I pen my thoughts extending my sincere gratitude to the contributors of the current issue of The CIMA Edge. The insights shared by our contributors are indeed thought provoking.

In this issue I thought of briefly pointing our readers’ attention towards research and its relevance to business managers. We often perceive research to be abstract and academic. But, is it actually so?

In very simple terms ‘research’ means to re-search or to search again or to search afresh. It is a systematic inquiry into a well defined problem. It adds to the available stock of knowledge expanding the ‘known’ areas of this universe. So then, what’s its relevance to business managers?

Business managers encounter a plethora of problems on a daily basis, and make numerous decisions to solve them. Sometimes they make well informed decisions, but at times they rely on their intuition or gut-feeling. However, a well informed decision made by clearly identifying the nature of the problem and its root-causes is likelier to succeed, in comparison to a pure intuitive decision. Therefore, research and particularly applied research can assist managers to make better and well informed decisions.

In other words a manager must first know the symptoms of the problem and its causes before prescribing a solution. If not, the real issue will never be addressed, and will persist. If you ever wondered why certain solutions you prescribed have not reaped the expected results; take a moment and reflect whether the reason is - inadequate probing of the problem and its causes...

Nilushika Gunasekera

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SHRM is increasingly becoming important in the wake of economic expansion of Sri Lanka. Whilst private sector shows encouraging signs of its dynamic presence, public sector has much to do to keep up with the pace of change.

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**From CSR to CSV: the future of corporate responsibility by Gehan Gunatileke**

CSR thus faces a certain danger of becoming, at best, purely cosmetic, and at worst, purely academic. CSV, on the other hand acknowledges certain limited trade-offs between short-term profitability and social or environmental goals.

‘Quote: unquote’

‘Take time to deliberate, but when the time for action has arrived, stop thinking and go in.’

Napoleon Bonaparte

**Tomorrow’s corporate reporting - Sri Lanka**

CIMA Sri Lanka recently held a focus group discussion among business leaders and industry experts to discuss the way forward for corporate reporting in Sri Lanka.

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**World congress of accountants 2010** will take place in Kuala Lumpur, Malaysia from 8 to 11 November 2010

CIMA, Cambridge University Press and Metapraxis launch new book on financial management for business

**Upcoming events**

**CIMA Technical Symposium 2010**

‘Transformation: the compulsory choice’

24 November 2010 | Cinnamon Lakeside | Colombo

**CIMA 2011 Budget highlights**

26 November 2010 | Hilton Residencies | Colombo

**CIMA Mastercourses**

Competitiveness: ‘myth, miracle or model’ presented by world renowned strategist Professor Boon Siong Neo

26 November 2010 | Galadari Hotel | Colombo

Past

**CIMA Technical Paper Competition 2010**

The winner Tharindu Ediriwickrama, first runner-up Malika Godakanda, second runner-up Dinupa Peiris and the highly commended paper presenter Chandrien Demel were awarded at the bi-annual CIMA convocation on 16 September.

**News and events**

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**Bangladesh**

What we haven’t changed needs changing now: management accounting’s change agenda by Dr Danture Wickramasinghe

5 November 2010 | Dhaka Sheraton | Bangladesh
Strategic human resource management in Sri Lanka
by Dr Ajantha Dharmasiri

Dr Ajantha Dharmasiri is a senior faculty member and a management consultant attached to the Postgraduate Institute of Management, University of Sri Jayewardenepura. He also serves as an adjunct faculty in International Human Resource Management at the Price College of Business, University of Oklahoma, USA. He has over two decades of both private and public sector working experience in diverse environments including Unilever and Nestle. He has engaged in consultancies in more than ten countries. He is a Commonwealth AMDISA Doctoral Fellow and Fulbright Postdoctoral Fellow. He holds a Ph.D. and an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura and a B.Sc. in Electrical Engineering from the University of Moratuwa. He is also a member of the Chartered Management Institute (UK).

1. Introduction

Sri Lanka has entered an era of opportunities, leaving behind the bitter times of war and destruction. Given the aspirations of becoming the next Asian ‘miracle’, the country needs a sustained effort, in line with a long-term plan towards growth and development.

In this context, being strategic is of utmost importance. It essentially shows how ‘smart’ one is in ‘playing the game’. The roots are from the Greek word stratēgikós, which means the art of the general. Obviously, it has a military connotation: how a general orders the troops to attack or to withdraw or to surround the enemy, all with the aim of winning the war. A battle front and a business front have a lot in common, particularly with the sky-rocketing global and local competition.

A game plan cannot be conceived or commissioned without people. Any organisation has physical, financial and information resources. These three resources are not of any use if the company doesn’t have the most precious resource, its people. That is why, ‘people’ to be precise the ‘right’ people, are the most precious asset to any forward-looking organisation. How to acquire, retain, develop, and engage them have become increasingly challenging with the growing complexity associated with doing business in a globalised world. Hence, human resource management (HRM) has become a critical factor for organisational success.

2. Human resource management

What is HRM? There are many ways to describe it. I prefer how Garry Dessler puts it across in a rather simple manner: the policies and practices involved in carrying out the ‘people’ or human resource aspect of a management position. Interestingly, it does not refer to a particular department, section or a division, but it refers to any management position. This indicates that every manager has a ‘people’ role to play. Let’s take a simple example, you may be a very good accountant, yet, you cannot achieve results unless you master the art and science of getting the best out of your team. That is human resource management.

3. HRM: past, present and future

HRM is constantly evolving. Commencing as personnel management in early fifties, it has come a long way in bridging the gap between organisational effectiveness and employee development. As the table 1 depicts, strategic human resource management is a significant landmark in the evolution of the management of human resources. The scenario depicted in figure 1 can be observed when personnel management (PM), HRM and strategic human resource management (SHRM) are compared in line with their shift of focus in the typical organisational hierarchy.

Table 1: Development of HRM over the years

<table>
<thead>
<tr>
<th>Year</th>
<th>Known as</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>Formula fifties</td>
<td>Personnel management (PM) Developed by mathematically oriented people</td>
</tr>
<tr>
<td>1960</td>
<td>Sensitive sixties</td>
<td>Beginning of human resources management</td>
</tr>
</tbody>
</table>

1970 Strategic seventies Emergence of strategic human resource management (SHRM) 1980 Excellent eighties Influence by the Japanese management "In search of excellence" by Peters and Waterman 1990 Nanosecond nineties Impact of IT over HRM Human resource information systems (HRIS) Human resource management systems (HRMS) 2000 Terabit twenties HR linked to artificial intelligence and expert systems

Source: Adopted from www.tompeters.com

Figure 1: SHRM in the organisational context

As the above figure depicts, SHRM deals with strategic level of an organisation and contributes to the long-term decisions of an organisation. Let’s explore it in detail.

4. Strategic human resource management

SHRM is an approach that defines how an organisation’s goals are achieved through people by means of HR strategies, and integrated HR policies and practices. Schuler and Jackson (1987) define SHRM as ‘explicitly linking HRM with strategic management processes of the organisation to emphasise co-ordination and congruence among the various human resource management practices.’ According to Wright and others (1994), SHRM is ‘the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals.’ Truss and Gratton (1994) further elaborate SHRM as, ‘the linking of HRM with strategic goals and objectives in order to improve business performance and develop organisation culture to foster innovations and flexibility.’ In simplifying the above complex definitions, we can identify four elements affecting each other in the context of an organisation as depicted in figure 2.

Figure 2: SHRM and organisation

According to the above figure, the interplay between external and internal factors impacts SHRM. External factors could include industrial, political, economical, social, geographical and cultural aspects that are beyond the control of the organisation. Internal factors include people, leadership, organisational culture etc, and are within the control of an organisation.
Gratton and Truss (1994) stated that HR’s strategic role is to adapt individual HR practices (recruiting, rewarding etc.) to fit specific corporate and competitive strategies. As they further elaborate, ‘for any particular organisational strategy, there is purportedly a matching human resources strategy.’

The role of the HR function is dramatically changing in response to the changes at strategic levels. (Schuler and Jackson, 1987; Ulrich, 1998; Armstrong, 2006) As a strategic partner, the HR manager has to acquire the business mastery, a path that would lead him/her to greater interactions with the top team (Ulrich and Broachbank, 2005). This is an essential component of SHRM.

Dave Ulrich, in his ground-breaking article to Harvard Business Review (January-February, 1998) highlights several such challenges. According to Ulrich, ‘HR should be defined not by what it does but by what it delivers.’ He identifies five critical business challenges faced by organisations around the world. It is worthwhile to discuss the above in the Sri Lankan context.

**Globalisation**

With the rapid expansion of markets, managers are struggling to balance the paradoxical demand to think global and act local. Globalisation requires organisations to increase their ability to learn and collaborate, while managing diversity, complexity, and ambiguity. Sri Lankan organisations should be geared to explore the goldmines globalisation offers, while avoiding landmines. SHRM has to cater for competency development of employees. Their enhanced knowledge, attitude and skills will lead to competitive advantage of the organisation. That is the only way to survive and succeed in a ‘flat world’.

**Profitability through growth**

The drive for revenue growth exerts unique demands on an organisation. Creativity and innovativeness, free flow of information, keeping touch with the rapidly changing need of customers are some of the key strategies that can be deployed to meet these demands, which was further reinforced in wake of the current global recession.

Sri Lankan organisations need to consider how best they can assess the real customer needs on a regular basis, whilst being dynamic providers of goods and services as progress partners. SHRM should work hand in hand with business leaders to provide people with the right competencies to achieve the required performance levels. Appropriate measuring tools such as the balanced scorecard can be employed for this purpose.

**Technology**

Managers need to stay ahead in the effective use of information, and should learn to leverage such information for business results. Else, as Ulrich (1998) says, it will be a case of ‘being swallowed by a tidal wave of data without new ideas.’

Sri Lanka too, sees an increased awareness about the use of information and communication technology (ICT) for economic and business development. However, despite multiple initiatives from both the private and public sectors the utilisation of hardware and software by tapping the full potential of the bright and young ‘liveware’ is yet to happen. SHRM should cater for technology leadership in using ICT for employee development.

**Intellectual capital**

Knowledge has increasingly become a direct competitive advantage posing a challenge to organisations to ensure that they have the capability to find, assimilate, develop, compensate and retain competent individuals.

Sri Lanka, in the face of brain-drain, particularly in industries such as ICT, needs to find ways and means of gain-sharing, to retain such intellectual capital within the country. A reverse brain-drain is a strong possibility with the growing optimism in the business circles. There are opportunities for SHRM to play a vital role in this respect.

- **Change, change, and more change**
  
  Perhaps the greatest competitive challenge organisations face, according to Ulrich (1998) is adjusting to the need of embracing non-stop change. The ability to learn rapidly and continuously, innovate ceaselessly and take on new strategic imperatives faster and more comfortably has become the order of the day. In other words, organisations need to be in a never-ending state of transformation, perpetually creating fundamental and enduring change.

Sri Lanka saw a rapid phase of change in business activities since the 1977 economic liberalisation, but the real challenge lies in sustaining the dynamism in the face of global changes, and not being a victim but a victor. Now the time has come, to enter into a rapid phase of growth and development. SHRM role is immense in this aspect, where organisations have to plan and implement how people factor can be utilised for the goal attainment.

Let’s take tourism industry for an example. Experts have forecasted an acute shortage of professionals in time to come, within the wake of business expansion. SHRM strategies, action plans and implementation should cater for bridging such gaps.

5. **Regional reality and SHRM**

SHRM has a long way to go in South Asia. Our region has a rich heritage of culture and tradition in addition to its vast population. It is in a threshold of economic expansion amidst a variety of challenges. South Asia is a humanly rich region, which ranks among the world’s most densely-populated areas. Around 1.6 billion people live in South Asia accounting for approximately one-fourth of world’s population. The region's population density of 305 persons per square kilometre is more than seven times the world average.

As Sinha (2002) opined, ‘with human resource at the core of the new economy of South Asia, the gap between what can be imagined and what can be achieved will always be narrowed.’ Comparatively, fewer studies on strategic aspects of HRM have been conducted in South Asia, mainly owing to the ‘infancy stage of HRM.’ (Budhwar, 2004)

The positive perspective of this is that the need for SHRM is felt and initiatives are being taken, especially in fast growing economies such as India. (Dharmasiri, 2008)

6. **Sri Lankan scenario**

Having discussed the need for SHRM in the context of accelerated change, few specific challenges can be identified in Sri Lanka. Figure 3 contains the details.

**Figure 3: Specific SHRM challenges in Sri Lanka**

**Aim:** be a strategic partner of organisational success

<table>
<thead>
<tr>
<th>Impeding forces</th>
<th>Impelling forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low commitment from top management</td>
<td>Visionary leadership</td>
</tr>
<tr>
<td>Over emphasis on administrative aspects</td>
<td>Value as a competitive advantage</td>
</tr>
<tr>
<td>Low competency of HR managers</td>
<td>Professional and committed HR managers</td>
</tr>
</tbody>
</table>

Current state: narrow focus on personnel and administration

Source: Dharmasiri (2007)
The crux of the matter is whether impelling forces are successful in overcoming impeding forces to move from current state to the desired state. The scenario we see is a conscious transformation from narrow focus on personnel and administration to becoming a strategic partner of organisational success. Two key deficits can be seen among Sri Lankan organisations with this respect.

- **Competency deficit**
  This is a situation where the organisation provides an opportunity for the HR professionals to be involved in the strategic decision-making process, but they do not capitalise the opportunity by moving ahead appropriately due to serious competency gaps. Attention has to be paid to the context of whether there is significant recognition of people as a key asset in the organisation, and whether there is sufficient emphasis on strategic planning process.

The solution would be to strengthen the SHRM initiatives, by making HR professionals more competent in understanding business realities. Recent initiatives by several professional HR associations to strengthen the competencies of HR managers should pay-off in overcoming this situation.

- **Opportunity deficit**
  This is the other side of the coin. HR professionals may be willing and able to become strategic partners, but the organisation does not provide the needed opportunity. It can be caused by not having an enabling leadership, non-availability of a supportive climate, and non-existence of performance orientation in the organisation. With the increased awareness of the need for SHRM, this situation appears to be on the decline. National HR awards and other similar initiatives have contributed significantly in this respect.

### 7. SHRM improvements for Sri Lanka

HR professionals have a vital role to play in moving up the contribution of SHRM towards organisational success. This can happen in three forms: **integration, alignment and involvement**.

#### Strategic integration

It is necessary to ensure that the HR professionals are involved in the strategic decision-making process of the organisation. This may be translated into several key actions as given below.

- Encouraging HR professionals’ involvement in tackling strategic issues in different cross functional teams.
- Presence of HR in the top team providing people related information on issues, and implications of decisions.
- Coaching function of the HR professionals where they act as internal consultants in advising the line managers on HR matters.

#### Strategic alignment

It is necessary to ensure that HR policies and practices are aligned to the organisation’s strategic direction, and are reflective of the organisation’s long-term goals. This should be practically approached in the following manner.

- Updating HR professionals on the strategic direction of the organisation, with regular reference to organisational documents, meeting minutes and discussions.
- Devising a checklist for HR initiatives to ascertain the strategic alignment, and apply it in the case of every new HR initiative.
- Cultivating the practice of connecting the HR actions with the broad organisational objectives, especially with the HR manager leading by example in grooming the HR team.

### Strategic contribution

It is necessary to ensure that the HR function, and particularly the head of HR, is accountable for people-related strategic matters, and thus should achieve agreed targets. Quantification of targets with an appropriate matrix will be a perquisite for this. In executing the key tasks, the following practical actions need attention.

- **Appropriate use of strategic tools for tracking results** (such as balanced score card) with emphasis on people related parameters.
- **More focused HR scorecards, representing HR strategies, objectives, initiatives and action plans** should be in place.
- **Conduct regular reviews of the strategic contribution of the HR team, and communicate the results to all concerned.** Such reviews may also act as ‘course correction’ opportunities.

The result of the above key actions could be the application of best practices with respect to SHRM. Let’s look into the presence of such in Sri Lanka.

### Table 2: Best practices in relation to SHRM

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Details</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buying:</strong> choices in staffing</td>
<td>Build relationships with key sources of talent, use referral hiring, building a web-based hiring strategy, target potential employees.</td>
<td>A clear shift is seen from the traditional methods of recruitment to more web-based systems.</td>
</tr>
<tr>
<td><strong>Building:</strong> choices in training and development</td>
<td>Having clarity on programme participants, presenters, designers, coverage, delivery methods and expected behavioural changes.</td>
<td>Emphasis on training effectiveness is seen with proper measuring mechanisms.</td>
</tr>
<tr>
<td><strong>Borrowing:</strong> choices in contracting for talent</td>
<td>Forming joint alliances, visiting benchmarked sites, retaining consultants, outsourcing of work, maintaining relationships with former employees.</td>
<td>A growing emphasis on ‘borrowing’ can be seen with much scope for improvement.</td>
</tr>
<tr>
<td><strong>Bouncing:</strong> choices in shrinking the workforce</td>
<td>Rightsizing by way of involuntary downsizing, treating the low performers firmly and fairly.</td>
<td>Industry pressures for competitiveness have propelled organisations to take this path.</td>
</tr>
<tr>
<td><strong>Binding:</strong> choices in retaining talent</td>
<td>Identifying why talented people leave, offering extrinsic and intrinsic rewards to stay.</td>
<td>Encouraging evidence can be found in many leading organisations.</td>
</tr>
<tr>
<td><strong>Boosting:</strong> choices in promotion</td>
<td>Establishing criteria for new jobs, allowing volunteers to take up challenging tasks, evaluating candidate potential, supporting new job holders.</td>
<td>With rapid expansion of business, opportunities for promoting are on the rise.</td>
</tr>
</tbody>
</table>

Source: Adapted from Ulrich and Brockbank (2005)

Whilst there are positive and encouraging signs of SHRM fostering in the private sector in Sri Lanka, the public sector is lagging behind. This causes critical bottlenecks, such as the absence of conducive policy framework for people development. Such an imbalance is undesirable in the long-run.

### 9. Conclusion

SHRM is increasingly becoming important in the wake of economic expansion of Sri Lanka. Whilst, private sector shows encouraging signs of its dynamic presence, public sector has much to do in keeping up with the pace of change. Clarity of thinking blended with commitment towards execution, should be the way forward for HR professionals in the country, in making SHRM a driver for growth. For that to happen, HR managers should move beyond from being ‘at the tap’, to be ‘at the top’, in the way they deliver results.
1. Evolution of lean, six sigma and lean six sigma

Lean is no magic or a fad, but just the use of common sense and intuition in our day to day activities to continuously add value by eliminating waste (muda), inconsistency/variation (mura) and strain on resources (muri), wearing the hat of our internal/external customers.

The origin of ‘lean’ as a concept goes back to the days of 1913, where Henry Ford pioneered the art of mass manufacturing by introducing ‘Model T’ car. Ford was exemplary to the automotive industry, being able to understand and fulfill the global customer voice for ‘affordability’ in a time the craft manufacturing was the norm. Craft manufactured cars took months to produce and were exorbitant in price. The shift in paradigm to align organisational focus to customer voice through simplified processes, less variation, specialisation, standardisation, and work study methods helped Ford to excel and multiply it’s bottom-line.

Taiichi Ohno, the father of Toyota Production System (TPS), refined Ford’s mass manufacturing concepts in 1950s adding flexibility and customisation. He used flexible work force, quick changeovers (e.g. SMED) and enhanced focus towards quality in creating flexible manufacturing/mass customisation.

1990’s Dr James P Womack from MIT led his research team to coin the term ‘lean production’ to explain TPS to the world. He popularised lean thinking and application in the modern business dynamics by establishing Lean Enterprise Institute (LEI) in 1997 and publishing many titles (e.g. The machine that changed the world, Lean thinking, Lean solutions etc).

Dr James is considered as the father of modern lean thinking due to his efforts during past two decades. Origination of ‘six sigma’ occurred at Motorola. Motorola, which was the leader in manufacturing wireless communication products in 1974, started losing its market share drastically by 1979 due to quality Japanese products. This frustrated many in the company including its senior sales vice president of their largest communication sector, Art Sundry. He voiced his frustration at their officers meeting stating, ‘our quality stinks.’

Sundry’s outburst resulted in a four point plan under the leadership of Bob Galvin targeting 10x growth and quality improvement programme at Motorola.

In late 1985, Motorola started their attempt to define a common metric for sharing and comparing improvement initiatives across the organisation. Bob Galvin assigned this to one of its quality engineers, Bill Smith (considered as the father of six sigma).

Bill came up with the idea of measuring capability based on the concept of standard deviation (sigma), which he termed as six sigma. He then combined his concept of six sigma with a structured method of problem solving named ‘logic filtering’, invented by Mikel J Harry based on available quality and statistical tools for improvement.

Mikel J Harry was one of the interns hired by Motorola from Arizona State University combining the two concepts made six sigma not only a measure of capability but also a method of problem solving.

Today, six sigma uses many problem solving methods, which evolved out of the initial logic filtering concept i.e. DMAIC (define, measure, analyse, improve and control), DMADV, IDOV etc, to help companies solve their problems in a more structured and an organised manner. Motorola achieved USD 14 billion savings, five-fold sales growth with profits climbing nearly 20 % each year during 1987-97 by applying six sigma.

They also became the first company to win the Malcolm Balridge National Quality Award in 1988. They then started sharing their secret of success with the industry, including companies like General Electric, Allied Signal Unisys etc. Six sigma as a methodology focuses on reducing variation and increasing capability to bring about consistency and reliability in processes, products and services delivered to our customers either internal or external.

As a capability measure, achieving six sigma performance is equivalent to 3.4 failures out of one million available opportunities to fail. Failures in six sigma are defined against targets set by customers or stakeholders on different parameters, which they feel important in deriving satisfaction. This makes six sigma a highly customer oriented breakthrough improvement strategy for any company.
Recently, due to the overlapping realities of both the concepts and increasing popularity across the world, lean and six sigma has been applied as a combined problem solving methodology by many companies. This combined effort is termed as ‘lean six sigma’. The concept obtained more popularity when Motorola, originators of six sigma started their transformation from six sigma to lean six sigma (the combined) in 2008.

Today, lean six sigma application has evolved into many new industrial sectors i.e. health care, hospitality, defense, green technology etc. and over 70% of the leadership in Fortune 500 companies use lean, six Sigma or lean six sigma as their main stream process excellence methodology to achieve sustained improvements.

2. Emergence of ‘lean accounting’ and ‘accounting for lean, six sigma or lean six sigma’

The consistent growth of lean, six sigma and lean six sigma over the past decades has made life of management accountant more challenging with the additional responsibility of recording, verifying, validating and reporting of improvement gains and applying the concepts in their own processes. Emergence of accounting for lean, six sigma or lean six sigma and lean accounting occurred due to these obvious reasons.

Leansigma or lean six sigma application in a company can be triggered by its leadership as a routine exercise (proactive approach) or may be as an impetus due to a time of crisis (reactive approach). The latter, even not the ideal, is the most observed approach. Sporadic applications of the above concepts are not bound to provide sustained improvements, however, can be fruitful at times. It is important for the modern day management accountants to understand the implications of both scenarios, when presenting improvement gains.

Sporadic approach would not require regular reporting, but would require consolidated or isolated reporting at varying intervals. Routine applications will require more regular reporting and auditing of figures reported. Management accountants can come across situations where project owners try to inflate improvement gains to impress the project sponsor(s) and champion(s). Hence, it is important that reporting of net savings are standardised and validated by management in advance. Many use normalised cost figures to report net saving in line with historical records where actual figures are not available.

This approach makes the reporting process less complicated. Gains derived out of cost avoidance, hypothesised or assumed gains, soft savings and net savings from technological breakthroughs are generally not recognised.

However, this can vary depending on the company policies and its stand on gain recognition. Hence, proper disclosure of quality net savings (QNS) policies and workings of calculations must be provided when presenting improvement gains.

The generally accepted rule is to avoid reporting any cumulative gains beyond a year from the date of its recognition. For any form of quality net saving reporting to be successful, it has to be aligned to company’s goals and targets.

Performance appraisals and rewards must be linked to improvement gains and routine review of QNS policies, and auditing must be carried out. Accordingly, the accounting for lean, six sigma or lean six sigma deployment approach in an organisation can be summarised as shown illustrated in Figure 1.

4. Lean accounting

Lean accounting refers to the application of lean principles in the day to day accounting processes by eliminating 3Ms (muda - waste, muri - variation, and mura - strain on resources) by looking at it from the eyes of the customer/user/beneficiary group.

Lean accounting mainly revolves around four basic principles.

- Simplified accounting processes supporting lean transformation.
- Accounting for lean (explained earlier).
- Dissemination of timely information.
- Lean oriented planning and strong internal control.

5. Simplified accounting processes supporting lean transformation

Simplified accounting processes can only be developed by taking a look at the flow of activities in a more pragmatic way to understand whether the steps undertaken add value to the users or customers that the company serves. It is a fact that many organisations have incurred losses due to late pricing information, delayed approvals and extended hand-offs.

![Feature Article](image-url)
Extensive reporting that clutters the minds of the users/customers, limitless controls and multiple divisions of authority add no value to the users/customers. Lean tools provide many applications that help to eliminate 3Ms (mudiar) in the processes. Spaghetti diagrams, value stream mapping, cell design, kaizen and standard work can be cited as some of the tools that lean advocates.

Simplified accounting processes should also support the ability to support lean transformation. General application of lean accounting methods does not place much importance on traditional management accounting methods like standard costing, activity-based costing, variance reporting and cost-plus pricing. Instead, it looks at summarised direct costing of the value stream, use of box score reporting, plain English explanations and value based pricing.

6. Accounting for lean (previously explained)
Lean accounting highlights the importance of lean performance measurement and reporting in the general accounting for lean application process. Lean performance measurements are mainly classified in to three segments as indicated below.

- Organisational or plant level measurements supporting strategy development (e.g. monthly summarised box score reports).
- Value stream level measurements enabling continuous improvement (e.g. weekly box score reports on value flow consisting performance scores of sales productivity, operational efficacy, utilisation, inventory status, customer experience, quality, safety and people involvement in improvement programmes etc).
- Process and cell design measurements driving the ‘mudiar’ process (e.g. daily reports on takt time achievement, operational equipment effectiveness, right first time yield, WIP levels, opportunities for improvements – ‘just do its’ etc).

7. Dissemination of timely information
Another key principle under lean accounting is to make reports and information available just in time for the ideal audience. If information is delayed, the entire process of preparation becomes non value adding. Many companies use and depend on accounting systems to avoid these situations. However, extensive dependency on systems can cause problems and delays, if the reliability and accuracy of the systems are not tested.

Lean accounting advocates the use of visual controls and value stream box scores for reporting timely performance. Box score is a method used commonly for lean reporting. The standard format of the box score has three segments to present value stream performance, operational performance and financial performance in a single sheet. Box score reporting enables seamless comparison and easy understanding of performance across the organisation.

8. Lean oriented planning and strong internal controls
Lean oriented planning emphasises the requirement of a vision for lean accounting across the organisation. Lean accounting is not a method that can be applied in isolation. The entire organisation should be aligned to its practices. Lean accounting mainly advocates Hoshin planning methods and aligning of processes towards value addition and creation.

Planning in lean accounting doesn’t limit itself to planning of processes, but extends to embedding strong internal controls that enable the minimisation of non value adding activities in processes, people and policies. Especially, controls around Kanban levels, establishing supermarkets (a method used to balance flow) and resource allocation are important for successful lean accounting. Today, lean accounting has become a prominent topic among both the service and manufacturing industries. The first international conference on lean accounting was held in the year 2006 and it has become an annual event ever since.

9. Summary
This article aims to explain the required basic elements in understanding and differentiating ‘accounting for lean, six sigma or lean six sigma’ and ‘lean accounting’, two concepts that have evolved during the past two decades due to extensive efforts taken by companies in applying process excellence initiatives (mainly using lean, six sigma or lean six sigma methodologies).

Revision of the CIMA code of ethics
CIMA is committed to upholding the highest ethical and professional standards, and to maintaining public confidence in management accounting. CIMA has revised and reissued the code of ethics for CIMA members and students in line with revisions to the IFAC code issued by the International Ethics Standards Board of Accountants.

The CIMA code of ethics contains comprehensive and practical knowledge on the areas shown below.

- What would you do if you felt your professional ethics were being compromised?
- Advice and support related to whistle blowing.
- The ethics check list.
- Five fundamental principles of the CIMA’s code of ethics, which is integrity, objectivity, professional competence, due care and professional behaviour.

The full code of ethics (2010), annexe to the code and the summary of core changes to the code could be accessed by clicking here.
From CSR to CSV: the future of corporate responsibility
by Gehan Gunatilleke

Gehan Dinuk Gunatilleke received an LL.B at the University of Colombo and graduated in 2006. He is also a recipient of the Fulbright Scholarship in 2009. Thereafter, he received an LLM at Harvard Law School, where he was named ‘Dean’s Scholar in International Human Rights’ in 2010. Gunatilleke is presently a practicing attorney-at-law and a visiting lecturer at the University of Peradeniya, Department of Law.

1. Introduction
When John Elkington first coined the phrase ‘triple bottom line’ in his 1998 book, ‘Cannibals with Forks: the Triple Bottom Line of 21st Century Business’, corporate social responsibility (CSR) was still perceived as a positive concept intended to honour the ‘triple bottom line’ i.e. people, planet and profit. Under this traditional notion of CSR, businesses are required to integrate self-regulation into their business models and respect core principles of law, ethical standards and international norms. Yet, more recently, this notion of CSR has not been accepted by most quarters.

On the one hand, businesses have viewed CSR as an inconvenient cost that obstructs profit maximisation. On the other hand, public interest groups have described CSR as ‘window-dressing’ for purportedly profit motivated corporate activities. The real ‘bottom line’, it seems, is that CSR is simply not working in today’s corporate context. This article explores the theory of ‘creating shared value’ (CSV) as an alternative to the current approach to CSR, and discusses the importance of integrating CSV into the existing framework on corporate responsibility.

2. Evolution of CSR
CSR has evolved significantly since the term was first introduced in the 1970s. Today, most major corporate entities pride themselves of non-economic social values and have even rebranded their core values to reflect ethical, social and environmental considerations. BP’s ‘Beyond Petroleum’ campaign is a case in point. However, this approach to CSR focuses on external corporate activities such as community development or philanthropy. Thus, in practice, businesses have viewed CSR as an optional endeavor to be undertaken only when feasible or convenient. Seldom is CSR accepted as a serious, mandatory obligation.

In response to this predicament, public interest activists have become more aggressive in their campaigns against the corporate world. Moreover, public attention towards corporate activity has grown immensely over the past decade. Businesses may be well aware of this tension created by the expansion of corporate power and the simultaneous increase in the intensity of public interest campaigns. Yet, they remain largely uncertain about how to resolve this tension. In fact, the most common corporate response has tended to be slightly cosmetic i.e. public relations and media campaigns to build or restore the image of the business.

Certain recent global initiatives have been partially successful in clarifying, to some degree, the framework of obligations cast upon corporate entities. For example, Professor John Ruggie, the United Nations Special Representative of the Secretary General on Human Rights and Transnational Corporations and Other Business Enterprises recently published a report titled ‘Business and human rights: towards operationalising the protect, respect and remedy framework’ (U.N. Doc. A/HRC/11/13/, 22 April 2009). According to the 2009 report ‘the framework rests on three pillars: the state duty to protect against human rights abuses by third parties including business, through appropriate policies, regulation, and adjudication; the corporate responsibility to respect human rights, which in essence means to act with due diligence to avoid infringing on the rights of others; and greater access by victims to effective remedy, judicial and non-judicial. The three pillars are complementary in that each supports the others.’

The report correctly concludes ‘business and human rights is not an ephemeral issue to be considered at some future date. It is and must remain at the core of our common concerns today.’ Although the critical response to the framework offered by this report has been largely positive, the question of whether it offers the most effective means to dealing with issues of corporate responsibility remains open.

3. The first amendment
Despite mounting public pressure on businesses to become more socially accountable, recent trends particularly, in the United States suggest that the traffic of change is one-way, and is clearly heading towards corporate domination of the social, financial and political spheres. The U.S. Supreme Court, in Citizens United versus Federal Election Commission, 558 U.S. 50 (2010), controversially held that corporate funding of independent political broadcasts in candidate elections cannot be limited under the first amendment to the U.S. constitution. The case concerned Citizens United, a conservative non-profit organisation, which sought to run television commercials promoting its film ‘Hillary: the movie’, a documentary critical of then senator Hillary Clinton.

Delivering the opinion of the majority, Justice Anthony Kennedy opined that the First Amendment prohibited Congress from preventing corporations from engaging in political speech. It was the first time the judiciary in America recognised corporations as constitutional stakeholders. Quite incredibly, the decision virtually recasts corporate entities as ‘citizens’ entitled to constitutional rights, including the right to political speech.
A more realistic assessment of the ‘protect, respect and remedy’ framework foretells of its ultimate ineffectiveness, as corporate entities begin to exercise greater influence over government. Facialy, this may seem encouraging to businesses. Yet, on the flipside, the chasm between the profit motive and certain public interest considerations may tragically and unnecessarily widen. This conflict is inherently unhealthy from a macro-economical perspective. However, averting an aggravated conflict would only be possible if the traditional understanding of corporate responsibility is dramatically overhauled.

4. The CSV model

The CSV model contemplates a novel and innovative approach to CSR. It received global attention in the December 2006 Harvard Business Review article ‘Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility’ written by two Harvard professors, Michael E. Porter and Mark R. Kramer. The authors comment: ‘The fact is, the prevailing approaches to CSR are so disconnected from strategy as to obscure many great opportunities for companies to benefit society. What a terrible waste.’

According to Porter and Kramer, the shared value model is essentially based on the idea that corporate success and social welfare are interdependent. The model is premised on the theory that a business needs a healthy and educated workforce, sustainable resources and a proficient government to compete effectively. Similarly, for society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth and opportunities for upward social mobility. Porter and Kramer thus provide invaluable insight into how companies including Toyota, Whole Foods Market and Volvo have developed deep linkages between their business strategies and corporate responsibility.

For example, when Toyota introduced its hybrid electric/gasoline automobile the Prius, Toyota gained a significant competitive advantage by marketing the new vehicle’s environmental and economic benefits. Similarly, Whole Foods Market became a category leader in the supermarket sector by offering organic and natural foods to environmentally conscious consumers. The company has also begun to use sustainable and eco-sensitive operating philosophies that other specialty grocers and ordinary supermarkets are yet to match. Thus the authors insist, ‘If corporations were to analyse their opportunities for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed, it can be a potent source of innovation and competitive advantage.’

5. Conclusion

The traditional approach to CSR pits businesses against society and focuses on the costs and limitations of compliance with certain standards geared towards the public interest. For CSR to work under this approach, it is imperative that businesses truly believe that grave costs would be incurred unless CSR endeavors were undertaken. However, as the corporate sector’s influence over governmental policy steadily expands, it seems inevitable that businesses would be less responsive to public pressure or to social accountability concerns.

CSR thus faces a certain danger of becoming, at best, purely cosmetic, and at worst, purely academic. CSV, on the other hand, acknowledges certain limited trade-offs between short-term profitability and social or environmental goals. Moreover, it focuses on the opportunities for competitive advantage from building a social value proposition into corporate strategy. This approach turns corporate responsibility inwards by incentivising businesses to identify the long-term strategic advantages of integrating social and environmental goals into its business models. This may be the only sustainable solution available in the context of a rapidly evolving power dynamic between corporate entities and public interest groups. Hence the inclusion of CSV into the current framework of corporate responsibility may be decisive for the future development of a mutually beneficial relationship between society and the corporate sector.

‘Quote: unquote’

‘The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at times of challenge and controversy.’
Martin Luther King, Jr

‘A good general not only sees the way to victory; he also knows when victory is impossible.’
Polybius

‘Take time to deliberate, but when the time for action has arrived, stop thinking and go in.’
Napoleon Bonaparte

‘Try not to become a man of success but a man of value.’
Albert Einstein

‘Statistics suggest that when customers complain, business owners and managers ought to get excited about it. The complaining customer represents a huge opportunity for more business.’
Zig Ziglar

‘This is a fantastic time to be entering the business world, because business is going to change more in the next 10 years than it has in the last 50.’
Bill Gates

‘The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time.’
Henry Ford
1. Overview
CIMA Sri Lanka recently held a focus group discussion among business leaders and industry experts to discuss the way forward for corporate reporting in Sri Lanka.

The discussion was conducted to support a global study undertaken by CIMA together with PricewaterhouseCoopers LLP and Tomorrow’s Company to explore what changes are needed to make corporate reporting fit for purpose in future. The ultimate purpose of this project is to advocate change to produce more comprehensive and comprehensible corporate reports in future.

The discussion created a lively debate among the participants about their perceptions towards corporate reporting, its strengths and weaknesses, what hinders the progress of corporate reporting, and what can be done to enhance its relevance to investor community.

2. Way forward
This discussion identified key ways and means of making corporate reporting more relevant to investors in Sri Lanka. Some of these points that were identified are given below.

Improvements to content (what is presented)
- Develop better guidelines for risk reporting, and encourage companies to report on specific risks - unique and relevant to its business instead of confining itself to generic details about risk management.
- Local research could be encouraged on the sphere of corporate reporting including risk reporting.
- Create better transparency pertaining to the relationship between earnings and management incentives.

Improvement to presentation (how it is presented)
- Strive to move towards original reporting structures as opposed to boilerplate reports that present very little meaning or insight.

3. Conclusion
The findings of this focus group discussion were directed to the global study, and CIMA Sri Lanka will continue to engage the local community as the project progresses to different levels. Armed with high level views from these dialogues the next phase of the project is to delve deeper and formulate specific recommendations for change.