



# May 2008 Newsletter

## *Fraud & responsibility special.*



### Book of the month

""The Wisdom of Crowds" by James Surowiecki

A long version of "Lies, Damned Lies & Statistics". The theory is fine, but the examples are fun. I'm still not quite sure what he's proved, but some of the examples make for good party stories. The danger of decision making by small groups (of like minded people) is particularly relevant.

I was moved to write  
<http://www.chrisduckett.co.uk/gangsterbusiness.html>

### Shaggability index

The new rules are causing some consternation amongst our more tax-aggressive clients. I had a call from our Chinese aviation correspondent ("we crash; you die") advising that he was considering marrying a pensioner (presumably for her pension?) and was concerned that the transaction would be caught by the "income splitting" rules. Would the Revenue apply their usual "commercial intent" criteria and did this imply a "shaggability" index? [Puts a whole new spin on "taper relief".] We explored the possibility of CCTV in the bedroom to assess performance, at which point he concluded that the Revenue could keep their tax (however much it might be).

### Fraud and (dis)honesty

We (Sue) regularly identifies fraud when we take on new clients. It's usually the result of management's decision to trust the person in charge of finance and not set up controls to monitor that person. So, what management sees as a breach of trust becomes contributory negligence by the time it gets to Court. Recent research in HBR (February) shows that people's tendency to cheat is not influenced by the risk of getting caught.

However, people will not cheat at all if you make them think about it first (signing an honour code). More worryingly, if the cheating involves non-cash items, the level of cheating doubles (Enron style).

I never cease to be amazed by the extent to which fraudsters can rationalise their actions – they are always just correcting an injustice/promise that was inflicted on them in passing years ago: the toxic argument again.

However, I struggle to understand the Revenue view that stock provisions etc constitute fraud.

### This is evasion:

Wesley Snipes has been sentenced to three years imprisonment for tax evasion. In 1998, under the influence of Eddie Ray Kahn, founder of Guiding Light of God Ministries, he had made the decision that he simply did not have to pay tax, claiming the government had no right to it. Kahn was prosecuted at the same time, and received a ten year jail sentence.

Prosecutors asked the presiding judge to make an example of the actor, which he duly did. In summing up he said that Snipes

showed a "history of contempt over a period of time" for the US tax laws. He further commented that Snipes' apology and plea for clemency had been made without a single mention of the word "tax".

Come back Lester Piggott, all is forgiven.

## CBI does tax

The CBI has recently produced a report (correctly) identifying the fact that the tax system is a complicated mess which obscures an ever rising burden. Their worry is this will drive big business elsewhere and they've produced a plan to make life simpler. One old idea is to bring tax rules into line with accounting rules (eg depreciation v capital allowances). Don't hold your breath.

<http://www.financialdirector.co.uk/>

## Wheels on the bus

After much soul searching, I decided our new guy, Nick, wasn't measuring up and I duly helped him to find a new career path. Despite the logical nature of the decision, I felt guilty about it. In an attempt to cheer me up, the Boy Scout identified the appropriate bit in Jim Collins' "Good to Great". [Jim's analogy is about getting the right people on the bus and the wrong ones off it.] I was therefore stung into action (I'm the one that does management guru quotes round here) and went in search of more detail. Needless to say, I wandered off-piste slightly and read the chapter on discipline. Small, growing companies are usually very dynamic places to work. However, as they get larger, bureaucracy gets in the way and professional managers finally kill the entrepreneurial spirit. At risk of copyright infringement, this is (more or less) what Jim says:

"Most companies build their bureaucratic rules in order to manage the small percentage of wrong people on the bus, which in turn drives away the right people on the bus, which increases the percentage of the wrong people, which in turn leads to more bureaucracy etc. Avoid bureaucracy and hierarchy (them & us) and instead create a culture of (self) discipline. Couple a culture

of discipline with an ethic of entrepreneurship and you get a magical alchemy of superior performance and sustained results."

<http://www.jimcollins.com/>

Easy? If firing the wrong people is hard work, finding the right ones first time, without fail is nigh on impossible.

Incidentally, this book came out in 2001 and is now so widely taught that no strategic discussion can happen without "hedgehogs", "doom-loops" etc being bandied about. The more cynical have suggested that Jim's keys to success are so vague that they can be used to support any management approach.



## Benefits in kind

At this time of the year we get badly bogged down in P11D compliance – the forms that identify employee benefits. [Remember they need to be filed by 5<sup>th</sup> July and the Class 1A NI paid by 19<sup>th</sup> July (using the special payslip).] The classic benefit is private medical insurance, but (for no apparent reason) the cost of a check up is not deemed to be a benefit. The rules are being tightened to ensure that check ups are available to all staff (rather than selected ones), but by concession, this quirk is extended to 2008/9

## GGG/GOM

George Gordon Smith, CEO of The Orchard Trust (in the Forest), retired at the end of March. He's been in charge since the Trust's formation in the early 90s and has masterminded the growth of the organisation from £40 in a biscuit tin to the current state of assets of £4m+. And, most importantly, he's groomed his successor, Ralph Oliver. George is now, officially, the GOM. What is a GOM? Could I be one?

## Stop doing list

Get one?

## What makes employees stay?

According to the Towers Perrin 2007-2008 Global Workforce Study, it's the following:

- Prestige of working in a well-regarded organisation
- Satisfaction with the organisation's people decisions
- Potential career track within the organisation is clear
- Scope to balance the demands of work and personal life
- Sense of fair compensation for similar work
- Working environment where new ideas are encouraged
- Regular career development and training on offer
- Opportunities to have a say in departmental decisions
- Organisation's commitment to social responsibility

[http://www.timesonline.co.uk/tol/life\\_and\\_style/career\\_and\\_jobs/specials/talent\\_management/article3771365.ece](http://www.timesonline.co.uk/tol/life_and_style/career_and_jobs/specials/talent_management/article3771365.ece)

Or, put the other way, bonus schemes should be used to reward the right people, not to try to bribe the wrong people into doing the right things.

## What the other experts say

Having checked Jim Collins' site, I thought I'd see what the other heavy weights are up to.

**Tom Peters** concludes (amongst a lot of other things):

- Blame is a sackable offence
- XF is the key ("cross-functional", not a type of science fiction/special effect)

<http://www.tompeters.com/freestuff/index.php>

**Trusted adviser** (without trust, you're left to compete only on features and price, features and price — along with everyone else) suggests you should listen to your clients

<http://trustedadvisor.com/articles/45/The-Point-of-Listening-is-Not-What-You-Hear--but-the-Listening-Itself>

## Mike Pegg:

"Staff reward schemes? Forget star treatment. Try breeding a culture of self-managing achievers and then stoking the fire within their bellies,"

<http://www.thestrengthsway.com/strengths/strengths-stories>

I ran an interview with Mike in 2002. It's still relevant and worth a look

<http://www.chrisduckett.co.uk/mikepegginterview.html>

### Rain Today:

The Paradox of Excellence: Don't Let Great Service Kill Your Business

The longer you do a good job, the more your perceived value erodes as clients forget the pain you're relieving. When that happens, you are setting yourself up to lose business.

[http://www.raintoday.com/pages/3574\\_don\\_t\\_let\\_great\\_service\\_kill\\_your\\_business.cfm](http://www.raintoday.com/pages/3574_don_t_let_great_service_kill_your_business.cfm)

Pretty much as usual, then?

### 12 ideas that are changing the world

Big, hard stuff, but at least you can just listen to it.

[www.timesonline.co.uk/businessideas](http://www.timesonline.co.uk/businessideas)



## Treadmills at work

Trend spotters have suggested that boardrooms are going to get larger in order to accommodate treadmills for all the delegates:

"In a competitive climate, exercise is as close to a magic productivity bullet as you can get."

I look forward to tax briefings by breathless, lycra-clad tax bunnies. Or maybe I'm day dreaming again.

## Tax havens

Government gets very sniffy on the subject of tax havens, but they play a key role in keeping our marginal rate below 98%. Part of the free market economy? The Corporation Tax rate in Ireland is 12.5%.

## Poor losers

Despite the CBI's attempt to get tax law to follow accounting rules, HMRC changed the law (and over-ruled GAAP) in March to insist that all goods taken for personal use must be transferred at market value rather than cost.

## Small print

Various devious changes have slipped through unannounced in the Finance Bill 2008.

It appears that the 10% rate will still apply to savings income if total income is low enough. The calculation is contorted.

Amendments to Schedules 36 & 37 (really!) allow HMRC to up the ante as regards record keeping. Arguably, the carrier bag of receipts has had its day. I, for one, won't miss it.

## Disclaimer

Henry Ford on marketing: "If I'd asked customers what they wanted, they would have said faster horses."



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