Catalyst

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Our monthly e - newsletter containing topical articles and advice.

Welcome to the October 2011 edition of Catalyst. Catalyst is our way of sharing articles or ideas that we read/see/hear during the month that we think will be of interest to business owner-managers looking to hone their own personal skills and develop their businesses.

If you read an article you think would be relevant to other readers, let us know about it.

Catalyst Team

Catalyst October 2011

Corporate Manslaughter – Directors in the Dock

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Lion Steel Equipment Ltd has just become the second company to face corporate manslaughter charges. Does this mean you're now at greater risk too?

In court. The charge follows the death of an employee who fell through the roof of an industrial unit at the headquarters of Lion Steel Equipment Ltd (L) in 2008. This is only the second of its kind to be brought under the Corporate Manslaughter and Corporate Homicide Act 2007 (CMCHA); the first was the conviction of Cotswold Geotechnical Holdings Ltd earlier this year. In addition, L has been charged under s.2 and 33 of the Health and Safety at Work etc Act 1974 (HSWA) for failing to ensure the safety at work of its employees.

Similar story. In addition, three of the company's directors have been charged with gross negligence manslaughter and face charges under s.37 of the HSWA. This is a development you need to take seriously. As this case proves, if directors are found to have ignored their duties, the enforcement bodies won't hesitate in going after them.

Tip. Directors and managers must be seen to be driving a positive health and safety culture within an organisation. This means making sure health and safety is a regular agenda point at board meetings, not turning a blind eye to dodgy work practices and appointing one director to be responsible for health and safety.

Small minded. The CMCHA was introduced to secure convictions against large organisations but, as with the Cotswold case, L is a relatively small company. Although this case is unlikely to set any groundbreaking case law, or significant guidance on how a large company would fare, you need to be acutely aware of the risks.

Note. If found guilty of corporate manslaughter, the fine L receives will almost certainly be in excess of £500,000 and could run into millions of pounds. That's enough to cripple most businesses.

This case confirms that directors are now definitely in the firing line. Be sure to include "health and safety" on all board meeting agendas and appoint one director with overall responsibility.

Source: indicator.co.uk

How to shield your firm from volatility in the Eurozone

top

As the Euro debt crisis continues, ongoing turbulence in the single currency zone means continued economic uncertainty for UK businesses trading overseas. HSBC's Global Markets Associate Director, Stephen Haughey, explains the risks for UK businesses and what you can do to protect yourself against volatility in the Eurozone.

Anyone in any doubt about the importance of the Eurozone to the UK economy simply needs to look at our export figures, according to Stephen Haughey.

"Last year, more than half (53 per cent) of the UK's £256 billion exports went to other EU countries, so it's unsurprising that problems in Europe are having an effect here," he points out.

Fluctuating currency is one key issue - the weak pound is a boon for exporters but importers are struggling with the higher prices caused by sterling's poor performance. But rising inflation also means less money in European customers' pockets, leading to weaker demand for exports. Overall, general volatility in the markets means that the outlook is uncertain for those with trade links to Europe.

However, Haughey says firms can take steps to protect themselves. "Nobody can predict what's going to happen but businesses can minimise their exposure to risk. The longer the crisis goes on, the more the effects will be felt, and when confidence is hit, the markets are heavily influenced," he warns.

Controlling your risk exposure

So what should firms be doing? "First, assess your exposure," he advises. "Go through contracts with buyers and look at your supply chain. Are there any potential weaknesses that might affect supply or production? Check that goods are still arriving on time and that the quality is consistent."

Haughey says it also makes sense to scrutinise payments in case customers are having financial problems. "Keep an eye on cash flow, make sure you carry out credit checks and look out for anything unusual. One late payment might be the first sign that a buyer is experiencing difficulties.

"If necessary, your bank can help with international trade services, such as protecting against non-payment and non-delivery of goods," he adds.

The importance of FX risk management

One crucial area is foreign exchange (FX) risk management but, according to Haughey, this often gets overlooked by businesses.

"It's something that many businesses just don't think about, or they think it's just for big FTSE 100 companies. But sterling obviously fluctuates and it can make a huge difference to the bottom line, whatever the size of your business. If the market moves against you, it could wipe out your profits completely," he cautions.

"Obviously, it's a question of how important currency is to your business. But if you deal with FX and you fail to protect against movements in rates, you're effectively buying or selling without having agreed a price, which can be a risky strategy."

Exchange rate options for businesses

Firms most at risk from fluctuating FX include those that make overseas payments for imports and those that receive foreign currency for their exported goods but businesses with assets located abroad or who borrow in foreign currency may also be affected.

One precaution that firms can take is to opt for a forward exchange contract, where a set currency rate is agreed for a set amount at a future date. "It effectively locks in your profit and takes away the uncertainty, allowing you to budget. However, you are contracted to stick with that rate, so if the market moves in your favour, you will not benefit," Haughey points out.

Alternatively, firms can look at currency options which allow them to protect an agreed 'rate' but also give them the opportunity to opt out if the market becomes more favourable. There are normally premiums to pay for this type of flexibility but Haughey says these can be deferred and that zero premium structures are also available.

"It's all about the right balance of risk and reward," he concludes. "Of course, nobody knows how the economy or the FX markets are going to look in twelve months' time but by assessing your business and identifying any weak spots, you can make sure you're as protected as possible."

Perks and Productivity

top

Gifts can have effects on worker productivity that cash can't match, according to a new study.

On two occasions, in 2007 and 2010, researchers posted an ad for jobs cataloguing books in a German economics department. The pay was €12 an hour, for three hours' work, and there was no hint this was an experiment. Before the workers got started, some were told they'd get an extra €7 — a random bonus. Others were given an attractive thermos, also worth about €7, wrapped as a gift.

Productivity was measured by counting the characters in the workers' database entries. Workers who got the gift were 25% more productive than a control group, while the cash group's small productivity boost was statistically insignificant. The effect persisted even when test subjects were explicitly told the value of the thermos.

On purely economic grounds, the workers' reaction was illogical, since €7 is a more efficient transfer of goods, allowing its recipient to purchase what he or she wants (like, say, a stylish thermos). But workplace gifts work as signals of kindness, or loyalty (though not exactly loyalty in this case, since there was no prospect of extended employment), or something extra.

In one experimental condition, workers themselves got to choose which bonus to take. As it happens, more than 90% picked the cash but that group still worked 25% harder than the control group. (It really is the thought that counts.)

Source: "The Currency of Reciprocity — Gift Exchange in the Workplace," American Economic Review, Sebastian Kube, Michel André Maréchal and Clemens Puppe (forthcoming)

When Bad Things Happen

top

Instead of relaying an article we've read this month, I recommend a podcast from Freakonomics about how to handle a PR crisis. If you don't know Freakonomics, it is a book written by a journalist and an economist – sounds dull but is a brilliant read to understand why people do what they do. Freakonomics is a book about cheating teachers, bizarre baby names, self-dealing estate agents, and crack-selling mama's boys. They figured it would sell about 80 copies. Instead, it has sold 4 million, in 35 languages. Then they wrote SuperFreakonomics, with stories about drunk walking, the economics of prostitution, and how to stop global warming. It also became a worldwide best-seller.

You can download the podcast / mp3 track at:
http://www.podtrac.com/pts/redirect.mp3/audio.wnyc.org/freakonomics_podcast/freakonomics_podcast072011.mp3

or you can read the transcript at:
http://www.freakonomics.com/2011/07/21/freakonomics-radio-a-mouse-in-the-salad-whats-the-worst-restaurant-

experience-youve-ever-had/
…although I'd recommend the audio version.

Faster European Payments top

From 1 January 2012, the UK Payment Services Regulations oblige Payment Service Providers (PSPs), such as banks, to ensure that electronic payments sent in sterling or euro within the European Economic Area (including the UK) arrive with the beneficiary's bank, or PSP, no later than the close of business on the next working day. An extra working day is allowed where payment instructions are given in paper form.

In the UK, this means that from 1 January 2012 the majority of payments made using online and telephone banking services, and standing orders, will be made as Faster Payments arriving with the beneficiary on the day that the monies leave the payer's account.

At last!

Own Your Own Colour top

Wright Vigar just bought 'our' colour and helped save a child's life.

http://www.ownacolour.com/share/dc002f

Take a look - and why not buy one yourself?

It only costs £1 - or as much as you can afford - and all the money raised will go directly to help save children's lives. So why not pick a colour for yourself, or send a colour as a gift to a friend?

Thanks

To find out more about UNICEF's work, visit http://www.unicef.org.uk

If you'd like to donate, visit http://www.unicef.org.uk/donate

Need Help? top

Please contact us if we can help you with these or any other tax, accounts or business matters.

In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

New Clients Welcome top

If you are not already a client and are interested in becoming one, we would love to come to meet with you to discuss how we can help and provide you with a competitive quote for our services.

All new client consultations are provided free of charge and without obligation.

About Us top

Wright Vigar Chartered Accountants are based in Lincoln, Gainsborough, Newark, Retford, Sleaford and London offering local business owners and individuals a wide range of services.

Visit our website http://www.wrightvigar.co.uk for more information.