews in the 1990s, when management accountants emphasised the importance of understanding the business in its broadest sense, and being able to relate to the needs of non-financial managers. For example, the group financial controller of a medium-sized UK company explained:

The importance of being a good financial manager/management accountant, you must understand the business and you must be able to relate to other people's needs. (6 June 1995)

As well as having very similar concerns about the role of the finance function, as we find in our recordings of management accountants in the 1980s, Harding makes a number of interesting points about the use of particular accounting methods and techniques. For example, he emphasises the importance of forecasting, as will see in the next section.

### Forecasting and cost control

Harding claimed that he was 'against too much routine financial reporting, because so much of it never gets used in practice' (1963, para 23). Instead, he emphasised the importance of 'easily understood yardsticks' and having a forward-looking focus, rather than a backward-looking emphasis on routine reporting. Although he does not use the words 'key performance indicators' (KPIs), his use of the term 'easily understood yardsticks' has many similarities with the notion of KPIs which were advanced in the 1990s. He also has a performance pyramid (1963, para 29) which is very similar to the ideas which were being promoted in the 1990s. He pointed out that people at the top of the pyramid (senior managers) are interested in money and profitability, whereas people at the bottom of the pyramid are more concerned with investment and operating costs, and volumes. A similar idea of a performance pyramid was used by McNair et al (1990) when they asked the question: 'Do financial and nonfinancial performance measures have to agree?'

Although Harding's discussion of standard accounting ratios suggests that he had in mind accounting information, rather than the non-financial KPIs which were increasingly being used in the 1990s, he emphasised the importance of understanding those ratios in the context of the business. This seems to reflect similar concerns to the view expressed in the quote at the end of the previous section which referred to the need to 'understand the business.' For example, Harding said: 'To look at the percentage return in isolation can be misleading – one must know why this is going up or down' (1963, para 28).

Furthermore, his emphasis on being forward looking, rather than backward looking, would seem to be an early precursor of the ideas which have since led some people to argue that we should go *Beyond Budgeting* (Hope and Fraser, 2003) and others somewhat less radically to emphasise the role of forecasts (see Scapens, et al., 2003, pp9-10). Harding explained that the operating companies within Shell had to provide forecasts for the year end and these forecasts were reviewed at the end of each quarter (1963, para 26). Furthermore, he argued that managers should be responsible for achieving their forecasts, not just for achieving their budgets. This was something that was only being widely discussed in the 1990s, when there was an increasing recognition of the importance of looking to the future, rather than to the past, and of focusing on forecasts rather than historical accounting information. These discussions were prompted in part, at least, by the publication of Johnson and Kaplan's (1987) book, *Relevance Lost: The Rise and Fall of Management Accounting*, which claimed that management accounting had lost its relevance because it had become dominated by the concerns of external financial reporting. In response to such criticism new management accounting techniques, such as activity based costing, were proposed and there was an increasing use of both rolling forecasts and forecasts to the year end, thereby making

management accounting more forward looking and providing better support for management decision making. Clearly, Harding recognised some of the problems of management accounting, as well as the possible solutions, long before Johnson and Kaplan published their book.

Although Harding's discussion of cost control looks very traditional, and very financially oriented, he emphasised the need to avoid arbitrary allocations. While he did not talk about anything like activity based costing, he argued that allocations are needed only for pricing purposes, and for little else. For other purposes he said: 'What matters is the gross margin return ie, its contribution to profit and indirect expenses, after charging truly direct expenses' (1963, para 37). Furthermore, he recognised the distinction between fixed and variable costs, as well as the difference between direct and indirect expenses. These were issues that were discussed in US management accounting textbooks in the 1960s, although they did not come to the UK until the end of that decade and the early 1970s when there was a significant expansion of accounting courses in UK universities.

Harding was obviously aware of developments in the USA and he acknowledged that it was ahead of the UK in terms of technology and management systems. He was impressed by the search for continuous improvements and commented that 'They [American management consultants] have been less willing to accept the excuse that "something works" as a reason for not trying to improve it' (1963, para 82). In our recordings of interviews in the 1980s and 1990s it was clear that subsidiaries of US owned companies were using more advanced accounting methods and management techniques than British-owned companies.

One of Harding's suggestions for increasing profitability through cost reduction was to cut out all unnecessary paperwork. He argued that there was considerable saving to be made in British industry through reducing non-productive clerical work. He argued that no office procedures and no information that is produced should be taken for granted – they should only be maintained if they can be shown to increase profitability, otherwise they should be cut out (1963, para 77). The aim should be to reduce paperwork to the essentials, and wherever possible to 'mechanise' (automate) office work. A similar attitude was expressed in the 1990s when the rapid advances in information technology were leading to major changes in office procedures, especially in the finance function. Harding provided a number of examples of how clerical labour could be reduced; for instance, by contracting out – what today we would probably call outsourcing. He also talked about charging for computer services within Shell, by organising computers as a bureau which provided services to other parts of the organisation, services for which charges could be levied (1963, para 87). This was not a particular issue in the 1990s, as computers were everywhere within the organisation. However, there were concerns in the 1990s about whether operating units felt they were getting value for money from the management accountants who were working in the operating units – and for whom they were charged an overhead cost. At that time management accountants were moving out of the finance function and working within operating units so as to be able to provide business support where it was needed. As an interviewee from a large UK bank explained:

The real integration needs to be with the accountants and the business. You've got to be out there where it's happening. You can't sit in an ivory tower and expect to understand. (19 May 1995)

This 'need to know what is going on' in the business seems to have been behind Harding's comments about communications – as we will see in the next section.

## Understanding the business

Harding argued that 'Good communication at the top depends on the ability of managers to understand each other's problems' (1963, para 70). For that reason he advocated a flexible organisation in which top personnel are freely transferable between functional departments – this was already happening within Shell, but he wanted it to be further extended as a matter of urgency. This reflects the comments we are hearing in the recordings from the 1990s about the importance of having a broad understanding of the business. Harding talked about senior members of the finance function communicating through personal visits to operating units, during which his ideas about the importance of internal controls, increased efficiency and reducing paperwork could be emphasised. Although in Shell at that time the finance managers were located in a separate finance function, Harding's comments about good communication through visits to the operating units, and especially about the need for a flexible organisation, indicate that he recognised the importance of having a broad understanding of the business. In the 1990s the need to have such a broad understanding of the business led to financial managers moving out of the finance function and being physically located within business units, at least part of the time, so they could gain the necessary understanding of the business to provide support to the local business managers.

Harding referred to criticisms that accountants are 'back room men, too remote from and disinterested in action, or that we are flooding the boardrooms, through our ability to play around with balance sheets, yet with insufficient knowledge of the operations of the business to justify this position' (1963, para 101). Such criticisms seem to reflect the view of accountants as bean counters. However, Harding's own criticism was that:

It is still too common in the United Kingdom for the role of finance to be purely accounting and advisory, i.e. as a service to 'line' management who have the ultimate responsibility for decision-making. To be 'on tap' and not 'on top'..... in Shell those 'line' managers who have come up through finance are doing a first-class job, partly because near the top of the tree almost every decision has a financial angle and a manager who understands finance can take this in his stride. (1963, para 100)

In the above paragraph Harding was talking about finance managers who subsequently take on non-finance roles being able to use their financial expertise in a 'line' management position. However, he also argued that:

We should be more appreciated if we train our young men and encourage those already qualified (whether in the profession or industry) **to act as business men** with a responsibility to increase the efficiency and productivity of the business with which they are in contact, and looking more to the future than to the past. (1963, para 102 – emphasis added)

Here he seems to be talking about finance people who can act as what today we would call business partners.

### Concluding comments

Harding's lecture provides a really interesting insight into what he and his colleagues were seeking to do in Shell in the 1960s. They may not have achieved it all, but Harding's lecture describes what he was trying to achieve. He offers a very reflective view of the role of accountants, recognising the criticisms, but with a clear view of what finance managers should be seeking to achieve. In our research we have heard stories from other people who were struggling with similar issues in the 1980s and 90s. These people could also be self-critical and critical of the accounting profession and others, such as management consultants and even academics! What they wanted to achieve was to provide the best possible support to the business. This was something that Harding was also seeking to do in the 1960s. As such, he was a real visionary.

In Harding's lecture, and also in the recordings we are analysing, we see accountants seeking to provide advice and support to business managers. Thus, being a business partner may not be as new as is currently suggested. In the recordings from the 1980s and 90s we have stories of accountants who were seeking, and sometimes struggling due to a lack of the necessary resources, to provide business support and to be a part of the decision-making in their organisations. Harding was making very similar points in the 1960s – accountants have to think and act like businessmen so as to be able to provide advice and support to other managers. However, the contexts and consequently the needs of managers were different in the different periods, as were the available resources, such as information technology. Nevertheless, the essential concerns were similar; that is, how to provide advice and support to business managers. As such, Harding's lecture provides a clear picture of what it meant to be a 'business partner' in the 1960s.

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