February and March were two busy months at CIMA Sri Lanka Division with several initiatives being lifted off ground to support members, employers and students.

I thought of sharing few insights from a research paper I came across recently prepared by Dr Emma Parry of Cranfield School of Management in October 2008. This reveals that investment in training and development of employees is far more profitable than talent search outside. Majority (78%) of employers perceived internal recruitment to be far more beneficial than external sources due to increased motivation, higher levels of retention and cost efficiency. This research also reveals that organisations taking a strategic approach towards nurturing employees are likely to reap greater benefits.

Training budgets are among the popular costs to be reduced in many organisations ‘as discretionary’ given the slow-down in economy but whether it’s worthwhile the short term saving is a thought to ponder on....

Regards,
Nilushika Gunasekera, Technical Manager, CIMA Sri Lanka Division

Disclaimer: Opinions expressed are the contributors’ own and do not necessarily represent the views of the institution or the organisations by which they are employed.

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Knowledge - the edge for success
CIMA journeys on a constant mission to equip members and partners with cutting edge information and tools to drive their organisations to success.

News and events

CIMA wins Accountancy Body of the Year
CIMA awarded three places in IFAC Articles of Merit
CIMA World Conference 2009 to be held in Malaysia
CIMA invites research proposal on the topic of 'Sustainability – calls for strategic change'.

Sri Lanka
Hurry, submit your papers for the Technical Paper Competition 2009 on or before 8 May 2009.
Introduction of a Management Review to Listed Companies of Sri Lanka was open for public comment. Send in your comments and have your say.
Three technical sessions were conducted in Feb and Mar, covering areas of ‘research techniques and analytical writing skills’, ‘internal control and good governance’ and ‘financial risk management’.
A CIMA CFO Forum was hosted on the subject ‘The Satyam debacle and the lessons for the CFO’s’ deliberated by Mr Ravi Raman, CRO, Butterfield Fulcrum.
A CIMA CEO Forum was jointly hosted with SIM on the subject ‘Beyond the war’ – Building Human capital – organisation - economy deliberated by Mr Mourad Mankarios, Principal Coach, SIM.

Pakistan
A CIMA Branch in Pakistan will be open on 22 April 2009.
‘Satyam’ - will the lessons be learnt?
by Preshi Sivagananathan

Preshi Sivagananathan is a chartered accountant with over 15 years experience in finance and was the CFO of a leading outsourcing company in Sri Lanka. She has an MBA from UK and is an Associate member of CIMA.

It seems that Satyam’s bosses forgot to live up to its own name. In Sanskrit ‘Satyam’ means truth. Yet, the truth seems to have been the last thing on the mind of the now disgraced Satyam boss Ramalinga Raju as he went about falsifying financial statements that presented his company’s status to the public.

According to the Public Prosecutor who is trying the Satyam case, Satyam boss diverted billions of rupees from Satyam accounts to those of his relatives and related companies. Satyam’s staff strength has been inflated from 40,000 to 53,000 and the hundreds of millions of rupees drawn as salaries of these fictitious employees have been siphoned off monthly over a period of five years. Fixed deposit certificates from banks confirming Satyam’s fixed deposits worth hundreds of millions are all said to have been forged.

Impact on the outsourcing industry

Satyam fraud is something that an already shaky Indian economy did not need. Not only are there immediate financial repercussions but potential damages to the Indian outsourcing industry as a whole. There seems to be some speculation that multinational IT outsourcing companies in India may stand to benefit from the Satyam issue. This is expected due to the perception that may be formed by the potential clients, that multinational outsourcing companies have better governance structures as compared to the wholly Indian outsourcing companies. Hence a lot will depend on what the government and the industry do to allay the fears and restore confidence in Satyam as a supplier.

Governance related to management

Events that took place at Satyam beg to understand how the board of directors, specially the independent directors allowed them to happen? The answer lies in that, very often boards consist of networks of original founders of the companies. Family and friends of the founders form part of the board, resulting in a lack of both objectivity and independence. A lot of corporate governance problems arise due to the lack of competent and experienced independent directors who can add value. Also, even though the corporate governance rules cite criteria against which you can determine independence of directors, a pure ticking of the boxes does not ensure one’s independence. Despite meeting the independence criteria on paper, not all may be in a position to call a spade a spade. It may be timely for accounting and government regulatory authorities to proactively review the governance measures in place.

Another question that begs answers in the Satyam case is what were the external auditors doing? As accountants have been taught, the auditor is only a watchdog and not a bloodhound. Still the questions remain if the auditors of Satyam performed their duties as a reasonable watchdog should have. The answer to this question will become more evident as the investigation of Satyam proceeds and one hopes that, auditors are indeed found to have done their job.

Conclusion

Finally when the Satyam case is consigned to history, a scapegoat would have been identified to take the blame. Ramalinga Raju may very well be that scapegoat for Satyam. A lot of governance measures have been introduced post BCCI, Enron, WorldCom, Sarbanes Oxley being just one of many. Yet, one wonders if these governance rules are followed in true spirit or merely as yet another box to tick. Ultimately, there is no better governance measure than integrity and honesty of the individuals who are placed in the highest positions and entrusted to safeguard interests of stakeholders. Unfortunately, honesty and integrity are values that need to be taught and enforced from childhood. It is a way of life and not something that can be taught at business schools.
Transformational leadership and turbulent business environment by Thambirajah Mahendiran

**Introduction**

One of the best descriptions of transformational leadership, stated by Bennis & Bied, is: 'Leaders are truly transformational when they increase awareness of what is right, good, important and beautiful, when they help to elevate followers’ needs for self-actualization, when they foster in followers high moral maturity, and when they move followers to go beyond their self-interest for the good of their group, organisation or society.'

Leaders at every level, both political and business, are facing challenging moments during these turbulent times. Based on available facts and figures economists, strategists, management gurus are suggesting ways in which the economy and organisations can be turned-around. Leadership is a subject that has long interested scholars and laypersons alike. The term 'Leadership' connotes images of powerful and dynamic persons commanding victorious armies; directing corporate empires; or shaping course of nations (Yukl, 1989). Leaders gather broad range of data and look for patterns, relationships and linkages that help explain things. The aspect of setting direction as a leader creates a vision and strategy instead of producing plans (Kotter, 1999). Behavioural scientists have attempted to discover what traits, abilities, behaviours, sources of power or aspects of the situation determine how well a leader is able to influence followers and accomplish group objectives. The reasons why one should decide which leadership style to practice has become a constant debate in business. Execution is critical to success. What differentiates a great organisation from an average organisation is the execution of strategy. Kaplan & Norton suggest that a behavioural leadership approach with a drive for transformational change is suitable for successful execution of strategy. Thus the ability to quickly adapt to present volatile environment will be a key leadership trait for survival of business.

**What is transformational leadership?**

It has been over 30 years since Burns (1978) published his seminal work introducing the concepts of transformational and transactional leadership. Where transformational leaders uplift the morale and motivation of their followers; transactional leaders cater to followers’ immediate self interest. The central concept here is how the role of leadership in envisioning and implementing change processes to transform the organisation. The focus is not about what the leader accomplishes but rather their personal characteristics. Transformational leaders bring positive major change to organisations. They articulate problems in current system and have a vision of what a new society or organisation could be. This vision is linked with the followers’ businesses and ensuring that each business under GE umbrella was one of the best in its field. Great transformational leaders also demonstrate remarkable flexibility and resourcefulness. They understand that path to success is rarely a straight line. They seek to raise the consciousness of followers by appealing to higher ideals, morals and values such as liberty, justice, equality, peace and humanitarianism, not to base emotions such as fear, greed, jealousy or hatred. They shape and mediate conflicts among groups of people.

**Definition of transformational leadership**

Bass (1985) defines transformational leadership primarily in terms of leader’s effect on followers. Followers feel trust, admiration, loyalty and respect toward the leader. A leader can transform followers through:

a) Creating greater awareness of the importance and value of task outcomes.
b) Inducing them to transcend their self-interest for sake of organisation or team.
c) Actuating their higher-order needs.

The original formulation of theory (Bass, 1985), (Bass & Avolio, 1990a) and (Bass & Avolio, 1997) included the following transformational behaviours:

a) Idealised influence: arouses strong follower emotions and identification with leader.
b) Individualised consideration: provides support, encouragement and coaching to followers.
c) Inspirational motivation: communicates an appealing vision, using symbols to focus subordinate effort and model appropriate behaviours.
d) Intellectual stimulation: increases follower awareness of problems from a new perspective.

Transcational leadership results in expected outcomes, transformational leadership results in performance beyond expectation.

**Examples of transformational leaders**

Abraham Lincoln and Martin Luther King Jr, each of them led United States in the debate and fight to end racism and slavery. Lee Kuan Yew, because of his three decades of leadership, he shaped and drove Singapore to be among top ranks of the world from the third world. Lee Lacocca led Chrysler out of debt to a viable company. Steve Jobs (who started Apple Computers) was a free-spirited guy who made the dream a reality and put a serious dent in IBM’s computer dominance! Subsequent to company’s operation becoming BAL, Jobs left to start another. Jack Welch, during his time at General Electric as CEO saw great growth. This vision was linked with the followers’ businesses and ensuring that each business under GE umbrella was one of the best in its field.

**Transformational approach to leadership**

The transformational approach to leadership is a broad based perspective that encompasses many facets and dimension. The steps followed by transformational leaders usually take a follow form:

a) They set out to empower and nurture them in change. They attempt to raise the consciousness in individuals.
b) They become strong role models for their followers to create change. They develop a set of moral values and a sense of identity.
c) They create a vision.
d) They become social architects by making clear emerging values and norms.
e) They are effective in working with people. The relationship between leader and follower causes the following reactions from the follower:

a) shows a higher level of performance than expected
b) exhibits higher level of devotion, loyalty, and reverence toward the leader.
c) exhibits enthusiasm and excitement about the leader and the leader’s ideas
d) shows a willingness to sacrifice personal interests for the sake of a larger collective goal.

**What do transformational leaders do to inspire this loyalty and commitment?**

a) Propose a VISION. They communicate the vision to followers inspiring them to become part of the vision.
b) PLAN the road map to achieve the vision. They make the vision seem both real and attainable.
c) FRAME the tasks and vision into an appropriate context for the followers. They give meaning and purpose to every task requested from follower.
d) Exhibit willingness and ability to take greater than average RISKs.

**Actions/steps taken by transformational leaders in helping the organisation become more stable and proactive**

a) Accept a mentor outside the organisation and an advocate within. Founder’s syndrome comes from doing what’s natural for you. Changing your leadership approach may be rather unnatural. Seek and accept help.
b) Advocate a customer-driven organization. Always focus on customers. Establish straightforward and realistic means to evaluate services.
c) Set direction through planning. Support the Board to carry out strategic planning. Encourage staff input as well. Cultivate strong finance (and in the case of nonprofits, fundraising committees), and help them to fully understand the organisation’s objectives.
d) Organise resources to meet goals. Develop job descriptions with staff input to ensure mutual understanding of responsibilities. Develop staff-driven procedures for routine, but critical tasks.
e) Motivate leadership and staff to meet goals. Delegate to employees by helping them understand the purpose of tasks. Get their input as to how the tasks can be completed. Give them the authority to complete the tasks. In regular staff meetings, celebrate successes! Conduct regular performance reviews to ensure organisational and staff needs are being met.

**Summary**

The transformational leadership approach has its strengths and they are:

a) This style has been widely researched from different perspectives, including a series of qualitative studies,
b) has intuitive appeal, advocating change for others and providing a vision for the future,
c) occurs as a process between follower and leader, incorporating the needs of both,
d) provides an expanded picture of leadership that includes not only exchange of rewards but also leader’s attention to the need and growth of followers (Avolio, 1999,Bass,1985),
e) places a strong emphasis on follower’s needs, values and morals and
f) according to Yukl (1999), there is substantial evidence that transformational leadership is an effective form of leadership, this leadership approach was positively related to subordinate satisfaction, motivation and performance, based on the leader’s appraisal by the Multifactor Leadership questionnaire (MLQ). It also observed that transformational leadership was shown to be effective in a variety of different situations.

Transformational leadership, rather than being a model which prescribes to leaders what to do, it provides a broad set of generalisation of which is typical of leaders who are transformational or who work in transformational contexts.

Mr Mahendiran is a Fellow member of CIMA and Society of Certified Management Accountants. He is also a member of Sri Lanka Institute of Marketing and a Certified Professional of University of Sri Jayewardenepura. He has over 20 years of experience in areas of corporate restructuring, strategic management, performance management (BSC), financial and Operations management and is currently working as the group director of Excel Global Group, Colombo.
The Colombo Stock Exchange – an investment opportunity outlook by Hisham Jiffry

I can’t predict the short term movement of the Stock Market. I haven’t the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely however is that the market will move higher perhaps substantially, so, well before the sentiment of the economy, turns up. So if you wait for the Robins, spring will be over.’

Warren Buffet

Peace and the CSE

Sri Lanka is at the crossroads of an unprecedented landmark event in its history. The permanent solution to the civil unrest that has marred the Emerald Isle is potentially poised to bring about an increased level of interest, activity and fund flows, reminiscent of the extended Bull Run the Colombo Stock Exchange (CSE) enjoyed in the early to mid 2000 time period. During its peak the All Share & Milanak indices continued to break records culminating in all time highs of 3,016 and 4,214 in early 2007. It also witnessed an active participation from retail, institutional, local and foreign investors reinforcing the attractiveness of Equities as a powerful investment vehicle in the hands of a diligent, informed investor with a clear investment strategy. We look back at the historical performance of the CSE as an indicator of the possible upside that Colombo stocks bring to the discerning investor.

Timing and risk

A key ingredient to the successful generation of fruitful investment returns is the timing of entry and exit of investment flows. Entering at an opportune time, reaping the holding gains/profit target and exiting at the target price is a formula practiced by investors the world over. It should be noted that Equities or shares are equivalents of ownership. Equity investments bring with them a higher degree of risk which is traded off/compensated with a higher degree of returns (risk/return trade off).

One of the risks of Equity investments arises from the inability of the investing public to perfectly predict the movement of the prices therefore the gains or losses from investment.

Diligence, research and strategy

The performance of the market during times of peace (coinciding with the cease fire agreements mainly in 1991 and 2002) indicate a significantly prosperous opportunity window for an investor willing to take on the higher risk associated with Equity instruments. This is more so given the fact that share prices have significantly receded from their 2007 highs. It is important to note that careful, diligent back ground analysis is a logical pre requisite to investment. This means the analysis of the company itself and the price history of the counter in the formulation of Equity strategy.

Fundamental analysis is the investigation of:

- growth (revenue, profit, assets)
- future prospects (new markets, products, JV’s, alliances, positive changes in legislation or product / market dynamics)
- underlying economics (debt, margins, peer comparison, efficiency of asset utilisation)
- macro changes (shifts in customer tastes etc)

and arriving at a buy/sell/hold decision comparing the share price versus the ’intrinsic’ value of the company in concern.

Common valuation metrics are the Price Earnings Ratio (PER) and the Price to Book Value (PBV). It is also important to understand the price history of the counter in terms of the highest or lowest trading points, liquidity, free float and ownership structure. This provides the investor a guide line as to which level the stock is trading at and arriving at a buy/sell/hold decision comparing the share price versus the ’intrinsic’ value of the company in concern.

Broad Macro Incidents and the CSE

In addition to the expected conclusion to civil strife it is also important to note that factors such as:

- the Global Financial Crisis and Economic Meltdown
- Sri Lanka’s own foreign currency concerns
- recent history of high interest rates
- inflationary conditions
- the slump in commodity markets
- construction being stagnant as at present
- corporate earnings potential
- changes in PEST factors (e.g. requirement for double hulls in ships, pollution and activated carbon, commodity prices, GDP, fiscal and monetary policy)

need to be considered when deciding, timing and proceeding with Equity investments in the CSE.

Summary

Equities bring with them their own unique risk flavor. In the hands of a careful, diligent investor with a planned strategy targeting specific achievable profits, equity investment in the CSE can be a significantly rewarding exercise. The timing of investments (getting in and getting out), holding period and holding capacity, profit targets, risk appetite, diligence in selection and action is as always a requirement for the CSE as other investment avenues.

’Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it. Risk comes from not knowing what you’re doing. Rule #1 Never Lose Money. Rule #2 Never Forget Rule #1.’

Warren Buffet

Hisham Jiffry ACMA, ASCMA is currently a research analyst at First Guardian Equities (Pvt) Ltd and has experience in auditing and assurance, business advisory services, equity research and corporate finance. He has six years experience in lecturing for management, finance and accounting subjects at Imperial College of Business Studies and London Business School in Colombo.

CIMA going green

Did you know that we are at great risk of adverse climate change and reduction of biodiversity on planet earth?

Did you know that only about 7% of the Earth’s dry land is covered by tropical forests, but that it harbours more than 50% of all species on Earth?

Did you know that undisturbed tropical forests absorb nearly one-fifth of the CO2 emissions each year, but that these forests are fast disappearing? During the past 40 years close to 20% of Amazon rain forest was cut down which is greater than previous 450 years.

CIMA is committed to contribute to preserving the environment. Think twice before you print this e-magazine, recycle your newspapers, switch off your screen when it is not in use, travel less and telecommunicate instead.

We urge you join our hands in this effort.
CIMA journeys on a constant mission to equip members with cutting edge information and tools to drive their organizations to success. Listed below are synopsis and web-links to few of the insightful articles published by CIMA in its website to help you excel in your career and create economic value to your organisation.

**Strategy under stress - Managing strategy in a downturn**
At times of economic upheaval and low availability of finance, there’s a real danger that corporate strategy can take a back seat to survival. But organisations that abandon strategic thinking not only run the risk of undermining their chances of advancing their business when the economy improves, they also endanger their ability to weather the storm.

**Back to basics - Managing cash flow**
Capital in the credit crunch is expensive and hard to find – which means cash management is moving up the finance function’s agenda. Audrey Besson and Richard Young recommend a return to basics in corporate funding strategy.

**Improving decision making in organisations - Unlocking business intelligence**
Business leaders and management accountants must be alert to the potential of current developments in the role of the finance function (finance transformation) and business intelligence (BI). The combination of these developments provides an opportunity to reshape decision making and improve performance.

**Fraud risk management - A guide to good practice**
Periodically, the latest major fraud hits the headlines as other organisations sit back and watch, telling themselves that ‘it couldn’t happen here.’ But the reality is that fraud can happen anywhere. While only relatively few major frauds are picked up by the media, huge sums are lost by all kinds of businesses as a result of the high number of smaller frauds that are committed. Among other findings, the various surveys highlight that organisations may be losing as much as 7% of their annual turnover as a result of fraud and corruption is estimated to cost the global economy about $1.5 trillion each year.

**Complexity, relevance and clarity of corporate reporting - the views of CIMA FTSE 350 Directors**
Over the past ten years, a raft of additional reporting burdens have been placed on businesses, and many of the existing requirements have also changed in that period. For management accountants at all levels – but particularly for those holding the highest offices in business – these changes have created some stern challenges. Reconciling the information used to monitor, run and evaluate a business by its own management with the data required for published financial reports is harder than it has ever been.

**Climate change calls for strategic change**
CIMA and its members are well positioned to help ensure that organisations both survive, and are successful, in light of climate change issues. We will help organisations to consider climate change in a strategic context and integrate sustainability issues into their long term decision making process. Management accountants have a key role to play in this process, providing vital business intelligence to support strategy and influence decision making.