



The Pakistan

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Cover Story

# WhistleBlowing

## Accounting Ox and Fox

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## Editor's Letter



**W**histleblowers — insiders who expose unethical or prohibited activities — are an important source of information for an organisation. They can provide crucial leads, evidence, and sometimes absolute evidence that expose everything from fraud and waste to criminal conspiracies and war crimes.

Whistleblowing is made up of two elements: a worker disclosing a certain type of wrongdoing (such as a criminal offence, a health and safety violation, the causing of environmental destruction or a let-down of justice), and doing so in the public interest. It is a valuable tool in any organisation's corporate governance plan as it permits employees to act on occurrences of misconduct and help maintain a safe workplace. The world is becoming increasingly complex. More and more conflict can be expected concerning controversial issues such as the environment, civil rights, animal rights, product safety and many other issues.

While whistleblowers do call attention to genuine abuses of power by decision-makers in business and government, they do often suffer retribution for their ethical resistance. However, whistleblowers may often be wrong in their accusations and their motives may not always be pure. Their call to investigate can disrupt a workplace, and possibly cause serious harm to individuals who would be accused wrongly. A whistleblowing claim can be expensive to defend, and even more expensive to lose.

Some might say whistleblowers are noble characters, sacrificing personally and professionally at own will to expose organisational practices that are wasteful, fraudulent, or harmful to the public safety. Others may suggest whistleblowers are by and large, unhappy employees who maliciously accuse individuals they feel have maltreated them in order to attain their own egocentric goals. The truth, as is often the case, probably lies anyplace between these two extremes. Employees who sympathise with activists in various interest groups may be torn between their feelings toward these groups and loyalty to their organisations. A general trend has also been seen towards strengthening the protection of whistleblowers in court and tribunal decisions.

Whatever our personal view of whistleblowers and whistleblowing might be, one must consider the issue objectively. This is not a topic that can be ignored, due to the possible negative consequences for both employees and organisations and to be beneficial, such policies must have the commitment of top management and also be adequately communicated to the employees.

**Yacoob Suttar**



## President's Page

In a perfect world, wrongdoing would be non-existent; where employees under no circumstances disagree with the activities of organisational leaders, neither on ethical nor on moral grounds. However, this is not a perfect world. Wrongdoing, or at least the perception of wrongdoing, is almost sure to occur. When it does, there are often employees who will desire to stop it. Whistleblowing policies that provide internal discovery mechanisms for employees offer a viable alternative to those who wish to express concerns of an ethical nature. These policies offer the opportunity for internal resolve of sensitive issues. Employees who use the internal channels, actually do a great favour to the establishment by giving them the chance to investigate individuals' concerns before those concerns become public. If investigation reveals any legitimate problems, the organisations have the chance to resolve them without being publically open.

When organisational wrongdoings are uncovered in the open, it can do great harm. The organisation's reputation suffers, the commercial performance of the company may be affected. The organisation may also find itself charged by the ones who feel they have been harmed by the company's action. Employees do not have the right to make malicious or irresponsible charges of wrongdoing that are not supported by facts. But they should not be expected to go along silently when they are aware of probable wrongdoing, or when they are asked to do something they feel violates the law or generally accepted moral standards.

Whistleblowing policies can also ensure that employees' right to free speech is not violated. As long as the whistleblower is sure that their motivations are sound and that they are confident on the system, they should not hesitate to convey such information and be pleased that they are helping to create a safer and healthy working environment for their colleagues.

**Nadeem Yousuf Adil**



# Whistleblowing

by Ali Raza

In 2002 when Time magazine named Cynthia Cooper and Sherron Watkins as People of the Year, it was a formal acceptance of the importance of internal whistleblowers. Cynthia Cooper pushed forward with the internal audit and alerted the Board of Directors about the problems, although the company's CFO wanted to postpone her investigation. At Enron, accountant Sherron Watkins outlined the company's problems through a memo to the CEO at that time. These are two instances where an internal source of the company reported the problems to an appropriate source, out of the many which came to light over recent history. If you look at the relevant Wikipedia entry, you can find the names of such people in corporate and public sector organisations. The history goes back to the year 1777 when midshipman Samuel Shaw along with Third Lieutenant Richard Marven blew the whistle on the torturing of British POWs by the commander-

in-chief of US Continental Navy. This resulted in the whistleblower protection law being passed by the Continental Congress.

With the advance in the means of transportation and commerce, organisations started to grow in size. Until such time the most businesses used to be owned by individuals who were also managing their businesses, hence a direct supervision by the owner who has main financial interests in the business. As the organisations grew, the sheer size made it impossible to be owned or managed by an individual. In some cases, people having financial strength don't have necessary technical expertise to run the business. With time, businesses started to discover means of gathering more finance and spreading the operations far and wide. Larger business wanted expertise of many professionals such as finance, HR, IT, engineering,

etc. which was impossible to find with one person. This resulted in introduction of corporate with the separation of owners and management of the businesses. With the introduction of new forms of companies, all kinds of laws were built around it to facilitate the running of businesses in the new model and safeguard the owners. The owner base of the company also widened and people were holding, in some cases, a tiny chunk of the ownership of the company, making it impossible for them to have any say in the management of the company except for their vote for selecting a Board of Directors to run the affairs of the company.

Board of Director became primarily responsible for managing the company with a management headed by CEO running the day to day affairs of the company. With the separation of management from the ownership, the basic interests of both the groups



Despite all the rules, laws, regulations and practices to ensure good governance, there is always a chance that somebody will come up with a method of plundering the resources for their personal or group benefit.

It is common knowledge that corruption is rampant in government organisations because of the way the whole system has been set-up giving unquestionable power to few individuals.

being different, it became more important to keep a constant watch on the management to make sure that the company is being run in most efficient and profitable manner. Although the Board is involved in all the major decisions but still there is a lot of room for maneuvering by the management if they want to work in their own interests.

With the failure of the socialist model in Russia and some other countries, the world became fully aware of the inefficiency and corruption which crept in, in the government or public organisations. The basic flaw of that model as well was that few people were responsible to exploit all the resources, leaving a vast gap for them to pursue their own interests. Although that was an extreme but it can be found in most of the public enterprises of the capital world as well albeit at a low level. No matter how you build the accountability in a government organisation, there are far too many people wielding enough power to use resources or power in their favour.

With all these changes in the business environment, good governance became the key word. According to Wikipedia, 'Good governance is an indeterminate term used in the international development literature to describe how public institutions conduct public affairs and manage public resources. Governance is "the process of decision-making and the process by which decisions are implemented." The term governance can apply to corporate, international, national, local governance or to the interactions between other sectors of society.' The importance of good governance also dawned on the leaders of corporate sector and they came up with tools and practices

to ensure that the management of a company is also following this principle.

As they say, human beings are ingenuous inventors. Despite all the rules, laws, regulations and practices to ensure good governance, there is always a chance that somebody will come up with a method of plundering the resources for their personal or group benefit. Given the circumstances and regulations, there is a good chance that outsiders will never come to know the internal malpractices designed to serve vested interest. This is where the role of a whistleblower becomes important.

According to the 2010 definition from the US Office of Special Counsel, a whistleblower discloses information he or she reasonably believes evidences:

- a violation of a law, rule, or regulation
- gross mismanagement, gross waste of funds, or abuse of authority
- a substantial and specific danger to public health or public safety

The term whistleblower comes from the whistle a referee uses to indicate an illegal or foul play. US civic activist Ralph Nader is said to have coined the phrase, but he in fact put a positive spin on the term in the early 1970s to avoid negative connotations found in other words such as "informers" and "snitches". Most of the whistleblowers are internal to the organisation, someone who is aware of the misconduct of a fellow employee or a superior in the company and decide to report it.

Whistleblowing has to do with ethics because it represents a person's understanding that an action his/her organisation is taking is harmful and it interferes with people's rights or is unfair. Whistleblowing also calls

upon the virtues, especially courage, as standing up for principles can be a punishing experience.

### Oh! You snitch

By the time Watkins and Cooper blew the whistle in case of Enron and Worldcom, much damage had already been done and the shareholders and employees were the ultimate losers. So the question is, how a company should promote a culture which gives courage to an employee to point out and question illegal or unethical practices? And how a company should ensure that a timely action is taken in such cases?

Although it is a moral responsibility by any standard, one of the most interesting things in this regard is why and under what circumstances do people act to stop illegal and unacceptable behaviour or report it. These questions should be answered in the context of conflicting cultural norms, which makes it more likely that whistleblowers will face hostility. As Terance Miethe explains in his book, *Whistleblowing at Work*, many people see the whistleblower as a "snitch," or "a lowlife who betrays a sacred trust largely for personal gain." In a 1972 case, an arbitrator told the employee that you cannot "bite the hand that feeds you and insist on staying on for the banquet." Peter Drucker, the famed management guru had anti-whistleblowing attitude and termed this act as 'informing.'

Although on the other hand, in some public whistleblowing cases, whistleblowers are considered the heroes who helped address major issues. Mark Felt was one such person. Felt was associate director of the FBI, the number-two job in the Bureau, when he leaked information about

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president Richard Nixon's involvement in the Watergate scandal. The scandal eventually led to the resignation of the president, and prison terms for White House chief of staff and presidential adviser.

### Dealing with it

Attitudes toward whistleblowing have evolved over the last 50 or so years. In the early days of corporate America loyalty to the company was a norm but in the recent years public outrage about corporate misconduct has created a more helpful climate for whistleblowing. Prior to that, a company was autonomous in a decision to fire an employee even without any reason. The only exception was 'unionised employees' where a sufficient cause needs to be exhibited in order to avoid any legal hassles later. In private industries, there were very few mechanisms to air grievances.

Although, in most cases, consequences of the wrongful practices in private enterprises are limited but in case of larger organisations and public sector these could result in financial losses as well as loss of life for many, such as the case of General Motors who was fined \$35m for failing to recall cars with faulty ignition switches for a decade. Thirteen deaths were attributed to the faulty switches during the time the company failed to recall the cars.

### How to deal within the corporate sector

There are reasons to believe that people are more likely to take action with respect to unacceptable behaviour, within an organisation, if there are complaint systems which

offer a choice of options for absolute confidentiality.

The first of many steps to take in corporate sector is to create a culture of responsibility and openness with the organisation which makes sure that a person can question such practices without the fear of backlash or victimisation from the top cadres.

A formal policy should be created about reporting the illegal or unethical practices which provides a formal mechanism for reporting violations. Companies should make an explicit policy about whistleblowing and convey the commitment to investigate any reported incidents fairly and without revealing the identity of the reported. This commitment must be reiterated by the top management teams openly. The commitment should show not only in the talk but the actions of the management.

There should be complaint systems at all levels which should facilitate reporting of incidents confidentially. This reporting could be internal or external depending upon the level of the people involved. Internally employees can report to a level higher from the level of people involved depending on the severity of the problem. Most of the international organisations have instituted a helpline with a phone and email where any incident can be reported and there are dedicated and responsible individuals to investigate and report on such matters to the Corporate Compliance Officers.

Higher management should endorse the policy and show their commitment to this process. Executive leadership should reinforce the legal and ethical practices in all affairs of the company and hold everyone to high standards.

Any reported incidents should be promptly investigated and properly dealt with which will also help show commitment.

A recent trend in smaller companies is bringing in a trusted outside organisation as the entity to report such cases to. Typically, an audit or a reputable legal firm is appointed where such incidents can be reported who then in turn makes sure that such complaints are appropriately handled with the proper level of organisations involved or any external authorities, as the case may be.

In some cases, inappropriate practices can be reported to professional organisations such as The Institute of Chartered Accountants of Pakistan (ICAP) or other related professional body or government regulatory body.

### Private vs. Public sector

Private sector whistleblowing is not as high profile as in public sector, but is more prevalent. In private companies, it could typically be a case of sexual harassment or violation of company policy reported to a higher level individual. Stricter internal policies and control make such cases nearly impossible to be highlighted by anyone other than the people directly involved. Such cases are not even reported on the national level media because of insignificance and in some cases lack of thrill.

Whistleblowing in public sector can be high profile as well as significant in consequences as is apparent in some recent cases in USA. One of the most popular cases is of Edward Snowden who was a contractor at Booz Allen Hamilton. He released classified material on top secret National

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The term whistleblower comes from the whistle a referee uses to indicate an illegal or foul play.

Security Agency programs to the media in 2013. He is currently in Russia in an undisclosed location trying to avoid arrest by US government.

### National level

While it is easier to take step in a private organisation to ensure that illegal and foul practices are promptly reported, more work is needed at the national level to give

this legal protection. It is common knowledge that corruption is rampant in government organisations because of the way the whole system has been set-up giving unquestionable power to few individuals. Successive governments are also responsible to some extent who appointed their cronies to important posts with the sole objective of getting things done in their favour but ultimately anyone

in a power position would use it for his/her benefit as well.

No such high profile cases came to fore in Pakistan, probably because of lack of proper legal cover for whistleblowers. Although at a very minimal scale such things are reported to professional organisations by the bereaved customers and sometimes employees which are dealt with appropriately. Introduction of proper laws and protection programs surely can bring out a lot of cases of corruption and illegal practices which are not reported because of fear of retaliation. I personally know someone who passed civil service exam and was appointed as Income Tax Officer but later he left the civil service altogether because he did not want to become part of the culture and had no chance of either fixing it himself or reporting it to someone. If proper laws can be introduced at the national level, accountability can be improved in the public sector as well.

### International level

Sarbanes-Oxley Act (known as SOX) in US is one of the major laws enacted as a response to Enron and WorldCom scandal which was enacted in 2002. Most of the Act focuses on financial reporting and internal control requirements for publicly traded companies, but Congress also included provisions to protect insiders who report questionable accounting practices. The enactment of SOX opened the way for complaints to the U.S. Department of Labor (DoL) from individuals claiming that they suffered retaliation for reporting. In addition, there are other laws such as Occupational Safety and Health Act and Civil Rights Act which provides measures against the retaliation.

# Corporate Whistleblowing:

## A Compromise on Loyalty or a Blessing in Disguise?

by Muhammad Asad Mirza



It was in 1972, when Thomas A. Robertson, director of Development at Firestone Tire, sent out an alarming memo to the top management about 500 defected tires in the stock. These tires had the capacity to separate from belt-edge at high speed. Alas, no one heeded the warning even after several complaints from clients such as General Motors itself. Soon these faulty tires were already on the roads and became cause of several accidents. Eventually, Time magazine highlighted the negligence of the company when 41 people had already died and many others were seriously injured due to an otherwise avoidable flaw by the manufacturer. And this just does not end here. The company never learned from its mistake and another disastrously unsafe batch of tires hit the roads again in 2000. This time around, it claimed 200 lives and over 700 casualties. (Reference 1)

This is just one of many examples where companies take whistleblowers 'for granted' and mostly end up suffering a lot including bankruptcy and discontinuation of businesses. The next thing we know is that authorities from Firestone Tires were called up to give an explanation in front of the Congress and had to spend a fortune in settling lawsuits filed by the affected. The situation would have been totally different if instead of suppressing the allegations, the company had taken necessary actions to rectify the problematic tires.

Each year, many of such concerns that can harm a company's reputation and public health go unheard. Now the question is: 'Should individuals intimate their higher ups about an upcoming negligence/loophole in process knowing that it can go unnoticed or can result in their alienation or even termination?' But then again, there will be thousands of people who may fall sick or even lose their lives just because of this silence.

Before jumping to any conclusion, it is crucial that we examine what corporate whistleblowing is and what are its implications.



## Should individuals intimate their higher ups about an upcoming negligence/loophole in process knowing that it can go unnoticed or can result in their alienation or even termination?



### Whistleblowing

Whistleblowing can either be internal or external. In internal whistleblowing, flags are raised about an issue in front of the first tier management. However, in external whistleblowing, one goes an extra mile and approaches media, police or state authorities to point out an issue.

According to Dictionary.com, 'a whistleblower is someone who informs on another or makes public disclosure of corruption or wrongdoing.' Misconduct, bullying, fraud, health and safety concerns, discrimination and corruption fall in the same category.

### Whistleblowing and Corporate Attitude

Not listening to employees when they have special 'revelations' to make can demoralise them. They start feeling less important and either become prone to the wrongdoings or quit the job. However, as a matter of fact, it is seen that sooner or later, this information will be made public by someone else and then the companies are left with only one thing – defending them, which is time-consuming, costly and often leaves an indelible stain on their reputation.

**Case 1:** Ernest Fitzgerald (air force employee) was discouraged for his whistleblowing against an overrun of \$2 billion costs in C-54 planes. Though he was immediately fired from the air force, he got back his job through legal procedures. As a punishment, he was then demoted to a lower rank; however, he was reinstated to his former position with the help of another appeal. Later, a memorandum explained Fitzgerald as an expert with low scores in 'loyalty'. (Reference 2)

Bear in mind that Fitzgerald was able to do all this because of practical implications of laws for the protection of whistleblowers. However, not all the whistleblowers are lucky enough to get their jobs back due to the weak application of legal laws for whistleblowing (especially in third world countries).

**Case 2:** One of the latest examples is of British Petroleum (BP) which was found guilty of one of the major oil spills in history. Back in 2010, a ship carrying a large quantity of oil ended up spilling a huge portion of this oil in the Gulf of Mexico. In an attempt to cover up the ecological damages, the company had to stop journalists from visiting and reporting from the cleanup locations. Meanwhile, whistleblowers started to come on the front and blamed improper inspection procedures for the massive destruction. Though BP had to face some punishment, it cost the CEO, Tony Hayward, his job along with another employee who was sacked for talking to investigators about the issue.

Had BP listened to those whistleblowers, it would have easily avoided this horrific incident which is still a reason for sickness among local people due to the chemicals used in the cleaning process.

Considering these cases and several others where despite trying to hide faulty procedures by the top management, the news made it to the mainstream media; and hence, companies are not left with any other option but to encourage employees to blow whistles whenever needed (provided they are not biased and are given protection for spilling the beans) so that the damage can be controlled before it is too late.



**According to Dictionary.com, 'a whistleblower is someone who informs on another or makes public disclosure of corruption or wrongdoing.'**



## How to Encourage Internal Whistleblowing?

While there is no denying to repercussions faced by whistleblowers (alienation, close monitoring, demotion or termination), it is seen that many employees raise false alarms either for the sake of taking revenge from someone or to garner attention. However, this does not mean that organisations stop encouraging their internal well-wishers.

## Objectives of Internal Whistleblowing

There are certain objectives that should be kept in mind when asking employees to share anything suspicious/ anomalous with the management. Some of these are:

- Highlight any unethical or illegal practice that can bring any kind of problem for the company either immediately or in the long run. This will make it easier for the management to take timely action and correct the troublesome situation beforehand.
- Minimise the damages caused to the organisation when someone circumvents their responsibilities.
- Give an impression that the organisation is serious about its code of conduct and anyone who intends to breach or deviates with them will be dealt with strictly.
- The name of the employee will be kept confidential and there will be no impact on his job.
- Availability of legal cover for the concerned employee.



## Devising an Effective Whistleblowing Program

### ▪ Draft a Policy

Mailboxes should be placed across the organisation where employees can drop in their concerns. Along with this, hotlines should be established too. Proper documentation and formalising reporting of violations are the best possible ways to tackle with these issues. Moreover, awareness should be created about how these revelations can benefit an organisation.

### ▪ Get it Endorsed by the Top Management

Once you have a policy, get it approved by the top management. Their approval is the most critical step towards encouraging whistleblowing in the organisation. This endorsement should be communicated throughout the organisation by managers and line managers.

### ▪ Make Your Commitment Public

The policy should never remain on the papers only; instead it should be discussed regularly in internal and external marketing collateral (newsletters, brochures, speeches and memos). Besides, acknowledging the efforts of whistleblowers publicly will definitely motivate other employees to do so.

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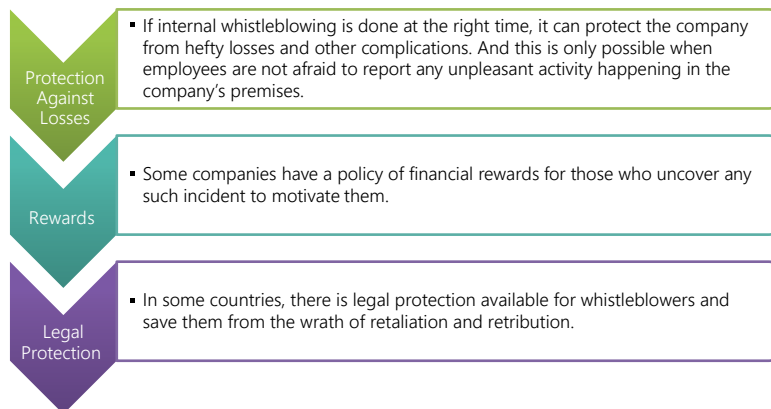
#### ▪ **Look Into Allegations and Take Feedback**

Respective managers should instantly investigate the allegations and report them to the higher management. The sooner it is, the better. At IBM, their open-door policy bounds the managers to take actions on complaints within certain hours.

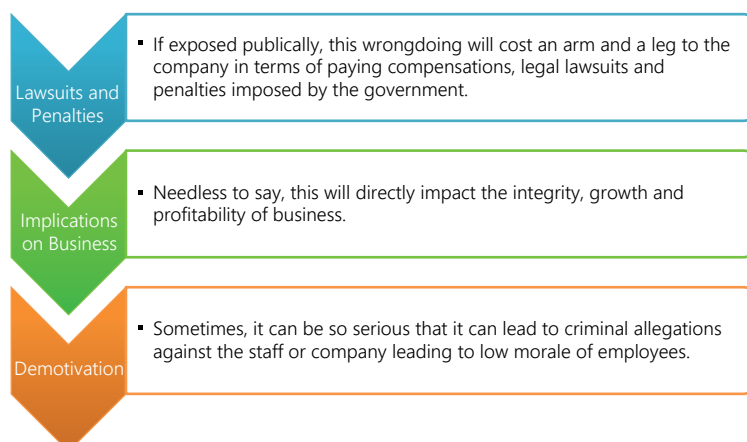
#### ▪ **Evaluating the Whistleblowing System**

Employees should be often asked about their views on the organisational culture along with their adherence to the values and ethics.

### Advantages of Whistleblowing



### Disadvantages of Whistleblowing



**Acknowledging the efforts of whistleblowers publicly will definitely motivate other employees to do so.**



### Difficulties Faced by Internal Whistleblowing Programs

#### **Lack of Trust**

Employees do not trust the internal whistleblowing programs completely

#### **Fear of Being Alone**

Employees fear alienation and retaliation

#### **Fear of Discremination**

Employees think that rules and code of conduct do not apply on the management

#### **Wrong Intentions**

Some employees have 'hidden' objectives (cause damage to organisation or take revenge from management)

The world is changing constantly and some of the practices and norms that were considered against organisation practices (i.e breach of loyalty for whistleblowers) are now part of corporate culture for most of the good organisations and they have established mechanism for employees to report any inappropriate act or happening that are not considered normal. It is high time that organisations realised whistleblowers are not its enemies. They are also part of the system whose operations directly or indirectly affect the society and its people who trust them with their lives. Therefore, it is an organisation's ethical responsibility to make sure that whatever processes they are pursuing do not cause any harm to the society and its people. Paying attention to 'unpleasant' revelations, investigating the truth in them and amending the procedures accordingly can be very much effective in fulfilling this obligation. Not only does it keep the companies away from losses, being criticised, insulted and penalised by authorities, it will also save a lot of lives (like in BP oil spill) for which any greatest financial loss will be 'inconsequential.'

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PC: <http://ethicalsystems.org/content/whistleblowing>



An innocent curve of the lips to produce sound associated with frolic and enjoyment has over time brought revolutionary changes. It prompted Joseph Hudson, an inventor of England, to produce a device in 1883 to do the honours. Hudson had entered a competition held by the Metropolitan Police Force to design a way of attracting people's attention. He later on devised the referee whistle for football matches as prior to that handkerchiefs were used. However, one of the first professions to be labelled as 'whistle blowers' were the US police, who blew whistles to attract attention to wrongdoing. Hence, whistleblowing has come to be synonymous with drawing attention to an unusual adverse situation requiring swift action. A person raising such an alarm is referred to as a whistleblower. US civic activist Ralph Nader coined the phrase in the early 1970s to avoid the negative connotations found in other words such as "informers" and "snitches". Such has

where and how to report misdemeanors. At the same time, care needs to be taken that whistleblowers are able to maintain their anonymity as the first question raised in the mind of any whistleblower are the repercussions that would follow if identified. Without adequate security provided to whistleblowers,

the whole phenomenon would not be able to thrive. For any person witnessing malpractices and to report it, is not an easy task and there is a constant struggle in the mind whether to expose the matter or to maintain the status quo.

However, anyone who comes across an unethical situation should not turn away his face. One should consider it a moral obligation to expose it. Dr. Martin Luther King Jr. once said, "He who passively accepts evil is as much involved in it as he who helps perpetrate it."

After a whistleblower has done his job, it is the duty of the enterprise to follow it through. Their moral responsibility is as great, if not greater, than the whistleblower to enable reform and for the process to bear fruit. There can be no

Anyone who comes across an unethical situation should not turn away his face. One should consider it a moral obligation to expose it. Dr. Martin Luther King Jr. once said, "He who passively accepts evil is as much involved in it as he who helps perpetrate it."

# The Importance of Whistleblowing

by Moneeza Usman Butt

The world is a dangerous place, not because of those who do evil, but because of those who look on and do nothing.

been the momentum in this act of attracting attention that we have seen the word to evolve from "whistle blower" in the 19th century to "whistle-blower" in the 20th century to "whistleblower" in current times!

The corporate world has not stayed far behind in being bitten by this concept. Good corporate governance practices entail the embracing of such model to render credibility and a form of accountability to businesses. However, just instituting a mechanism of whistleblowing in organisations is not adequate. It needs to be propagated and cascaded throughout the organisation so that people can be aware of

After a whistleblower has done his job, it is the duty of the enterprise to follow it through. Their moral responsibility is as great, if not greater, than the whistleblower to enable reform and for the process to bear fruit.

greater anticlimax if the antagonist prevails over the protagonist. Initiating inquiries and a fair process of culpability shall serve as an example and give confidence to the entire concept of whistleblowing. It may take some time to bring the offenders to task but the quicker the gumshoes spring into action the better it would be as justice delayed is justice denied.

In conclusion it would be pertinent to quote who once so succinctly remarked: "The world is a dangerous place, not because of those who do evil, but because of those who look on and do nothing."

– Albert Einstein



# Whistleblowing: Consequences & Protections

by Muhammad Asad Ali

A possibility may exist that accusations filed by a whistleblower may be found to be wrong, and in that case, after due investigation, law may take its course against the whistleblower. In short, any complain must be reviewed objectively and the wrongdoer must be punished.

## Concept

Whistleblowing means reporting by employees or former employees about illegal, irregular, dangerous or unethical practices by employers (International Labour Organisation). The disclosures should be made to the right person in "good faith" and based on "reasonable grounds."

Good faith is the intention of the employee to be honest and that is to be gauged by the court of law. The onus is on the employer to prove that allegation under consideration which lacks good faith. Reasonable belief is based on whether a layman with knowledge of the essential facts reasonably concludes that the actions are evident of the wrongdoings.

## Origin

The origin of the term was traced back to Ralph Nader inspired from the "referee" that highlights a foul play. Another source traces the origin back in the late 19th century when government, in the form of local unarmed police, would "blow the whistle", so that good citizens could be alerted to help chase and apprehend pickpockets and shoplifters. (Taxpayer against Fraud Education Fund)

## Dilemma: Violation of Loyalty

According to agency theory, employee being an agent must act to protect the interest of its principals. Sissela Bok highlighted the dilemma as the whistleblower expects to stop the game, but since he is neither referee nor coach, and since he blows the whistle on his own team, his act is considered as a violation of loyalty.

As a counter argument, loyalty to moral principles is higher than the loyalty to persons. Many whistleblowers are often loyal employees who make whistleblowing with a belief that they are doing a job in the best interests of the company.

## Domains

The offences that fall under the domain of whistleblowing are:

- A criminal offence, fraud
- Failure to comply with the legal obligation
- Threats to health and safety
- Damage to the environment
- A miscarriage of justice

A whistleblower, before reporting, must determine whether the observed activity falls under the prescribed domains. Then, he gauges its criticality; identify the reporting authority and determine its associated costs. Personal grievances (harassment and discrimination) don't fall under the domain of whistleblowing unless it is in the public interest.

## Avenues of Disclosure

A whistleblower based on his/her assessment will disclose the information to the person next in hierarchy internally or externally. Employees often feel convenient to make a disclosure internally within their organisation. However, there may be circumstances where evidence in the public interest compels them to make external disclosure. This can be avoided by implementing the in-house standard policies and procedures for handling whistleblowing. The available avenues are:

- **Internal**
  - Line manager
  - Executive management
  - Board committees
  - Board of Directors
- **External**
  - Regulators
  - Professional bodies
  - Media

## Consequences

### Retaliation against Whistleblower

Whistleblowers call attention to abuse of power by decision makers; and, understandably, often suffer strong retaliation. To safeguard, power holders do anything to control the negative reactions by maligning or harassing the whistleblower that sometimes can exceed to torture. The general modes of attacks that a whistleblower may face are:

- Ostracism or banishment
- Harassment and threats
- Blocking of promotions
- Withdrawal of financial support
- Forced job transfers
- Formal reprimands
- Legal actions
- Dismissal
- Physical assault

### Damages to Organisation

An organisation, as a result of whistleblower claims, outside the organisation, has to suffer severe financial losses based on the criticality of the claims on account of revenue or payment of damages. As long as the information remains in the public eye, it attract investigation, inquires and lawsuits, that will damage an organisation's repute and goodwill. As wisely said, "A good reputation is more valuable than money." (Publilius Syrus)

### Damage Control against Whistleblower

To offset or minimise the negative effects of the claims, organisation use following measure to restore their deteriorating repute, credibility, or public image:

- **Cover up:** Hiding the information from wider audiences.
- **Devaluation:** Maligning the individual through false rumours.
- **Reinterpretation:** Events are explained favourably to power holders.
- **Intimidation and rewards:** Whistleblower can be subjected to reprisals and opportunities may be offered to those willing to support.
- **Barrier to justice:** Incompetence can be exploited through faulty investigation.

## Protections

Whistleblowing in advanced economies is perceived as yet another measure to implement transparency and immediate detection of fraud. Tips from the whistleblower hotline are continuously monitored to detect and correct the irregularities in their earlier stage. The general protections available against the retaliations are:

- Formulation and Implementation of Whistleblowing Laws: Government and organisations should develop formal whistleblowing policies as a way to create the conditions necessary for the effective management of whistleblowing. These policies should provide standard guidelines within which organisations



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respond to the ethical or moral concerns of their employees. Whistleblowing policies should have the following components as a minimum:

- A clear statement that employees who are aware of possible wrongdoing within the organisation have a responsibility to disclose that information to appropriate parties inside the organisation.
  - The designation of specific individuals or groups outside the chain of command as complaint recipients.
  - A guarantee that employees who, in good faith, disclose perceived wrongdoing to the designated parties inside the organisation will be protected from adverse employment consequences.
  - The establishment of a fair and impartial investigative process.
- **Protection against Retaliation:** The law should provide comprehensive protection against discriminatory or retaliatory personnel action. It must set out broad employment protections for whistleblowers including direct or indirect disciplinary action, dismissal or discrimination, particularly with regard to remuneration, training, classification and reclassification, assignment, qualification, professional promotion, transfer or contract renewal, as well as exclusion from recruitment or access to internships or training.
- **Anonymity and Confidentiality:** The law must protect the identity of the whistleblower, which is kept confidential unless the whistleblower provides consent to disclose it.
- **Difference between Anonymity and Confidentiality:**
- Confidentiality means whistleblower's name would not be disclosed without his consent. Anonymity means if the identity of the person raising the concern is not known. The most appropriate way to raise a concern is to do so openly.
- **Burden of Proof:** The burden of proof must be on the employer to prove that the conduct taken against the employee is unrelated to his or her whistleblowing.
- **Training Sessions:** Training and mentoring session must be conducted to ensure employees can make disclosures without any fear.
- **Use of Incentives to Encourage Reporting:** To encourage whistleblowing, a system of monetary rewards must be introduced and that can be linked with the amount saved. Under the Dodd-Frank whistleblower program, the securities and exchange commission of United States has paid more than \$37 million to reward whistleblowers for their provision of original information in the fiscal year 2015.
- **Resolving the wrongdoing quickly:** The organisation must respond to the disclosure in an effective way, when it is raised. This allows the

organisation to investigate promptly, and provide feedback.

- **Better Control:** Organisations embrace whistleblowing as an important source of information to make better decisions and control risk. Whistleblowers respond more positively when they feel that they are listened to.
- **Judicial Remedy:** Whistleblower legislation is to ensure that whistleblowers are entitled to a fair hearing before an impartial forum with a full right of appeal.

Loyalty to moral principles is higher than the loyalty to persons. Many whistleblowers are often loyal employees who make whistleblowing with a belief that they are doing a job in the best interests of the company.

### Conclusion

The risk of wrongdoings is significantly increased in today's economic climate. To nip them in the bud, it is the ethical responsibility of the employees and employers to take immediate and firm actions. Employees, being the main players, have access to the current information, and are therefore responsible to communicate the wrong doings in a factual manner to the concerned person.

Organisations can make ethics a top priority by introducing the culture that promotes transparency and encourage the disclosure of immediate wrongdoings. That can contribute to a just workplace and ensure that employee rights are respected. Leadership must educate employees about retaliation and protections available under the system, a real commitment can encourage the employees to discuss the matters in earlier stages internally.

Top management must be held accountable that whenever a report of wrongdoing is made to the concerned person, he needs to handle the situation professionally. If the disclosed claims are substantiated, the wrongdoer should be punished and the whistleblower may positively be acknowledged and rewarded. However, a possibility may exist that accusations filed by a whistleblower may be found to be wrong, and in that case, after due investigation, law may take its course against the whistleblower. In short, any complain must be reviewed objectively and the wrongdoer must be punished.

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# Strive to Balance Analytical Leadership with Cost Control

by CFO Innovation, Asia staff

**Research identifies five most common transformation initiatives finance organisations expect to use to address priorities in 2016: improving leadership skills; re-engineering processes; improving performance management capabilities; developing a finance technology road map; and rolling out of business intelligence (BI) and analytics applications.**

Chief Finance Officers (CFO) around the world face a delicate balancing act in 2016 as they seek to address multiple and often conflicting priorities. Finance must enhance its ability to support corporate strategies through analytics and information integration in the face of reductions in budgets and staff, according to new Finance Key Issues research from The Hackett Group, Inc.

The research also identified the five most common transformation initiatives finance organisations expect to use to address these priorities in 2016: improving leadership skills; re-engineering processes; improving performance management

capabilities; developing a finance technology road map; and rolling out of business intelligence (BI) and analytics applications.

"Looking at the top finance strategy priorities for 2016, it's not hard to see how they are related," said Jim O'Connor, principal and finance advisory practice leader. "The number one priority is to focus on integrating enterprise information in support of better analytics and improved corporate decision-making."

O'Connor notes that finance is in a unique position within the company, with access to all of its financial and much of its operational data.

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"By better integrating this data through Enterprise Performance Management (EPM) and business intelligence systems, finance can help companies understand performance, improve forecasts, and take action to close gaps and take advantage of opportunities."

"In order to accomplish this, finance needs to improve its capabilities in business partnering, relationship management, predictive forecasting, and its facility with analytics," said O'Connor.

"And they need to do this in the context of challenges to revenue growth and an array of increased business risks, which hang like a dark cloud over the business environment in 2016. Companies are focusing on cost reduction across the enterprise, and this is clearly an area where finance can take a leadership role."

## Cost Reduction Remains a Priority

The Hackett Group's research found that cost reduction remains a priority, with finance budgets projected to shrink by 0.5% in 2016. Staffing is projected to fall by 2.7%. In the context of expected revenue growth of 3.7%, this creates a growing gap in productivity and efficiency that finance must address in tandem with any improvement efforts.

One key element of the focus on finance cost reduction is the implementation and expansion of Global Business Services (GBS) operations. Finance leadership look to their GBS organisation to take on more activities and deliver both cost savings and productivity gains.

"Many companies have now maximised their ability to cut labour costs through offshoring and outsourcing," says Martijn Geerling, The Hackett Group associate principal and GBS executive advisory practice leader. "But the GBS operating model continues to be a way to drive additional value."

Geerling notes that in addition to enabling companies to realise economies of scale, the GBS model allows companies to deploy digital technologies more effectively and deliver the productivity gains demanded by finance leaders and company leadership.

"Moreover, it allows companies to implement end-to-end processes more effectively, and find value in collaboration and integration with other functions such as procurement, HR, and IT," says Geerling.

## 5 Specific Transformation Initiatives

In all top priority areas – integrating enterprise information, achieving a competitive cost structure, and formulating strategy with the business – The Hackett Group found significant

shortfalls between their importance and finance's capabilities, and recommends that leaders narrow their focus to five specific transformation initiatives in 2016:

**Improve Leadership Skills:** Finance needs to move beyond the long-standing approach of promoting based on technical accounting and technical financial skills, and take a long-term approach to building skills that demonstrate business acumen, including persuasion and motivation, planning and organisation, taking initiative, and decision-making.

**Re-engineer Finance Processes:** With no additional funding, finance functions will need to free resources from lower value areas in order to deliver on higher value services, such as EPM. The concept of re-engineering has been around for decades, but advances in technology are game changers for finance as it looks for ways to revamp processes and be more responsive to customers.

**Improve Performance Management Capabilities:** Improving performance management capability helps finance identify areas of opportunity in strategy, integration, and cost reduction. It also helps finance improve its own as well as enterprise agility. Companies with superior EPM capabilities outperform their peers across an array of financial metrics.

### Develop a Finance Digital Transformation

**Roadmap:** A roadmap is vital to navigating the array of technology innovations available, including social media, mobile, analytics, cloud. Finance organisations must clearly detail goals and potential customer benefits, and ensure that decisions are aligned with the direction of the company's overall IT architecture, business strategy, and the current and future needs of internal customers.

### Roll Out Business Intelligence/Analytics

**Applications:** The principal area of planned investment in new technology within finance involves extending the value of business intelligence and analytics by unlocking the value residing in companies' vast stores structured and unstructured data, which goes far beyond traditional financial data.

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# Finance Professionals Partnering Businesses

by Babar Hashmi

**A regular finance manager starts looking for loopholes and grey areas; whereas, a strong finance professional leads the organisation in tough times by providing sound commercial and business advice.**

## Business Partnering - The buzz word

It's one of the buzz words in the business world today. All finance professionals like to claim that they partner businesses to enhance business performance. It's true that the expectations from finance managers and their roles in organisations have changed over the years, and it makes for more interesting and challenging careers. It also means that the old fashioned career paths are not aspirational for young professional accountants and finance managers who can transition from being only watchdogs and get closer to business, understand its dynamics and contribute more towards the organisation's success.

In this article, I want to discuss how finance managers need to increase their empathy for the business in order to be positive contributors in their organisations. I also want to debate if there can be too much of a good thing – i.e. can a partnering mind-set, make professional accountants lose their focus on their primary responsibilities.

## Finance professionals, in a position of trust

I think it's important to emphasise on the position of trust which a finance manager holds in the organisation. Without this trust, it is impossible for the finance manager to perform his duties, and I am sure, this would be the biggest quality a business head would need in his finance partner. This trust relation embodies:

- trust in the accuracy and reliability of information.
- ability to make smart and correct decisions which will take the business closer to achieving its objectives.
- trust in the person as an individual, his intentions, ethics and integrity.

CEOs would not be able to deliver if they didn't have this trust relationship with their CFOs, and the financial officers would become irrelevant in an organisation where they are not able to develop such a position.

## Finance professionals need to find the right balance between the various expectations that organisations have from them today.

### Integrity and ethics and the slippery slope of everyday business

- Producing results year on year is very tough. All organisations are target driven. Budgeting & forecasting in today's world is done in an extremely dynamic environment. There are hundreds of assumptions and risks that managers need to take in order to come close to the expectations of the management. While at target setting period, all caveats are emphasised, often final numbers locked for the year for organisations are based on instructions received from the top.

Once the actual numbers start flowing in, there is little tolerance and memory of the caveats discussed at target setting stage.

At this time organisations start putting unusual pressure on their managers to deliver targets. The question here for finance manager is: how to handle the pressure, in the urge to start partnering the business?.

- Temptations to take the easy road – how do you react?



At this juncture, the difference between a regular finance manager and strong professional is that a regular finance manager starts looking for loopholes and grey areas; whereas, a strong finance professional leads the organisation in tough, times by providing sound commercial and business advice.

I believe, on question of business ethics, there is no room for second guessing. Finance managers who are able to put their foot down without fearing consequences, are in the long run, respected for their worth, and have more recognition in organisations.

Finance managers need to have (and earn) independence in their decision making to be able to act as a conscience of the organisation. This is how they can maintain the ethics charter for which they are trusted by the organisation.

Hence a strong finance manager needs: 1. strong character, 2. unquestioned integrity and 3. good business acumen – without which he will fall short of performing in his job.

### Save the GM from himself

There are really no shortcuts to deliver growth on a long term basis. Ultimately, delivering growth on long run gets done by creative thinking which results in new ideas, products, marketing campaigns and ultimately, satisfaction of consumer demand in the market. It is a tough job being at helm of affairs of a value creation cycle and managers placed in such positions need strong support.

If you are a young finance professional supporting business, what do you need to remember?

## CEOs would not be able to deliver if they didn't have this trust relationship with their CFOs.

- True partner always tells the truth – even if it is bitter.
- Finance Key Performance Indicators (KPIs) versus marketing/commercial KPIs– there is contrasts and conflict by design, that is the rationale of creative friction.
- Process is a good thing. Every business needs processes. But, remember, the objective of the process is to bring structure and simplicity.
- Keep the relationship very healthy: Don't be the everyday 'avenger', the business bh KPIs are your responsibility too.
- Focus on the windshield, don't obsess about the rear view mirror.
- Identifying problems is the easy bit, finding right solutions distinguishes the men from the boys.

So, in the end: can there be 'too-much' of business partnering?

Finance professionals need to find the right balance between the various expectations that organisations have from them today. They need to make contributions to business growth by laying down simple and effective processes, constantly look for opportunities to eliminate inefficiencies and also remain independent and maintain strong ethics.

These responsibilities are not at all in conflict with business growth objectives. In fact, these are the actions that contribute towards having stronger structures in organisations for them to build their strength on. Hence, true business partnering is always respected and makes finance professionals valuable members of their organisations.





Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and fair presentation of financial statements.

AUDIT





# Materiality in Planning and Performing an Audit

by Irfan Anwer

**A**uditors apply the concept of materiality in planning and performing an audit of financial statements. It is explained here how materiality is applied in evaluating the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements.

## Materiality in the Context of an Audit

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and fair presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements.
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.





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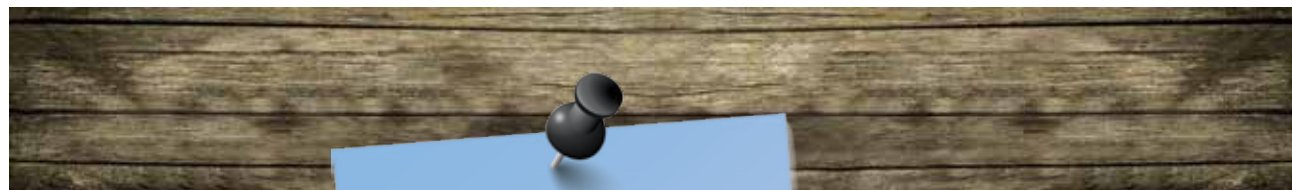
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The auditor's determination of materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements.

The auditor's determination of materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users:

- have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented, and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- make reasonable economic decisions on the basis of the information in the financial statements.

The concept of materiality is applied by the auditor both in planning and performing the audit; evaluating the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements; and in forming the opinion in the auditor's report.

### Materiality in Planning Audit

In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

- determining the nature and extent of risk assessment procedures;
- identifying and assessing the risks of material misstatement; and

- determining the nature, timing, and extent of further audit procedures.

The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. Although it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

### Materiality in Performing Audit (Revision as the Audit Progresses)

The auditor should revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances, or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. The auditor

obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk. Materiality and audit risk are considered throughout the audit.

**Audit Risk = Detection Risk x Inherent Risk x Control Risk**

### Calculation of Materiality

Calculating materiality is a matter of auditor's judgement. Materiality is calculated as a percentage of one of:

- Profit before tax;
- Revenue; and
- Total assets.

But ISAs also quantify the calculation of materiality as:

- 5% of profit before tax;
- 1% of revenue; and
- 1-2% of total assets.

### Performance Materiality

The amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole and the amount set by the auditor at less than the materiality level for particular classes of transactions, account balances or disclosures.

It was brief discussion of materiality in planning and performing the audit. In short, auditor judges risk at planning level and calculates materiality and performance materiality to perform the audit.

# Understanding Enterprise Risk Management

by Sami Ullah Khan



One of the fundamental objectives of Enterprise Risk Management (ERM) is the role it plays in the organisational resolve to create value for its stakeholders. This is due to the fact that all organisations encounter risks and uncertainties, resulting in challenges for the management to decide on risk/ uncertainty level in order to achieve growth in stakeholders' value. Uncertainty, comprising both risk and opportunity, has the potential both to impact stakeholders' value. It, therefore,

necessitates a system within the organisation to manage the level of risk and uncertainty.

ERM provides management with a tool to deal with uncertainty and underlying risk and opportunity, resulting in value creation capacity. It aims at an efficient and effective deployment of resources in pursuit of underlying value-maximization objective of striking an optimal balance between growth and returns.

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The fundamental concepts in defining the Enterprise Risk Management as mentioned in COSO Integrated Framework published in 2004 are as follows:

- A process, on going and flowing through the entity effected by people at every level of an organisation.
- Applied in strategy setting.
- Applied across the enterprise, at every level and unit, and includes taking an entity level portfolio view of risk.
- Designed to identify potential events that may affect the entity, and to manage risk within its risk appetite.
- Able to provide reasonable assurance to an entity's management and board of directors.
- Geared to achievement of objectives in one or more separate but overlapping categories.

ERM has the following major dimensions in managing risks and returns:

- **Correlating risk appetite with strategy** – Consideration of risk appetite in terms of strategic choice, objectives' setting and risk management mechanisms.
- **Risk mitigation mechanism** – Identification and selection of risk mitigation alternatives aiming at avoidance, reduction, sharing and acceptance of potential risks.
- **Reduction in potential operating losses** – Identification of potential risk vulnerabilities and establishing risk response mechanism to reduce associated operational costs and losses.
- **Managing enterprise-wide risks** – Identification and management of risks which confront the organisation as a whole.
- **Effective resource deployment** – Risk profiling enables effective planning and deployment of organisational resources.
- **Identification of opportunities** – Canvassing all the potential risk events provides a mechanism for realizing corporate opportunities.

These factors enhance corporate performance aiming to achieve operational targets and reduce losses. In addition ERM helps eliminate associated costs of non-compliances with applicable laws and regulations by establishing a compliance reporting mechanism.

Emanating from the way organisations are run, there are eight interrelated components of ERM as mentioned below:

- **Organisational culture** – It encompasses the overall values of an organisation, risk mitigation strategies, integrity and ethics, and the operating environment.
- **Vision and goal setting** – ERM ensures that a vision and goal setting mechanism is in place for alignment of strategic objectives resulting in goal congruence.
- **External and internal evaluation** – It identifies and classifies internal and external factors into risks and opportunities. It also includes 'matching and converting'. Matching refers to identifying competitive advantages by matching the strengths to opportunities. Converting implies strategies to convert threats or weaknesses to opportunities or strengths.
- **Risk assessment** – It includes risk analysis, impact analysis and risk management strategies.

- **Responses to assessed risks** – It includes risk aversion strategies (i.e. avoiding, accepting, reducing or sharing of risks) and its alignment to organisational risk appetite.
- **Control activities** – It establishes policies and practices for ensuring effectiveness of responses to assessed risks.
- **Information feedback mechanism** – It identifies, analyses and communicates the relevant information for responsibility assignment in a way consistent with the flow of management information.
- **Monitoring** – The ERM process is monitored for its effectiveness and modifications are made as needed. Monitoring is accomplished through ongoing management activities, separate evaluations or both.

Determining whether an entity's ERM is effective is a judgment resulting from an assessment of whether the eight components are present and functioning effectively. Thus, the components are also criteria for effective ERM. For the components to be present and functioning properly, there can be no material weaknesses, and risk needs to have been brought within the entity's risk appetite. The eight components will not function identically in every entity. Application in small and mid-size entities, for example, may be less formal and less structured. Nonetheless, small entities still can have effective enterprise risk management, as long as each of the components is present and functioning properly.

#### Limitations

While ERM provides important benefits, limitations exist. In addition to factors discussed above, limitations result from the realities that human judgment in decision making can be faulty; decisions on responding to risk and establishing controls need to consider the relative costs and benefits; breakdowns can occur because of human failures such as simple errors or mistakes; controls can be circumvented by collusion of two or more people; and management has the ability to override enterprise risk management decisions. These limitations preclude a board and management from having absolute assurance as to achievement of the entity's objectives.

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Enterprise Risk Management – Integrated Framework – 2004 by COSO





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**30** The Pakistan Accountant      **October - December 2016**

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**Hina Afzal, ACA**  
Karachi

While delayed retirement per se may not be a guarantee to a longer life; however, it certainly is a secret to a content and fulfilling life after one is past the official retirement age. Retirement is a major transition that impacts one's daily routine and activities, as the machinery of one's body is used to a certain routine and lifestyle for years, and is bound to have a psychological impact compounding to a stressful life event. For some people finances and money may be an important factor in a decision to delay retirement; for others lifestyle, fear of disassociation with peer group and feeling of being non-productive are pivotal factors in a decision to delay retirement.

**Mansoor Ahmad Siddiqui, ACA**  
Karachi

Before sharing my thoughts on the discourse, I would prefer to replace the word 'longer' with 'happier.' Since length of life is something which, according to my belief, is pre-determined and can neither be extended nor reduced at one's will. So, if put like this, 'Is delayed retirement the secret to a happier life?' then one needs to define happiness and this definition would definitely vary from individual to individual. Taking an early retirement or delaying it may have an impact on the life routine but it all depends on how one transitions into the retirement phase. If it is replaced by having to spend more time with family, having enough resources to play a constructive role in society then, I believe, delaying the inevitable would not be a preferred choice. In case there is no fall back plan after retirement, then in that case delaying the retirement would only serve to delay the inevitable and may still take its toll on the ageing soul and body. So I would recommend a timely retirement with a clear goal and plan in hand for the post retirement life.

**Bushra Aslam, FCA**  
Islamabad

The title of this topic is a source of concern for me. We are Muslim, and the majority of people living in Pakistan are Muslims. And it seems we do not have even the basic understanding of the teachings of Islam. As Muslims, we believe that our lifespan has been determined by Almighty Allah before we are actually born. Sahih Muslim Hadith 6392 narrated by Hudhayfah ibn Usayd states:

"The Prophet (SAW) said: When the drop (semen) remains in the womb for forty (days) or forty nights, the angel comes and says: My Lord, will he be good or evil? And both these things are written. Then the angel says: My Lord, would he be male or female? and both are written. And his deeds and actions, his death, his livelihood; these are also recorded. Then his document of destiny is rolled and there is no addition or subtraction from it."

In the light of the above, no Muslim should have any iota of doubt on the fact that lifespan cannot be increased with any variable.

Now coming to the topic itself, the delayed retirement, the word 'life' means the condition that distinguishes animals

and plants from inorganic matter, including the capacity for growth, reproduction, functional activity, and continual change preceding death. The meaning of life exhibits that it is essentially full engagement in activities. Life is in fact making a fuller contribution by utilising one's personal strengths. So, when we are alive it is understood that we contribute in one form or other either only for our family or for society at large.

The human life cycle has been divided into stages based on average life span. We are born and then raised as kids who transform into adults leading to old age and finally facing death. In the earlier stages, we are taught to study so that we can earn a respectable livelihood for ourselves and our families. The day we attain the required qualification, we start searching for job. Once a job we like is in our hands, we spend the rest of our lives working hard day and night to be successful. This continues for an average person till 60 years of age which is considered to be the retirement age. Working does not necessarily mean to work for paid jobs. It can also be to work on volunteer basis for an orphanage, any community work or to help any person in any matter in which you are an expert.

The topic suggests that working longer can be a secret of longer life. In my view, it cannot be a secret of longer life; however, it may be a way of increasing your productive life. Life, as I have already mentioned, is fixed and pre-determined. It is only the productivity of life that can be enhanced by us through our endeavours. For example, if a person is alive for 80 years and he/she stops working at 60, he/she would deteriorate every day. This deterioration can be physical, spiritual, psychological, social or of any other form. But if you are involved in any sort of work and keep yourself engaged, you have a sense of achievement which keeps you motivated and moving.

**Zuhair Akram Shaikh, ACA**  
Karachi

Yes, I am a strong supporter of the idea that delayed retirement is the secret to a longer life. Retiring after age 65 may help people live longer, says a study published online in the Journal of Epidemiology & Community Health. The risk of dying from any cause over the study period was 11% lower among people who delayed retirement for one year until age 66 and fell further among people who retired between the ages of 66 and 72. Researchers at Oregon State University analysed data from 2,956 people who were employed at the start of a larger study in 1992 and fully retired at its conclusion in 2010. The retirement age in the study ranged from 55 to 77 years old.

The study further suggests that postponing retirement may delay the natural age-related decline in physical, cognitive and mental functioning, reducing the risk of chronic illness.

I feel it is pertinent to point out that the decision of delayed retirement often is not just about money. Age, health, lifestyle, family and job satisfaction can all be factors in determining whether to delay retirement. Although many people delay retirement for financial reasons, a significant segment keeps working because they want to stay active and be productive.

For some people, the concept of taking early retirement is synonymous to finding quality time for themselves and their families; moving to the beach or the mountains, or buying a boat and drifting off to someplace warm and wonderful. It, however, rarely works. In majority of cases the situation turns out to be totally different. An idle person after retirement is no different from a sick person who is centering attention upon himself when what he needs is to have the attention turned away and to think of and care for others. Nevertheless, it is imperative that one should learn how to live a fruitful life and make every day count that help you achieve something; the delayed retirement somehow is a means to achieve this very objective. How rightly has someone said:

"To be idle is a short road to death and to be diligent is a way of life."

**Sheikh Bilal Shams, ACA**  
Karachi

I don't think retirement is the secret to a longer life. In fact, its passion and commitment which makes you live longer. At the CFO conference recently heard the views of a retired CEO of a bank. He was passionate, motivated and satisfied with his post retirement activities. Retirement has no connection with longer life. As someone said: "I don't stop when I am tired I stop when I'm done."

Now what is that commitment, satisfaction and passion which we need to keep scorching to produce positive energy? To figure this out, we need to:

1. Find inside our own selves
2. Think out of the box
3. Live outside the comfort zone

If we work on these three aspects, there is no retirement and a desire to live a much longer life. I feel not even 10% people on this planet can satisfy these three aspects in their lives. Most don't know what they are capable of; some never think out of the box; and some never want to leave their comfort zone. So, please start working on these three aspects and stop thinking about retirement. You will definitely live much longer.

**Mohammad Ashfaq Tahir, FCA**  
Mississauga, Canada

My view is that different body parts have different lives, for instance, your legs may not support you for a sprint if you are older than 60 years. However, the case of mind is different. The mind has two parts, our conscious mind and our unconscious mind. The conscious mind decays over time like other body parts whereas the case of the unconscious mind is different. It stores information over time and grows bigger and bigger every moment. It grows even bigger when we use the stored information. Our mind is like a CEO of a company, which sends orders to different body parts and pushes them to obey those orders. Retirement means that you are firing the CEO of your body. You will not use a major portion of your conscious and unconscious mind. Our conscious mind is already subject to decay and then not using the unconscious mind will slow down its growth. Just imagine a company with

no leader or an ineffective leader. Based on this, my view is – don't take retirement if you don't have to. If it is inevitable, start something you like to do and keep your mind busy. You will live a longer and happy life.

**Muhammad Kamran Nasir, FCA**  
Mississauga, Canada

There have been multiple studies in recent years indicating that delaying retirement can increase life span. Over the years, in their jobs, people develop certain routines. They also network and develop sentimental bonds with their colleagues, co-workers which keep them agile and potentially benefit their health. In fact, the discipline of work helps them remain active and live longer.

Retirement affects the physical routines as well as sentimental impulse and leads to a feeling of loneliness and severance. Retired people have to develop new life priorities, habits and networking which more often does not prove to be an easy task. Post-retirement easy financial setback, especially weak social security and pension systems, and unhealthy lifestyle causes adverse implications to health condition of retired people, which eventually affects life expectancy.

Three years' back, some longevity consultants found that delaying retirement for ten years can roughly add thirteen months to men's life expectancy and twelve to the women's. They concluded that continued physical and mental activity in later life has proven health benefits, leading to a longer life expectancy. There are also some arguments that retirement age has no connection with longevity but that holds true, though partially, only in those societies which have strong welfare policies, old-age benefits, social security and free health facilities for the retired people.

Ageing itself is a natural process that has bearing to one's life duration but delayed retirements, which essentially keep people socially engaged and physically active, does help delaying the pace of decline and may possibly be one of the factors which increase human life.

**Kamran Ahmed, ACA**  
Rawalpindi

While no one can guarantee a longer life, however delayed retirement might be able to prolong health deterioration. The ultimate objective is that a person should remain active and it can be through regular work, charity work, exploring the world and not necessarily by continuing to do an office job.

**Muhammad Farrukh Rasheed, ACA**  
Dubai, UAE

Well, the secret to a longer life still happens to be a secret although various researches are being conducted to determine the factors which contribute towards longer life. Now a days, many theories have been put forward based on researches conducted all over the world claiming delayed retirement to be one significant factor towards longer time. Personally, I believe it varies from person to person though work, often considered to be dull and stressful, can contribute significantly towards better mental

state of mind which eventually reflects in better physical condition.

We are living in an age where average life expectancy is decreasing day by day, despite the advancements in health and technology. Moreover, this is an era of stress and anxiety where humankind is looking for peace of mind, as it dramatically affects our overall health and stability. Delayed retirement can in a way contribute towards better psychological health, and thus longer life, by keeping a person away from the other stresses of life, though other health factors and lifestyle should also be taken into account. Ask a person with nothing to do what it feels like and we will probably get the answer.

There can be some financial motives as well, but the mere feeling of being active and still able to contribute in a productive way keeps the person up and kicking. The correlation being retirement age and life expectancy rate cannot be generalised or formulated but it can be safely said that work carries a lot of economic and social benefits that could impact the length of one's life. No doubt, Allah knows the best.

**Muhammad Nasir, ACA**

Karachi

A person only dies when he retires.

**Sarah Jawwad Ahmed, ACA**

Maputo, Mozambique

Retirement at age 60 should not be considered as retirement from life. A healthy life can be achieved even post 60, that is, without delayed retirement, by continuing and involving oneself in healthy activities. There is a broad spectrum of healthy activities ranging from religious activities to social work to doing fitness clubs and groups or may be blog writing.

Now, since I have had the chance to live a few years in Africa, I must say that the social pessimist taboo we associate with retirement in our culture, is totally unacceptable even in far behind African countries. Even at the age of 85, there are people who are well dressed, with fully manicured nails and cycling with an assistant, or maybe swimming, walking along the beach or going for vacations. So, we need to change our social mentality that a person retiring from job, is not fully fit to enjoy and carry on with life. Teach your children to earn money and live a happy life after your retirement.

**Shiraz Noordin, FCA**

USA

Today, generally, people have mixed feelings about retirement at the traditional age of 65. In the past, many people would retire from work at age 65, move to somewhere warm and sunny, and enjoy the final years of their lives.

Advancement in science, technology, and health services propels our society forward, and people now live longer. Retirement at the traditional age doesn't necessarily mean that you have played your innings; scientific research and data suggests that people live significantly longer than before.

While we consider working or having a job as something we have to do until we save enough money to not work anymore, there are many other social and health benefits associated with working, which we only realise once we stop working. Employment is an important part of our identities that provides social and financial benefits that could be lost when we exit the workforce.

Oftentimes, the transition to retirement can be a stressful event. As we sit at home and have nothing to do, there could be declines in our cognitive and social abilities, including difficulty in daily activities and depression.

Delayed retirement, which could potentially mean keeping cognitively and physically active and socially engaged, may, at least partially, help delay the onset of that decline.

However, in my opinion, it doesn't have to be such a binary decision. You don't need to work full-time to gain some of the benefits of continued employment. Volunteer work, an active social life, and taking on new challenges are all activities that help us stay mentally and physically active. And that, in the end, is the secret to a longer life.

As Bob Dylan, an American singer, writer and artist once said, "If you're not busy being born, you're busy dying."

You should never be fully retired and have nothing to do. Doing things that keep us mentally and physically active and engaged often lead to longer and happier lives. Although we may retire physically, we should never let our mind and body retire.

**Ali Akbar Syed, ACA**

Oslo, Norway

Yes, if working life keeps one active and happy. But if working life is stressful, then it is no rocket science to realise that this is not true. It means that delayed retirement is not "the secret" to a longer life. It is true that work engages one mentally, socially and physically (to an extent), but it is not given that being engaged like that would keep one happy. I think the key to longer life is being healthy and happy. There is plenty of wisdom on how to live a healthy life, but everyone has to find their own source for being happy and, by the way, happiness is a choice!

**Tameez ul Haque, FCA**

Karachi

Life is for a set period of time, it can't be longer nor shorter. Yes, it can be pleasant, full of pleasure or dull and boring. It is not delayed retirement which can make life pleasant or otherwise. Usually retirement is linked with business or official responsibilities. In fact, how one deals with life is more important. After entering into practical and active life, a balance be maintained between earning bread and butter and enjoying at bread and butter. In that case, if the regular earning phase is over, one can easily adjust to pass the life more or less at the same pace as in the active era. Natural calamities are an exception. One point never to be ignore – when there is a transition shifted from office or business premises to home, never try to be head of Domestic Affairs for the sake of a peaceful life – just observe, never advice, no suggestion unless invited.



# I was the future once

## — An Accountant's Diary

by Najam ul Saqib

**"I was the future once..."** The phrase from David Cameron who was the prime minister of the United Kingdom (from May 2010 to July 2016) made headlines in the past. In 2005, David Cameron told Tony Blair (who served as the prime minister of the United Kingdom from 1997 to 2007) that "He (Blair) was the future once." Now as Theresa May assumed office on July 13, 2016 David Cameron turned the line around ("I was the future once") as a bit of rhetoric.



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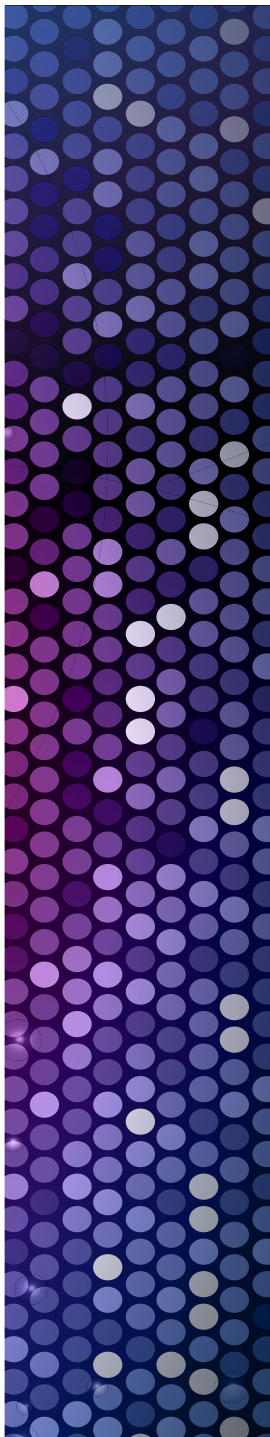
Investors are becoming increasingly active in the business as the real bosses and this make them intolerant to the companies which do not deliver on promises.

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**S**o to start with, I may also sound rhetoric when I say whilst sticking my head at the back of my office chair in 2016 and looking back into early 2000 at the passionate start of my professional career with PricewaterHouseCoopers (PwC). There is certainly no escaping to the fact that things have changed significantly. I could not agree more that finance function has really evolved from the bean counter in the past to the business finance specialists in the recent years – all driven by the rise in global markets, giant advances in the technologies and change in the investment landscape.

### Things have changed and will keep on – It's writing on the wall

Let us take a look what and how the landscape changed for us as finance professional. If I say that there will be no finance function in the next 20 years most of you would laugh at me but if this does not come true entirely but would at least serve as an eye opener for the conventional finance professionals how the functional activities will converge in the business. Needless to say that significant developments have already happened in the last two decades. Could a finance manager have ever imagined not executing the bank reconciliation and customer collections as part of the core finance department activities in 1990s? Even a finance function of a multinational company could run with just few professionals? To make it more interesting, how many of us would have heard about Carbon Accounting back in 90s? Folks of my age or older would be scratching their heads, right? In the modern world, indeed, most of the transactional services and routine activities are now outsourced to back office organisations - Just looking at my own organisation, we have accounting centers doing all the book



keeping and reconciliations at the low cost locations whilst a Center of Excellences based on more approachable locations and only the real value addition and strategic decision making stays close to the business.

Though all these developments have a striking effect on the finance outlook but what has not changed is the real core of finance.

Finance still needs to provide insight to the rest of the organisation, ensure effective risk and control management and drive its own and the organisation's efficiency.

### Change – Why it was and why it will be?

"Change is the law of life and those who look only to the past or present are certain to miss the future." – John F. Kennedy

### Global Village

Unabated, globalisation fueled by the rapid information sharing and electronic access to money has opened the avenues of new opportunities but this brings in the massive threat to the status quo – either it can be business as a whole or an isolated function. As the pressure mounts on the established entrepreneurs with developing countries and China entering into the hall of fames, this brings in need to constantly monitoring our positioning in line with the business objectives.

Investors are becoming increasingly active in the business as the real bosses and this make them intolerant to the companies which do not deliver on promises.

Complacency is not an option any more due to the vast amount of information already available to the general public through enormously progressing internet; it is now as easy for the external stakeholders to point out an opportunity or threat as it is for the internal executives. So, we, as finance professionals, cannot be spared for procrastinating in our function.

### Ever rising peaks of Regulations

Fall of technology giant Enron mounted the pressure on regulators and served as an eye opener for audit firms. This brought in the stringent documentation and risk management regulations in the form of Sarbanes–Oxley Act (SOX) – not halting the pace it was somehow tailored and adopted in other parts of the world too. Now, the world is again hurled by the tax scandals like Panama Leaks – Organisation for Economic Co-operation and Development (OECD) is getting more active in defining the transfer pricing regulations with

As specialists, we need to ensure that controls are efficient and policies, procedures and processes are put in place that allows the organisation to continue to grow and evolve while still managing its business risks.

recent adoption is the CbCR (Country by Country Reporting requirement of taxes paid in relation to revenues and Profit Before Taxes (PBTs)) – no one knows what's next. These events and rise in regulatory requirements have provided massive challenge to the businesses and has driven change right across the finance function.

As specialists, we need to ensure that controls are efficient and policies, procedures and processes are put in place that allows the organisation to continue to grow and evolve while still managing its business risks.

### Technology – An unstoppable Giant!

"Men have become the tools of their tools." – Henry David Thoreau. In most of the publications on changing business environments, technology has been rated as the highest change agent for the transformation of the business and also the finance function. This giant is very strongly propelled and is very unlikely to calm down.

Even if I talk to my seniors on the evolvement of their career as an auditor, they see a gigantic advancement in the areas of transaction processing and accounting. A senior of mine still remembers the heavy single entry black books for one of his clients with the conventional book keepers spending hours to drive the totals and then painful efforts put in by the audit juniors to re-compute and tally the worksheet – and now they are on Enterprise Resource Planning (ERP). Isn't it a blessing?

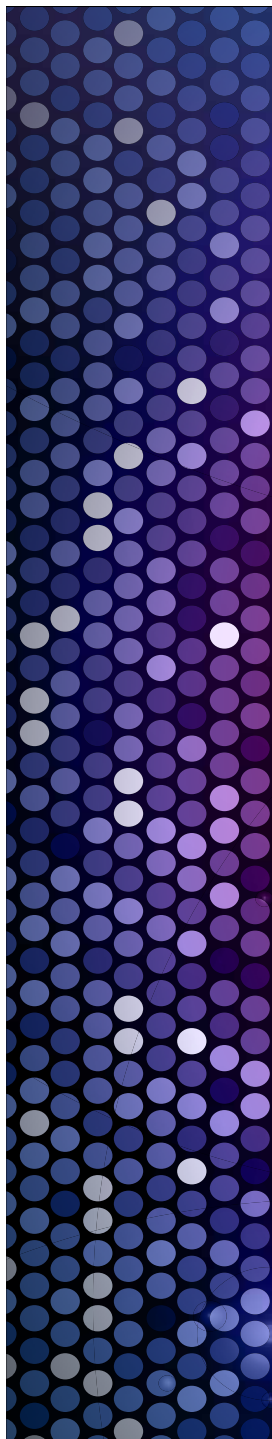
ERPs and other electronic transaction processing systems have significantly reduced the man-hours consumed in finance. This in turn has freed the professionals to spend more time on the value adding services. Though, the challenge is to rightly route the finance staff in shaping the business. Conventional book keeping opportunities become thinner and may shift to low cost locations.

Technology further provides you with flexibility of location – you have workplace everywhere, just plug in to internet and be in contact with the business. This provides greater flexibility and leverage – finance teams need not to be located at the same station. CFOs or managers can remotely manage the work and lead their teams. Abstract is becoming a reality.

As technology keeps on advancing, more and more of the work currently done by mankind will be done by machine-kind.

### Social Accountability – GoGreen!

Smoking is healthy – confronted by this rhetorical question and its first answer which was enough to open twenty pairs of eyes,



was the phrase quoted by our trainer in one of the finance development course, provoked by a series of questions and exclamations. But it really referred to the industrial revolution in the old era and was a quote by a famous economist.

Globalisation brings business growth with free trade opportunities with less geographical barriers. This certainly boosts the production levels and simultaneously increases the freight and transportation activities.

We have in fact passed significant landmark of emitting carbon dioxide in the atmosphere and are rapidly heading towards the upper limit to avoid dangerous climate change. The result is a seismic shift in corporate awareness of the need to assess physical risk from climate change and to build resilience.

In the developed world, the green agenda has marched on relentlessly and is highly ranked in the global forums of social responsibilities like global warming topics and so on – it has become a walk of the day now. Organisations have the social responsibility to take appropriate steps to reduce their effect on the environment. Like reduce, recycle, reuse. So if you want to control, you need to measure and this is where finance function plays the pivotal role.

Twenty years back, could we ever imagine that we as finance professionals would also be controlling the carbon emissions data and would be achieving the Go Green Accounting.

Carbon emissions accounting may soon have a crucial influence on the financial statements. The concept of Emission Trading Systems is on top of the political agendas all over the world. Failure to respond to climate change could have huge reputational risks for companies.

## Carbon emissions accounting may soon have a crucial influence on the financial statements.

The Big Four accounting firms have received approval to certify Green House Gas emissions (GHG) reporting.

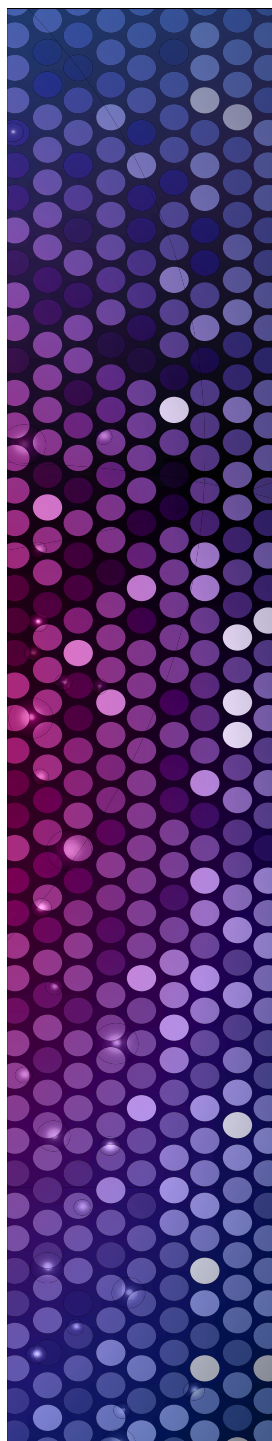
Finance function see increasing opportunities to help businesses bring the same level of diligence to sustainability reporting that they bring to financial reporting.

### Landscape of finance function: What is predicted for us as a finance specialists?

At a time when globalisation is at its peak with trade virtually following no boundaries and developing countries are challenging the already established business players, business as a whole is expected always to excel. Finance function is also increasingly challenged to provide its organisations with a strategic edge. The challenges from external communication and reporting are also putting increased pressure on finance at a time when minimising costs is important. Given these challenges, are the finance specialists ready for the future? "Our only security is our ability to change" – John Lilly

As I mentioned at the beginning, do we really foresee that in future will there even be a 'finance function' as we have it today? Or make it even more thought provoking as we used to have a decade ago? Have you ever thought that the finance skills will be driven into other areas of the organisation that they become responsible for budgeting, performance reporting and strategic decision making? If so, where in the organisation does this leave finance? If you are part of any multinational group in a developed country, then it is becoming increasingly visible.

The landscape of finance function will continue the path derived in the



last few years – where a major focus is being turned on to leveraging the cost of finance and driving value addition to the business. So to support the cost of finance initiatives, the finance leaders will continue their focus on consolidating the locations in which the finance activities are undertaken like regional center of excellence for controlling activities. Ways to lower the transactional costs will earn the same importance like now – so concept of shared service centers and outsourcing to low cost service providers will remain walk of the life for finance.

### Pillars to support the future finance organisation

May I take you back to the start of my write up? Yes, you are right, the contributors of seismic change we feel today will no doubt be there for us in the future too.

### Any sufficiently advanced technology is equivalent to magic

To embrace the future, we need to keep on standardising the processes and activities and automate as much as possible. In future it will not be our finance staff which would drive the cost efficiency rather it would be the harmonised processes and automation. "One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man." So we have to excel as finance leaders to steer the things in the right way though propelled by technology advancement.

### Data is the new business currency

All roads lead to data. In an increasingly complex and connected world, the ability of an organisation to collect, manage and analyse data effectively separates the winners from the runners-up.

To manage data properly, organisations need to heavily depend on the ERPs and to drive the Standard Operating Procedures (SOPs) – this in turn drives the comparability and consistency across the business to support the cross divisional decision makings.

Ever increasing regulatory and reporting requirements have enormous effect on the organisations data architecture. Winners are always who are smarter than others to have more innovation and flexibility in their systems – like How to account for the Carbon emissions? or How to assess and report on the CbC (Country by Country) Tax Reporting? Needless to mention is the upcoming Lease IFRS will bring in all the operating leases on the balance sheet.

As businesses increasingly look for analysis and data to support strategic decisions, the CFO's role is likely to embrace the principles of performance and risk management more than we currently see today.

## Convergence

Businesses throughout the world are discovering that 'convergence' is fast-becoming a key business model – one that will help them to stay lean, focused and as profitable as possible. The convergence of data processing is heavily supported by the ERPs and shared services. IFRS bring in the drive for comparability across the different business and geographies.

## CFO outlook

The financial skills and disciplines we know today are likely to survive but the finance function itself, and CFOs in particular, may need to adapt to a future where organisations increasingly focus on connectivity, interaction across business units and transactional synergies to derive value from all parts of the business, not just those which are customer facing. As businesses increasingly look for analysis and data to support strategic decisions, the CFO's role is likely to embrace the principles of performance and risk management more than we currently see today. But reporting activities will also need to evolve as new stakeholder groups seek to understand not only the current profitability of organisations but the sustainability of such profits and the organisation's impact on the economy and society more widely.

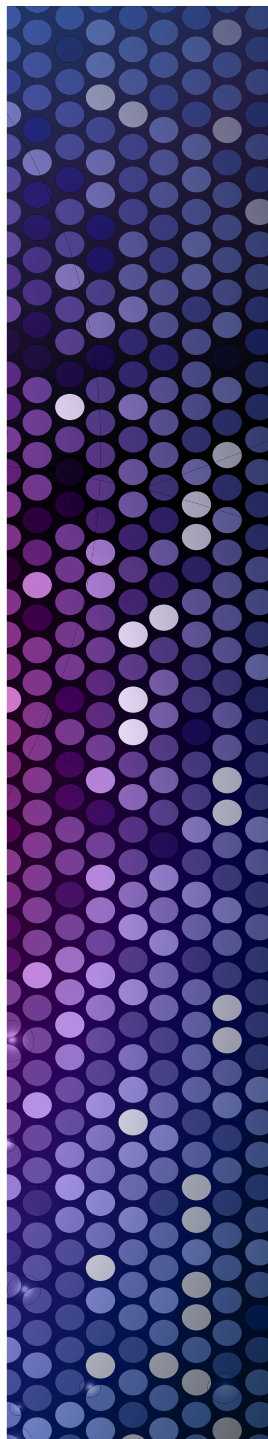
## Conclusion

In future, organisations will focus on what they do best. They will limit the waste and bring more value added activities. Same holds true for finance function too. To meet this challenge of the future, we need to prepare ourselves by:

- Driving simplification and standardisation in finance
- Converging to shared service centers and automation
- Enhancing utilisation of ERPs and globally harmonised and agreed Key Performance Indicators (KPIs)
- Reviewing the role of finance in business decision making
- Appreciating the right talent and skills
- Establishing business partnerships internally and externally
- Articulating future finance strategy

If we are able to articulate on these drivers, we will be able to significantly increase our future competitive advantage.

"To improve is to change; to be perfect is to change often."  
– Winston Churchill







# An Analysis of Disclosure of Wealth by **KSE-100 Companies**

by Muhammad Ejaz, Waqar Hashmi & Saad Malik



There is no denying the usefulness of a VAS for the organisation itself in terms of strategic planning but also investors, lenders, public authorities, financial analysts and other stakeholders can derive a great deal of insight from this useful piece of information.

## Introduction

A Value Added Statement (VAS) summarises the details regarding the wealth accumulated by a business concern through its operations over a period of time. VAS also highlights details regarding distribution of wealth among the stakeholders. There is a considerable research being carried out on different aspects of VAS around the world and according to recent reports the practice of publication of VAS in top public listed companies has gained momentum in Pakistan.

## VAS History & Concepts

The earliest use of value added concept dates back to 1790 when it was used in the first North American Census of Production (Gillchrist, 1970). The credit for realising that the value added at the organisational level adds up to Gross National Product (GNP) in aggregate and helps in avoiding double counting of production figures goes to Cox, a treasury official. His techniques have since been adopted by most industrialised nations in the calculation of GNP. The concept of value added was introduced in the economic literature by Ruggles and Ruggles (1965). The VAS therefore, has a macroeconomic origin, in that the calculation of value added corresponds with the calculation of GNP, as the GNP represents the value contributed by individual business entities in the overall national economy of a country during a specific period of time.

Value added is commonly used as a measure of output (SPRING, 2011, p.7). It represents the wealth created through the organisation's production processes or provision of services. The Spring Guide on Productivity Measurement defines value added as the "difference between sales and the cost of materials and services incurred to generate the sales. Value added is thus distributed as wages to employees; depreciation for reinvestment in machinery and equipment; interest to lenders of money; dividends to investors; donations to the society; and profit to the organisation." Therefore, VAS includes calculation of value-added (wealth) by the company deducting the value created by other value-chain players and its onward distribution among the stakeholders of the company. There is no denying the usefulness of a VAS for the organisation itself in terms of strategic planning but also investors, lenders, public authorities, financial analysts and other stakeholders can derive a great deal of insight from this useful piece of information. The reason of a commercial enterprise in true sense is to generate value as a socio economic entity.

According to **A Guide on Accounts & Accounting Reference Dates** of the Securities & Exchange Commission of Pakistan (SECP) which is a guide on the law and rules that regulate public disclosure of accounts, generally, the annual report must include:

- The balance sheet;
- The profit & loss account or income & expenditure account;
- Notes to the accounts;
- Auditors' report;
- Directors' report; and
- Consolidated accounts.

However, there seems to be an increasing trend of using a VAS or the 'Statement of Accumulation & Distribution of Wealth' in annual published accounts as an 'additional information' by some of the leading companies as the concept of Corporate Social Responsibility (CSR) gradually takes root.

## Research Objectives

The aim of this paper is to conduct an investigation in order to give a comparative overview of the companies that disclose details regarding accumulation and distribution of wealth through VAS and highlight approaches used in presenting VAS in various industries in Pakistan. There exists a significant knowledge gap in this area as no previous study on the theme has been carried-out in the past in Pakistani context. This study, therefore, aspires to be a primer on the subject matter and a catalyst for conducting future studies on Pakistani industries from the perspectives of financial accounting and macro-economic analysis.

Financial and other disclosures of KSE-100 companies i.e., top listed companies from 34 industrial sectors that represent the sentiment of the entire market, were reviewed and it was found that different methods are being used in financial reporting of VAS by different organisations due to absence of standards or guidelines from the SECP or the International Accounting Standards Board (IASB).



## Research Findings

Some of the major questions of interest in this study were: How many companies actually disclose their wealth accumulation and distribution details? In which segment of the report and in which form is this information provided? What are the details and aspects covered in the disclosed information? Do companies publish comprehensive value-added statements or only the summaries? In which manner the disclosure of wealth accumulation and distribution made? How is value-added defined, if disclosed? Are both the output and input components included in the value added statements? If the distribution of the wealth is detailed, how is the income of different stakeholders defined? Those are the questions that have been tried to be addressed in this study.

For this purpose, the 2012 and 2013 annual reports of 77 of the largest companies (by market capitalisation) in Pakistan were reviewed due to absence of data pertaining to some 23 companies. The findings are shown in the Exhibits 1 and 2.

### Exhibit 1

Metric	Numbers	Percentage
Availability of Annual Report		
Yes	77	77%
No	23	23%
Disclosure of Value Added Data		
Yes	47	61%
No	30	39%
Type of Disclosure Source		
General Report	13	28%
Financial Statements	0	0%
Managerial Report	34	72%
Form of Presentation		
Graphical	0	0%
Calculation	12	26%
Both	35	74%
Figures of Previous Years		
Only Current Year	0	0%
1 Previous Year	47	100%
Presentation of Data		
Complete VAS	14	30%
Incomplete VAS	33	70%
Basis of Output Measurement		
Production	0	0%
Sales	41	87%
Not Clear	6	13%
Treatment of Depreciation as Input		
Yes	30	64%
No	13	28%
Not Clear	4	8%
Inclusion of Non Trading Income		
Yes	40	85%
No	3	6%
Not Clear	4	9%
Presentation of Wealth Distribution		
Yes	14	30%
No/Incomplete	33	70%



Exhibit 2							
Sector		Disclosure of Value Added Statement (VAS)		Sector		Disclosure of Value Added Statement (VAS)	
		Yes	No			Yes	No
Oil and Gas		5 83%	1 17%	Tobacco		0 0%	1 100%
Fixed Line Telecommunication		0 0%	1 100%	Technology, Hardware and Equipment		1 100%	0 0%
Chemicals		5 62.5%	3 37.5%	General Industries		2 67%	1 33%
Cement		3 37.5%	5 62.5%	Paper and Board		1 100%	0 0%
Electricity		1 17%	5 83%	Commercial Banks		7 50%	7 50%
Multi-Utilities		1 50%	1 50%	Industrial Transportation		1 100%	0 0%
Food Producers		4 80%	1 20%	Automobile and Parts		2 100%	0 0%
Financial Services		0 0%	1 100%	Life Insurance		0 0%	1 100%
Personal Goods		2 100%	0 0%	Media		0 0%	1 100%
Industrial Metals and Mining		2 100%	0 0%	Software and Computer		1 100%	0 0%
Support Services		0 0%	1 100%	Health Care Equipment and Services		1 100%	0 0%
Household Goods		0 0%	1 100%	Engineering		1 100%	0 0%
Non Life Insurance		4 100%	0 0%	Travel and Leisure		1 100%	0 0%
Pharma and Bio Tech		1 100%	0 0%	Electronic and Electrical Goods		0 0%	1 100%
Equity Investment Instruments		1 100%	0 0%	Beverages		0 0%	1 100%
Real Estate Investment and Services		0 0%	1 100%	Leisure Goods		0 0%	1 100%

It is clear that a relatively sizeable proportion (61%) of the sampled KSE-100 companies in Pakistan make public the information on value added (wealth) in their different types of disclosures. The practice of disclosure of value added (wealth) data is not in vogue in the prominent banking, electricity, and cement sectors. However, the practice is prevalent in the following notable sectors: oil and gas, chemicals, and food producers. There seems to be an affect of the level of capital intensity and technological advancement on whether value added data is published or not. The more capital intensive, technologically advanced an industrial sector is the more likely it is to publish VAS. However, a detailed study needs to be carried out to identify and analyse the factors affecting the disclosure of value added data.





In Pakistan, most of the annual reports surveyed show a value added figure as part of the managerial report (72%). In the rest of the companies, information on value added is disclosed mostly in the General Report (28%), outside the financial statements.

The context of disclosure has a direct effect on whether particular information is audited or not. None of the companies in Pakistan incorporate VAS in the Financial Statements which means the VAS is out of the audited purview. Concerning the information on previous years all the firms in the sample provide at least 1 year of previous data. Most of the firms (74%) presented the data with a calculation followed by a pie chart while a smaller number (26%) just presented the calculation.

The most striking finding is that relatively high number of value added disclosures (70%) where the components of inputs are not visible to an external analyst, which reduces the reliability of the disclosed information. In the survey, it becomes clear that the choice of majority of Pakistani companies i.e., 87% chose to define value added as sales oriented rather than production oriented due to the Generalised Sales Tax (GST) which is a value added tax.

Also, in respect of the presentation of the value added distribution the survey shows a wide variety of practices, in arriving at the definition of the beneficiary stakeholder and the details of the items to be included in the statement. A fairly high number of firms provide data on the distribution of wealth to the following stakeholders: employees, government, and the providers of capital. However, the details of the distribution to these key stakeholders are sketchy as evidenced by the sample i.e., presentation on distribution of wealth in 70% of the firms was either incomplete or not given at all.

In total, the study reveals a very low comparability of the published value added statements in Pakistan which weakens the information content of those statements, and thus is of little value to external analysts for comparison and performance evaluation purposes. Due to the vast variety of methods applied to disclosing wealth generated and distributed it would not be reliable to use the published value added statements for productivity analysis.

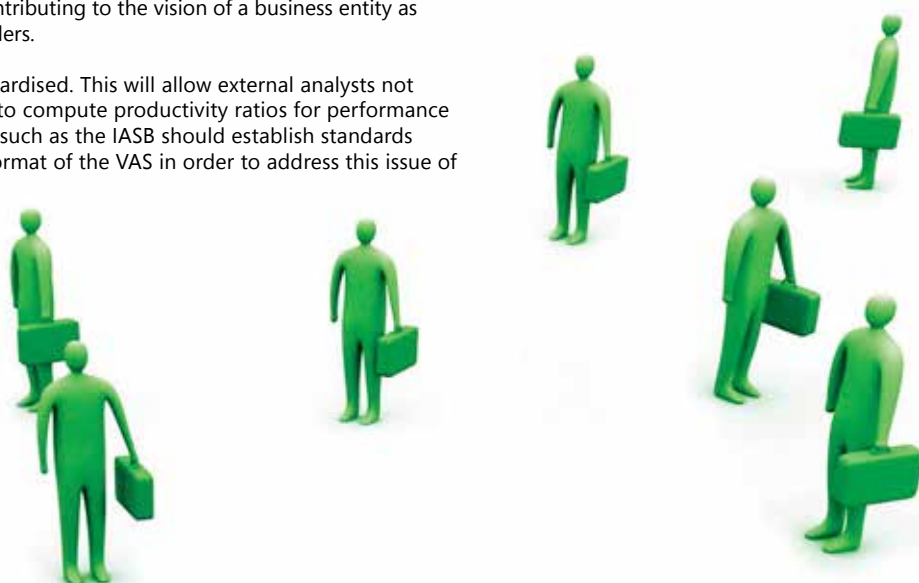
## Conclusion

In the Pakistani context, 61% of the KSE-100 companies present an income statement re-arranged to expose the value added as one of the items in the performance statement. This performance indicator is usually used as an efficiency measure, in particular to portray the productivity of employees.

In this context of a growing need for disclosure, the VAS might provide a meaningful insight as this information can be disclosed with figures already recognised in the income statement. In this way, an additional financial performance statement with social motivation would be available for the reader of annual reports, contributing to the vision of a business entity as a-synched collective effort of several stakeholders.

There is also a dire need for VAS to be standardised. This will allow external analysts not only to conduct peer comparisons, but also to compute productivity ratios for performance evaluation. International Accounting Bodies such as the IASB should establish standards with clear direction of inputs, outputs and format of the VAS in order to address this issue of inconsistencies in reporting.

In Pakistan, most of the annual reports surveyed show a value added figure as part of the managerial report (72%). In the rest of the companies, information on value added is disclosed mostly in the General Report (28%), outside the financial statements.



# Accounting Ox and Fox

by Muzammil Ahmed

**Y**ou must have heard the story that people used to manipulate the accounting treatments and techniques in order to manage their profits and retain the desired confidence of the stakeholders. And what the International Financial Reporting Standards (IFRS) desires to do is to control such dynamic results and increase the consistency of the figures shown on the financial statements of any company. But what I have been thinking is that there are still some grey areas where the entities could decide the accounting results of their choice. Let's take an example of the real estate investments. Both IAS 16 and IAS 40 talks about them but the results are really different, and based on their results, I have classified these standards as an **Accounting Ox (IAS 16)** and an **Accounting Fox (IAS 40)**. Whenever we talk about the real estate, there are many variants affecting the market bringing the

accounting judgmental areas in action. Let's discuss them in perspective of their results on profitability and liquidity of an entity.

## Profitability

Naturally, the ox tends to stay calm at its habitation, same is the case with the cost model of IAS 16, because here, if the asset is once recognised at its cost, it remains at its cost throughout its useful life. If the management wants any of its investments to act like an ox, it will classify the said investment under the cost model of IAS 16, because the benefit for doing so is that it will remain at its net book value in the company's accounts irrespective of its fair value and the maximum depreciation, or you can say the maximum hit of such investments on the profits will never exceed its total cost. Furthermore, it is very easy to manage the net book value

or the depreciation charge of the assets by determining a favourable useful life because, being a judgmental area, it could not be challenged each and every time. While, on the other hand, if the management perceives that its investment would definitely grow, they would categorise it under IAS 40. Being very unpredictable, IAS 40 is normally used as a last resort, because then our investment (acting naturally like a fox) need to be measured at fair value on every reporting date; sometimes with losses exceeding its purchase cost. And the climax is that IAS 40 asks to record the difference between the opening and closing fair values of any investment property immediately to profit and loss account unlike the revaluation model of IAS 16, because there the said difference is charged to **Other Comprehensive Income**. Therefore, the tricky part is the above prediction which



most companies are reluctant to engage in because if any variant performs other than the expectations of management, it will ultimately ruin the expectations of their stakeholders.

### Liquidity

Another thing to be noticed is that an asset under IAS 40 claims to bring back cash in the company directly including the capital gains, but despite such claims of being current and ready for sale, the company is still facing a risk whether this asset will bring the expected cash or will hit the going concern of the company. Because, if the surplus cash is invested in the investment property and the said investing decision goes wrong, the company will have to face serious financial consequences, as it would not only affect its profitability but washout its liquidity as well. While on the other hand, the ox i.e. IAS 16 is so simple that it does not

claim to bring any cash directly whether you use it profitably or not and assumes that it will bring no economic benefits after its estimated useful life. In this way, these assets under IAS 16 are day by day dumped into profit and loss account irrespective of the fact that they bring different economic benefits in different years, resulting in no serious liquidity crisis.

### Ability to Re-classify Investments

The last but not the least area of concern is the possibility of re-classification of an asset between IAS 40 and IAS 16 because whenever management thinks that an investment classified under IAS 40 could become a threat in the next years, it would re-classify the said investment as property held for use under the cost model of IAS 16. And when the threat is gone, they would again re-classify it under IAS 40 by stating the fact that it is no longer

required for operational purposes at the moment.

### Conclusion

In short, after the company takes their investing decisions, they do consider whether to treat their investment as an ox or a fox and this grey area needs to be looked upon so that a company's profitability and liquidity could be stopped being managed as discussed above.

**Note:** I would like to dedicate the above thoughts to my teacher Sir Kazim Abbas.







# Compliance Officers

– Emergence of a New Frontline  
in Business Corridors

by Nadeem Iqbal

It was not so long ago that compliance function (in many institutions, in financial services or elsewhere) was perceived as a cost center with its role confined merely to authoring policies/procedures, box ticking reviews and transaction monitoring, etc. Its presence was almost non-existent. Those days are gone.

Nowadays, compliance function is perceived as mission critical and a cost avoidance center. Head of Compliance (HOC) roles, are one of the most sought after positions, and the desired expertise not only emphasise on being knowledgeable with citing references of pertinent rules but also to possess the ability to navigate through astute regulations and find compliant solutions, assessing/anticipating risks and developing a robust compliance program to mitigate risks on a pan-enterprise basis.

Compliance is also expected to be independent of the business and have clear access to senior management and the board of directors.

Management and directors, in turn, are expected to promote a strong compliance culture and set an appropriate tone at the top. These factors are helping the HOC to be more visible, vocal and influential in the organisation.

A critical success factor nowadays is maintaining top of the line coordination and continuous liaison with other lines of defense, including business and operations, internal audit, risk management, and all the way up to the board of directors. Additionally, HOCs need to develop strong working

relationships with regulators, vendors and other stakeholders.

The rising prominence of compliance function including the role of HOC is precipitated by various developments, such as:

**Risk and Regulations:** Many new regulations have been (and many more have yet to be) implemented by the regulators across the globe (examples: Basel III, FATCA etc.). Organisations operating internationally are not only required to comply with host country regulations but also those of international regulators. In the last decade the world has witnessed the emergence of a new frontier, most commonly referred to as cross border regulation allowing regulators to have extraterritorial outreach (extending beyond geographic boundaries).

Developed markets have practiced both models towards regulations i.e. principles based and prescriptive rule based regulations. Albeit a rules based approach may seem simpler, the interpretation required to comply with the rules, both in letter and spirit and to maintain consistency across the board can make it more cumbersome.

**Pace of Technological Advancement:**

Compliance and technology are intricately correlated. Technology continues to advance in tandem with the development in variety and complexity of products/services delivered.

**Nowadays, compliance function is perceived as mission critical and a cost avoidance center.**

## The rapidly evolving role of a compliance officer requires enhanced risk management capabilities, being tech savvy and the ability to build relationships with all stakeholders.

Whilst automating the manual processes has many advantages simultaneously, the complexity of applications and systems becomes more challenging due to integration and inter dependency on other systems. The distribution/communication channels with customers have also diversified with more reliance on social media. More sophisticated, complex financial products and services are being offered these days. All of this is being powered by rapidly changing technologies. These pose significant risks and opportunities that compliance officers must understand. Many of the recent regulatory changes can burden legacy systems not equipped to handle the complex requirements, thus necessitating the need for customisation and require close co-ordination with vendors.

Small changes needed to implement regulatory requirements can quickly shoot up the costs of technology, if not implemented effectively and/or on time. Hence, engaging compliance officers at the very outset in initial phases of setting up business requirement documents (BRDs) can help curtail subsequent customisation costs.

Poor or inefficient systems/process designs increase the risk of operational errors, inaccurate reporting and delayed implementation that are necessary to meet regulatory requirements.

The global financial crises of 2008 and developments thereafter e.g. scandals like London Interbank Offered Rate (LIBOR)-rigging and unraveling of Ponzi Schemes, failure to comply with sanctions and Anti Money Laundering (AML)/Anti-Bribery and Corruption (ABAC)



regulations have all made the headlines in recent years, hitting brand proposition enormously.

**Risk Management:** The recent financial crisis exposed weaknesses in corporate governance and risk management practices, which are now subject to heightened regulatory expectations. Though the concept of risk management has largely centered on safety and soundness considerations and operational risk, regulators increasingly demand thorough formal regulatory guidance and enforcement actions that compliance is integrated with the overall risk management framework of the organisation.

**Managing Expectations:** Changes to the regulatory landscape makes it more dynamic and demanding for compliance functions. As HOCs work to address the requirements of the current financial services environment, they also encounter increased pressure to manage expectations and numerous obstacles when addressing issues.

**Resources:** Compliance functions of all sizes face serious resource constraints given the pace of development. In addition to the individuals necessary to manage traditional technical compliance tasks, professionals with different skill sets are needed to handle broader responsibilities of regulatory risk assessments, change management, product development, and issue resolution. In the highly competitive environment for talented professionals, compliance officers are searching for staff who not only have the qualifications to support a compliance function, but also possess the desired experience that will allow the compliance function to be flexible enough to address new regulatory initiatives.

**Systems and Technology:** Technology enables. It sometimes can also be a great impediment. Compliance officers face budgetary constraints for their own needs, such as monitoring systems. They must also compete with other business priorities for implementation of system controls, data retention and reporting needs.

Technology and data are also powerful tools that compliance officers can use to measure, monitor and mitigate compliance risks. Compliance officers need to understand the impact of technology on business operations, but they also must harness the power of data to do their jobs effectively and efficiently.

**Prioritising Competing Demands:** The intensifying regulatory expectations and scrutiny is giving HOCs a stronger 'say' in many companies. It is necessary to ensure compliance initiatives are prioritised in line with the risk based approach. Prioritising these competing demands has grown more onerous as regulations have increased and the geographic presence of many institutions has diversified during the last decade.



Robust risk management framework demands identifying and mitigating current risks and anticipating future risks. Consequently, compliance officers are expected to have insight into the emerging risks and obligations. While it may not be part of a job description, the following behaviours play a pivotal role towards the remit of modern day compliance officers.

**Stay Abreast:** HOCs must remain abreast with developments in regulatory landscape of the geographies and jurisdictions within which their institution operates. In addition, HOCs must remain well conversant with the knowledge of their business, processes, systems, products and services, customer segmentation, vendors, and stakeholders. Avoiding obsolescence is critical. Building expertise internally within organisations and maintaining a strong network externally are the cornerstone to keep up with regulatory and business developments.

**Define and Manage Expectations:** There is no 'one size fits all' solution. Clearly defining the expectations of senior management and the board for the compliance function and the HOC in line with the nature and size of business is a crucial step in this reconciliation process. Clearly defining expectations will enable the type of cooperative, collaborative relationships on a pan enterprise wide basis.

**Rise above the Tick Box/Checklist Approach:** Compliance has become more mission critical than ever. Increasingly, compliance officers are required to assess risks that defy a checklist approach. No checklist will help a compliance officer determine whether a practice is potentially unfair, deceptive, or whether one practice is better than another. Analytical thinking is required to make risk-based judgments regarding compliance risks and the adequacy of institutions' approach to these risks.

**Embrace Project Management:** The volume, scope and complexity of recent and forthcoming regulatory changes increasingly require compliance officers to think out of the box and act like project managers.

**Develop Relationships:** Relationships are vital to HOCs' success as they work to drive change in the current regulatory environment and enhance the visibility of compliance function. HOCs must build relationships with internal stakeholders by being forthright about both compliance risks and expectations and business needs. Developing these relationships require soft skills, including persuasion, negotiation and presentation skills. In order to gain traction, compliance officers need to be visible throughout the management chain and must collaborate throughout the organisation. HOCs must readily understand business opportunities and operations, assess compliance risks holistically, and actively partner with business in making things happen.

## Management and directors are expected to promote a strong compliance culture and set an appropriate tone at the top.

The mindset of too big to fail is gradually eroding as recent Penal Actions against some of the largest institutions across the globe, have resulted in massive financial penalties, cease and desist orders, remedial actions and an unquantifiable damage to reputation/brand value.

The reach of consumer protection is extending beyond the typical disclosure requirements and restrictions on Terms and Conditions by expanding into more comprehensive underwriting standards (e.g., client suitability assessments).

These challenges are growing in tremendous proportion. To surmount them, a HOC must have attributes like: analytical and strategic thinking, negotiation and problem-solving skills, business acumen, risk management and technological orientation, project management skills and above all, an executive presence at the top most level.

In larger institutions, compliance teams are often embedded within business to help prioritise compliance requirements. HOCs are supported by senior executives with varied responsibilities encompassing compliance strategy, AML/sanctions, corporate governance, monitoring, testing, reporting, and training, etc. The rapidly evolving role of a compliance officer requires enhanced risk management capabilities, being tech savvy and the ability to build relationships with all stakeholders.

Regulators are taking strict measures against not only the institutions they oversee but also the employees of those institutions that were (or should have been) responsible for internal compliance. This increased scrutiny has led generally to more attention and added responsibility. Not surprising, though, that majority of global compliance community feels that their personal liability has increased in recent years.

Additionally, as the trend toward greater transparency continues, consumers are demanding and being granted access to information through social media and alternate channels. All regulators are encouraging institutions to publicise their diversity initiatives. Ensuring the accuracy of the information that is made publicly available adds another layer of responsibility for HOCs, along with the potential for even more scrutiny.

Undoubtedly, compliance remains everyone's responsibility, from top to bottom. It must be embedded in the Deoxyribonucleic Acid (DNA) of the organisation so that everyone can walk and talk on 24x7 basis. It should be a strategic priority that is achieved through enterprise wide collaboration. The HOC's job has thus become more of a business partner and in-house consultant, a risk manager, and a critical decision-maker who occupies an important seat at the table hand in hand with the front line. There are no two ways about it.



# ‘May’ or ‘Shall’?

by Qaisar Mufti

**T**he debate on court’s competence to read the words “shall” and “may” as also vice versa seems to have settled with the academia and jurists’ agreement that, to interpret a law, a court may opt to read “shall” as “may” and vice versa. There is no longer a qualm about it. It is altogether a different issue that in a real life situation a jurist may comment: “At this place instead of ‘shall’, more suited was ‘may’ to express itself” and the opposite of it i.e. interchanging the two words. This is a matter of prerogative of the court, all have come to agree. No body now disagrees that to express itself a court may find these words interchangeable. Taken care of in what follows are situations in which a court may not enjoy the sort of discriminating interplay.

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Following is provided in sub-section (2) of section 33 in Pakistani Federal Excise Act, 2005:

"Provided that such order shall be passed not later than one hundred and twenty days from the date of filing of appeal or within such extended period, not exceeding sixty days, as the Commissioner (Appeals) may, for reasons to be recorded in writing, extend."

In line with this, words appearing in Sales Tax Act, 1990 under sub-section (2) of section 45-B are:

"Provided that such order shall be passed not later than one hundred and twenty days from the date of filing of appeal or within such extended period as the Commissioner (Appeals) may, for reasons to be recorded in writing fix.

Provided further that such extended period shall, in no case, exceed sixty days."

Actions called for as follow-up or compliance of a court order can be categorised into "mandatory" or "directory". **Black's Law Dictionary** elaborates and exemplifies the two in the following terms:

"A "mandatory" provision in a statute is one the omission to follow which renders the proceeding to which it relates void, while a "directory" provision is one the observance of which is not necessary to validity of the proceeding. It is also said that when the provision of a statute is the essence of the thing required to be done, it is mandatory, *Kavanaugh vs. Fash*, C.C.AOk1., 74 F.2d 435, 437; otherwise, when it relates to form and manner, and where an act is incident, or after jurisdiction acquired, it is directory merely."

The word 'merger' is defined by **Webster Comprehensive Dictionary** as: "the extinguishment of a lesser estate, right or liability in a greater one."



On the subject, section 129(4) of Income Tax Ordinance, 2001 reads:

"Provided that such order shall be passed not later than one hundred and twenty days from the date of filing of appeal or within an extended period of sixty days, for reasons to be recorded in writing by the Commissioner (Appeals)."

Section 193-A(3) of the Customs Act, 1969 is:

"The collector (Appeals) may, after making such further inquiry as may be necessary pass an order, within ninety days from the date of filing of appeal or within such extended period as the Collector (Appeals) may for reasons to be recorded in writing, extend, confirm, modify or annul the decision or order appealed against:

Provided that such extended period shall not exceed ninety days unless the Board further extends at any time during the pendency of appeal."

Interpreting these provisions of tax laws under reference as directory nullifies the provisions. They are of no effect, with effort to make them directory. Although this does not disturb their readability. However, this way, the provisions are turned surplus, of no effect. Usurpation of the public rights and inflicting injustice to the public or advantage to the delinquents sways that way.

An order holds the fort till the same is not zeroed or modified by a verdict handed down by a superior forum. Order passed by the higher (appellate) authority in an appeal is taken to have put at rest issues raised in the appeal or contentions unveiled upto appellate stage of the order contested. Presupposed is existence of two independent contentions – not necessarily in total opposition to each other. The one of which may extinct the other by absorption. Through operation of law a merger is accomplished. It is joining the procedural aspects of law and equity, the act of combining the two claims or contentions.



An absolute law provision must be obeyed exactly. Such law is mandatory. A directory law may be obeyed or fulfilled substantially. One has to look into the subject matter. He should register impact of the provision disregarded. Relation of the relevant provision to the general object intended to be secured should be focussed. Benefit to the public by contravention in case of going by the provision, one must not overlook.

An order ceases to exist (in law) on issue of an order by a superior forum in adjudication of the lower authority's pronouncement appealed against before that superior forum. Appealed against, the lower authority's order is taken to have merged into order of the higher authority. This is what the 'doctrine of merger' is.

**Legal Terms & Phrases** by M. Ilyas Khan, advocate Supreme Court of Pakistan, provides higher pedestal to the merging order. It reads:

"The primary meaning of the words 'merge' & 'merger' seems to be to sink or disappear in something else, to be lost to view or absorbed into something else, to become absorbed or extinguished, though at the same time; the word 'merge' also carries meaning of joining together, an addition, a combination of the qualities of one with another not a death but rather a marriage." – A & B Food Industries. Vs. CIT. 1992 SCMR 663 + PTD 1992 932. & Also PTD 1992 545.

"To merge" denotes to sink or disappear in something else, becoming swallowed, combined, absorbed, extinguished or lost to view. It is absorption of a thing of lesser importance by one of a greater importance, by which the lesser gives way to the more important. It is loss of individuality and identity of the lesser, extinguishing a right, estate or contract, etc. by absorption into another, to be sunk in greater title. Lesser ceases to exist but the greater is not increased. The doctrine of merger is not enshrined in constitutional law. It is not of universal or unlimited application.

What merges is the operative part. It is findings of the appellate authority which rein. In case appellate forum confines to findings of the sub-ordinate forum, such findings are taken as of the appellate forum. If there are grounds different than the sub-ordinate forum what emerges is operative part of the judgment in hand delivered by the appellate authority. It is not view of the sub-ordinate forum.

In orders of authorities, including courts, there may be no clear demarcation between facts and the decision. However, background and reasons are in the beginning. Decision is given in operative portion of the order. In case of a decree or order by the appellate or revisional authority, including a court, what emerges is decree or order of the higher authority, not necessarily rationale for the decision. The doctrine of merger is pressed into service to sustain and advance arguments of merger by the parties. Consequently, there has been a flood of case law, particularly in tax proceedings, dealing with the scope, purpose, effect and application or otherwise of the 'doctrine of merger'.

On the filing of an appeal against it, finality of an order is put into jeopardy. The order appealed against does not

merge elsewhere. It remains in limbo till an order deciding appeal by the aggrieved party surfaces. On a superior forum issuing judgment, order of the lower forum finally ceases to be actionable or efficacious. Findings and proceedings of the lower forum are taken to have lost identity, submerged into order of the superior forum. "In certain cases, the reasons for decision can also be said to have merged in the order of the superior court if the superior court has, while formulating its own judgment or order, either adopted or reiterated the reasoning, or recorded an express approval of the reasoning, incorporated in the judgment or order of the subordinate forum." – **Supreme Court Words and Phrases** by Surendra Malik & Sumeer Malik (2012 Edition) – Page # 1108.

What comes out of the merger is operative part, expressed in repugnance or affirmation of operative part of the judgment or decision thrashed upon:

"When a decree or order passed by an inferior court, tribunal or authority was subjected to a remedy available under the law before a superior forum then, though the decree or order under challenge continues to be effective and binding, nevertheless its finality is put in jeopardy. Once the superior court has disposed of the lis before it either way – whether the decree or order under appeal is set aside or modified or simply confirmed, it is the decree or order of the superior court, tribunal or authority which is the final, binding and operative decree or order wherein merges the decree or order passed by the court, tribunal or the authority below. However, the doctrine is not of universal or unlimited application. The nature of jurisdiction exercised by the superior forum and the content or subject matter of challenge laid or which could have been laid shall have to be kept in view." – (Corpus Juris Secundum, Vol. LVII, pp. 1067-68). – quoted in **Supreme Court on Words & Phrases** by justice R. P. Sethi, former judge, Supreme Court of India (Edition-2004).

An interpretation which relegates the intent and purpose of the statute has to be avoided. Provisions of a statute should be so interpreted that due weight can be given to different sections of the same. Seeking intentions of the law makers and applying these to facts of the case in overall context and layout of the statute are the most accepted cannons of interpretation of statutes. On filing appeal against it, the order appealed against acquires the statutes of sine die.

If appellate authority comes-up with the order in appeal within the allowed time there is no problem. This is only when the appeal is declared to be a success or otherwise. Its outcome is written within the time provided. Trouble starts when order of the appellate authority does not surface within the time allowed. Stale is such order when issued after the mandated time. It turns stale because of non performance by the appellate authority within the prescribed time. In the event of non performance of the appellate system by non-release of an order within the time laid down by law, appellant can not be made to suffer. Not only that he has not defaulted. After undergoing the ordeal in filing the appeal, he remained available to face rigor of proceedings of the appeal.

Working against the natural flow of justice or flouting dictates of logic can not be attributed to the legislature. Position





of an order which appears after expiry of the time limit for its dawning is clearly provided by the law. Declaring law provisions being discussed 'directory' is to say that these are surplus. These will turn, surplus due to their being rendered 'non-effective'. One of the canons of interpretation is that surplus age has to be avoided.

On expiry of the period laid down by law for decision by a judicial or quasi judicial authority, 'jurisdiction' becomes irrelevant. It no more subsists in relation to a dispute time for giving an appeal order in relation to which time has run out. There is no way of acquiring or vesting a jurisdiction after that period. How can there be a judicial dispensation delivery of an order by or under the authority of a forum whose jurisdiction, had evaporated with expiry of the period allowed by law for the purpose? The old order fades on the filing of appeal against it by the aggrieved. Dispensation of an appeal, flowing after acquiring a wrong/self assumed jurisdiction, can not bring into being a lawful order.

Because of the appellant authority, before whom the appeal is filed, losing jurisdiction, due to operation of the subsisting law or due to any other reason, a valid order in appeal can not be passed. In such a situation there is none to lawfully argue against the appeal. With no one contesting the appeal, in a situation of coram non judge, appellant gains in terms of prayers in the appeal. The appeal gets a success.

But what about a case in which the authority, before whom the appeal is validly filed, fails to proceed in the matter. The corpse of appeal remains. This may be so due to change of law with reference to jurisdiction of the appellate authority or because of the fact that the action prayed before the appellate authority, through appeal or otherwise, becomes time barred. It may also be due to subsequent induction or dropping of a provision in the law. Appellate authority may become dysfunctional or the appellant forum may be abolished e.g. abolition of the post of Collector (Appeal) through amendment in sales tax law, etc. in FY 2000. What

some would believe is that, in a situation likewise, the event of 'time barring' or infirmity of the authority charged to take-up the appeal will not affect the lower court's order. They may believe that the order would remain intact, notwithstanding 'limbo' state of the appeal due to non-decision. Similarly, an order to the effect of presentation of appeals to the next higher forum would not be lawful.

It is argued that 'sine die' position of the order appealed against creeps in on the point of filing the appeal. Argument in support is that to the appellant a vested right accrues on his filing the appeal. He gets this due to and because of his waning rights he came to have in lieu of surrender of the order appealed against. He has to be heard. Contents of his appeal are required to be examined. Any order or rule seeking to overture, without his being given a hearing, will be hit by the rule audi alteram partem whereas the adjudication authority is already turned coram non judge. Therefore, to the extent of his prayer, if otherwise lawful, his appeal has to succeed, also because order of the adjudication forum turning a corpse, not remaining live or unable to act upon. It is only an order by a valid judicial forum which can be seized with the matter on the basis of a fresh presentation before it, if the law permits that in the wake of earlier appeal having attained the status of finality.

Appeal's turning 'stale' during its pendency does not affect appellant's right to having a judicial verdict. The appellant had no doing in turning his appeal stale. It was the appellate authority, a state functionary, not-deciding the matter in time – within the period it should have decided according to words of the law.

Since default on the part of the appellate authority is not caused by the appellant, the same should not adversely affect him. To get to the position of an honest stakeholder, he has done what was due on his part. There can be no rationale for his being dethroned from that position. The default has to go to debit of the party defaulting, the state, through the state's

functionary, if defendant in the case is the state, due to its inability to proceed with the petitioner's appeal.

Adversely affected would be the state in terms of loss of revenue that could accrue to it by way of tax. Similar is the case in the event of change in law during pendency of the appeal, misplacement or loss of the case file in the office of the authority charged to hear the case. Such event is also not brought into being, not caused by an act of the appellant. As such due to these developments his expectation to have a favourable verdict is not doomed. If hearing to him does not take place, he has his booty. He can question a development which seeks to adversely affect his case, *inter alia*, in keeping also with the principle of *audi alteram partem*.

Due to developments favourable to the appeal, after its filing, not caused or helped by the filer, it can not be proceeded with. The appeal will be a success also because of no-contest against the same by the state. The law does not provide relief to the one aspiring to contest an appeal in these circumstances. The issue is: whether events like the ones cited can, as a matter of course, relegate the appellant to an adverse position. With the lower authority's order being 'sine die', not ever to surface, due to expiry of the period during which it could be proceeded against, there can be no impact on the case. Next point is what would happen to corpse of the appeal. What use of its flesh can be? It should be where it is', the finding would be. The appeal would be a success by way of grant of his prayers in the face of the law, with the defendant having been reduced to 'lame duck' by the course of events.

*Inter alia*, following canons of interpretation should be kept in view when one gets into the exercise of interpretation of law on the subject:

- Purpose of the relevant legal provision.
- Close and conservative adherence to the literal and textual interpretation of law.
- Benevolent construction of public welfare legislations with eye on the relationship between weaker and stronger parties.
- Intentions of the legislature to be found and respected. Strict and liberal construction for ascertaining the legislatures intents.
- The statute as a whole kept in view.
- Strict interpretation of provisions relating to curbs on jurisdiction of the court/appellant authority.
- Words of the statutes to be taken on their ordinary meaning.
- Unless warranted otherwise, wider meanings not to be given.
- Grammatical sense of the words to be adhered to.

Clear message of the statute should be gone into. To be administered is the law as we find it. Then finding had through the construction ought to prevail unless there be strong reasons so not to do.

The very concept of interpretation connotes induction of the ways which are not extrinsic to words in the statute. A courts has to give effect to the intention of the legislature. No interpreter is to be called to question the same. "..... it is not open to the courts to put their own gloss in order to squeeze not some meaning which is not borne out by the language of the law."

In terms of the words appearing against following questions, the Supreme Court of Pakistan in Commissioner of Income Tax Legal Division, Lahore etc. vs. Khalid Ahmed etc. in (2016) 113 TAX 369, has answered:

- |  |             |
|--|-------------|
| 1. Whether it is well settled that strict and liberal approach is to be adopted while interpreting fiscal or taxing statutes and that Court cannot read into or impute something when provisions of taxing statutes are clear. | Held<br>Yes |
| 2. Whether fiscal statutes are generally to be interpreted strictly, without imputing anything that is not manifest from express wording of such statute.  | Held<br>Yes |
| 3. Whether where enactment uses a term which has both ordinary and technical meaning, question as to which meaning the "term" is intended is to be determined by context.  | Held<br>Yes |
| 4. Whether if context is technical, presumption is that technical meaning of term is intended to be used, otherwise ordinary meaning is taken.   | Held<br>Yes |

– Monthly **Taxation**, May-2016 (Pages # 372-373).

The doctrines of interpretation, in their fold, have the principles of *noscitur a soc* and *ejusdem generic*. Brooms says: "In the construction of statutes, likewise, the rule *noscitur a sociis* is frequently applied, the meaning of a word, and, consequently, the intention of the legislature being ascertained by reference to the context, and by considering whether the words in question and the surrounding words are, in fact, *ejusdem generis* are referable to the same subject matter'. Especially must it be remembered that the sense and meaning of the law can be collected only by comparing one part with another and by viewing all the parts together as one whole, and not one part only by itself" – Lincoln College case, 3 Rep. 58 b, at 59 b. **Broom's Legal Maxims** (10th Edition)

According to 'NS Bindra's Interpretation of Statutes' (9th Edition) the word of Lord Asquith are: "The statute says that you must imagine a certain state of affairs, it does not say that having done so, you must cause or permit your imagination to boggle when it comes to the inevitable corollaries of that state of affairs."

The adjudication fora must get intentions of the legislature through going over entire scope of the statute. Not only words of the legislature should be looked at, what can not be overlooked is that intended benefit to the populace has to be focused. Likely damage, caused by branding a statute as directory when it could also be viewed 'mandatory', should be gone into. An absolute enactment or mandatory law has to be exactly obeyed. Substantial obedience may not be sufficient even when the law is apparently directory.

Maxwell, in his Interpretation of Statutes, holds: "It my, perhaps, be found generally correct to say that nullification is the natural and usual consequence of disobedience, but the question is, in the main, governed by considerations of convenience and justice, and when that result would involve general inconvenience or injustice to innocent persons, or advantage to those guilty of the neglect, without promoting the real aim and object of the enactment, such an intention is not to be attributed to the legislature. The whole scope



and purpose of the statute under consideration must be regarded."

The Customs Appellate Tribunal, in Babar Waheed vs. Federation of Pakistan, etc. in Customs Appeal No. K-286 of 2008 stressed: "..... proper place of procedure in any system of administration of justice is to help and not to thwart the grant to the people of their rights. All technicalities have to be avoided unless it be essential to comply with them on grounds of Public Policy."

The rechristening of a mandatory provision into 'directory' by reading the word 'shall' as 'may', inflicts a deadly blow to the appellant's case, which the law does not always permit.

In the indicated treatise, Maxwell also holds: "The whole aim and object of the legislature would be plainly defeated, if the command to do the thing in a particular manner did not imply a prohibition to do it in any other, no doubt can be entertained as to the intention."

Whether a statute should be termed mandatory or directory would depend upon the larger aspect of public interest. In a case in which a prohibition was enacted, the doing of the prohibited thing is ultra vires and illegal if done. It also follow that the same was done without jurisdiction. Thus **an order passed after the date of expiry of the period allowed by the tax laws will be without jurisdiction, coram non judice, hence ultra vires.**

The provisions of Federal Excise, Income Tax, Sales & Customs Laws quoted hereinbefore have the word "shall" with reference to the time frame available to the adjudicating authority for decision of the case before it.

There may be situations when the word "shall" could be read "may". Situation in which words "shall" may be read as "may" in the cited sections of the tax laws could be found 'wanting'. These do not exist in reference to the tax laws under reference. The indicated **circumvention to make-up for default of the adjudicating authority or the state is not permissible under the law.**

Plea taken for circumvention is in the assumption that cited provisions in the statute are not mandatory. These are directory. Accordingly, to allow the defaulting authority to proceed on this assumption and give its verdict on a dispute before it, after expiry of the time made available, is travel in opposition to the law. Overlooked is the cannon of interpretation that an assumption to re-christen or bring back jurisdiction lost is not tenable in law because it would mean giving life to a corpse in disregard of the rule that it is only God to give back life. Under the law, only a law can give back life to a dead. Such a law has to be explicit, not by way of inference, assumption or deduction.

To convert the word "shall" in the tax laws, under discussion, into "may", there has to be clear enabling provision in the statute. Even if that be in hand, such expression will have to undergo the drill provided in the grammar for interpretation of statutes. There is a system, a course, providing the rules of business, referred as 'canons of interpretation', briefly cited heretofore. The cannons do not give an open licence to interpret the way one would like to. These canons forbid to travel in the 'lane to conversion' from mandatory to directory or vice versa as a matter of convenience. In view of the rules of interpretation described hereinbefore, the adjudicators may not find it very convenient to 'baptize' the subject law provisions 'directory.'

No doubt that a court can read the word "shall" as "may" and vice versa. Thereafter, the so tailored text has to go to the rigor of rules for interpretation of statutes to find what finally emerges from such discerning. A court may not be doing well in replacement of "may" for "shall" without giving rationale for this and simultaneously winking at rules for interpretation.

In our judicial system the last word in matters having ado with law is the Supreme Court. The Court puts at rest all legal controversies. The highest authority to determine maladministration in tax recovery or its system is Federal Tax Ombudsman (FTO). His findings, not exactly being judicial pronouncements, are final words in that sphere. Representations against his verdicts lie with



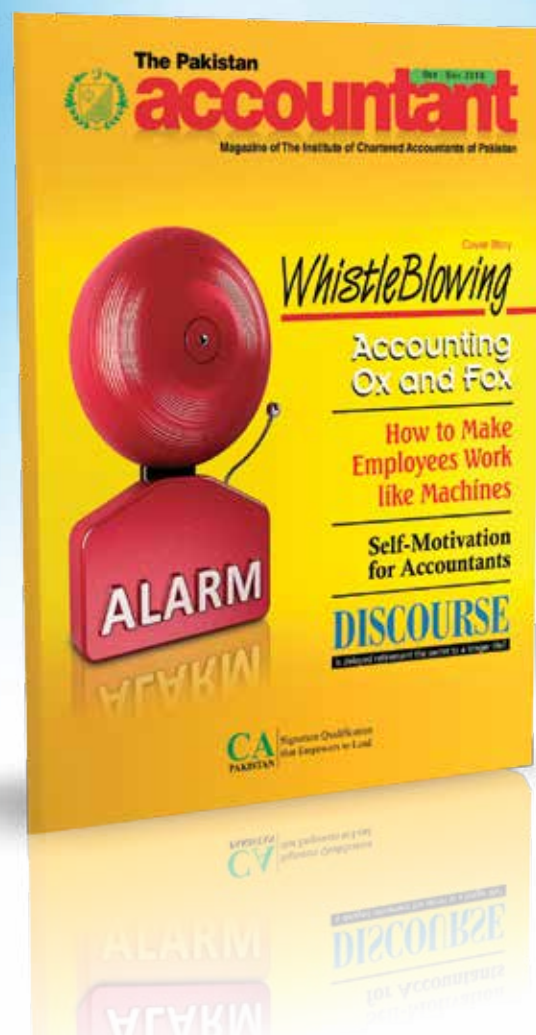
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President of Pakistan who is last word in the land. Scrutiny of the FTO's conclusions, in case of representations to the President, is structured by the treasure of legal brains in the governmental system, which is delivered through the Law ministry. The Law ministry also delivers president's words in relation to his summations in respect of representation agitating against FTO's dispensation.

There is no travel of the judicial machinery/ process beyond Supreme Court & the FTO.

In the case of Pace International vs. Secretary Revenue Division, Islamabad, complaint No. 805 of 2003 before the Federal Tax Ombudsman, findings included that the order in original was time barred.

The show cause notice was received by the complainant on 10-06-2002. Order in original was received on 13-05-2003, after around 11 months of issue of the notice. Respondent pleaded that the order in original could be agitated against before the Collector of Sales Tax (Appeals). Since the complainant had not exhausted the channels available under the law, complaint to FTO was premature. Other relevant facts of the case were that no body had appeared from the side of the complainant before the Collector (Adjudication), Rawalpindi, who decided the matter exparte after hearing the detecting officer on 13-05-2003.

Departmental arguments were that a contravention case was framed against the complainant for claiming wrong input and suppression of sales. Contentions of the complainant were that he was not given sufficient time before audit and was not intimidated of the record to be produced for audit. These pleadings of the tax payer, the FTO did not find correct.

Representatives of both sides were heard by the FTO and relevant record examined. FTO found contention of the appellants correct and tenable to the effect that order in original passed by the Deputy Collector (Adjudication) was time barred. "In the instant case show cause notice was issued on 10-06-2002 and order in original was passed on 13-05-2003 after about 11 months of the issuance of notice which is clearly hit by time limitation as provided in law", FTO's finding was. FTO desired: "the competent authority to cancel the order in original dated 13-05-2003."

Against FTO's finding, CBR (now FBR) represented to the president of Pakistan. The president rejected contention of CBR.

In this connection the Law, Justice & Human Rights Division, government of Pakistan, vide its letter No. 185/2004/FTO-Law dated 07-05-2005 to the Secretary (TO-II), CBR, Islamabad (PTCL 2005 CL. 841), ruled:

"The department contends that the time limit under section 36(3)\* *ibid* was merely directory and not mandatory. The contention does not seem to be valid. Where inaction on the part of a public functionary within the prescribed time



is likely to affect the rights of a citizen the prescription of time is deemed directory but where a public functionary is empowered to create liability against a citizen only within the prescribed time it is mandatory. The FTO's decision must be sustained."

\*since repealed. At the time of repeal it read: "Provided that order under this section shall be made within one hundred and twenty days of issuance of show cause notice or within such extended period as the Commissioner may, for reasons to be recorded in writing, fix, provided that such extended period shall in no case exceed sixty days."

FTO's finding is final adjudication of the disputes relating to Sales Tax, Federal Excise Duty, Income Tax and Customs. Appeal does not lie to a court against FTO's findings. The affected parties can, however, appeal to the President of Pakistan against words of the FTO.

The above, being (deductive) law of the land, the offenders can be brought to book in terms of the conventional and regular judicial system.

As stated hereinabove, petitions against FTO's findings are decided by the president. Formal communications in respect of petitions to the president against FTO's orders are made by the Ministry of Law. No appeal lies with reference to such communication.

It is not comforting to find that some adjudicators, particularly in the sphere of fiscal laws, in disregard with what the words of Excise Duty, Income Tax, Sales Tax & Customs laws are (quoted in the beginning of this write-up), continue to cater law disputes in relation to which adjudication period had already come to a close; entertain what the litigants find the laws (opposed to what the laws are). The adjudicators may be oblivious that notwithstanding the discretion otherwise available to an adjudicating authority with reference to reading the words "shall" and "may", fiscal laws do not provide such latitude or discretions. The fiscal laws mandate strict interpretation. Moreover, tax resolutions/judgments have to pass the prescribed checks and balances, described in this paper. These per se do not allow discretions what other (non-fiscal) statutes do.



# Dream of an entrepreneur How to Make Employees Work like Machines

by Muhammad Badar Arshi

**B**y automating them! Employees can be automated by filling them with a special kind of fuel called motivation. A motivated employee works on his own without the need to look over his shoulder all the time.

Motivation, competency and honesty are the three elements hard to find in a single person in the business world. It is a dream of an entrepreneur to have someone on his payroll with all the three attributes together.

Motivation is equal to money for the company, yet it is the most neglected area in an organisation's

growth strategy. On one hand, motivation ensures high productivity and efficiency but on other hand, it is also a high burning fuel and employees need continuous refilling. Management must have some system to ensure regular and never ending supply of motivation to employees, if they have to keep their heads above water in the highly competitive business environment.

They say, "If an employee leaves the company, look at his manager." True, but at the same time also look at the organisation's culture and philosophy and at those who are steering that culture.

The model which is presented below is developed on my firsthand experience and interactions with employees at all levels over a period of several years. The same can be tuned to apply in specific circumstances. It depicts the employee and employer expectations from each other and highlights the human working psychology and employee's sensitive motivational points.

## Employee Desires and Expectations from the Organisation

When an employee signs the contract with an organisation he/she expects that his/her certain minimum needs will be met by the organisation. These expectations are segregated into two parts shown in Box A and Box B.

### Type A Expectations

These are directly associated with the 'manager' or 'in-charge', the employee reports to. The satisfaction of these needs depend on the manager's approach, philosophy and background – from where he/she is coming from. If he/she is professionally trained and well brought up in a cultured human value system, it will be easy for him/her to meet these types of staff needs. On the contrary, if the manager himself/herself was a victim of harassment, ill treatment and abuse in the past or is not trained adequately, it is likely that he/she may follow the same attitude with his/her subjects.

**Respect:** It is a basic human need to be respected and a great self-esteem booster for a person. A respected person is more motivated and productive than a humiliated one. Screaming, harassing, micro-managing, mistrusting, abusing publicly or privately are the examples of disrespecting an employee.

**Empathy:** As a human being, an employee's personal situations, family matters, financial issues, health

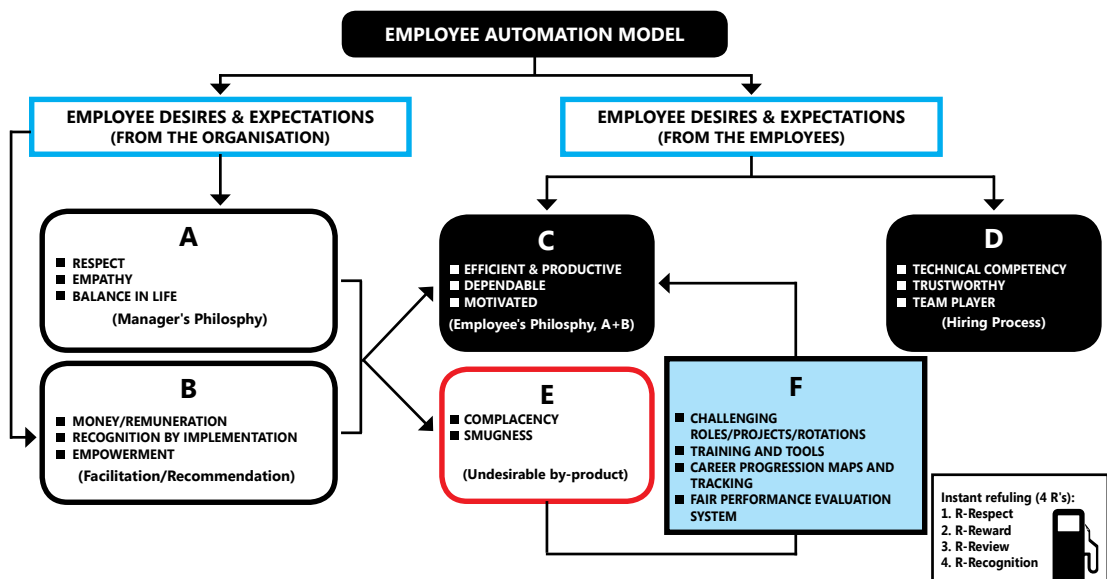
conditions and social circumstances affects his/her performance. Being empathetic and giving due consideration to these by the manager is a big motivation stimuli for the staff. Statements like, it is your job, company pays you what you do, leave your personal matters at home, I don't care, just complete the work, works the other way. (Will a manager love to hear same from his boss in such situations? Think about it!). Remember, there is huge difference between sympathy and empathy.

**Balance:** Often in organisations there is an unspoken directive that staff cannot leave the office if the boss is there. It is an enforced culture to work late hours as a customary practice which destroys the balance in the life of an employee. It is essential that he/she should be allowed time to deal with and attend other areas of life and to have quality time with family and society.

### Type B Expectations

Most of the time Type B expectations are not in the direct jurisdiction of the manager even if he/she wanted to take care of these. In such situations, the manager can make efforts to facilitate or recommend the employee to the related authorities. It will serve the purpose of acknowledging the concern and efforts of manager and maintain his respect.

**Money/Remuneration:** Staff cannot work on enthusiasm alone for long when there is no food on the table; his money worries must be addressed. If there is a huge gap between the market value of the skills, experience, qualifications and competency which staff possesses and what he or she is actually paid, it cannot be ignored for an endless period without depressing him/her. Why don't you just leave if you are not satisfied will not solve the problem. Continuous neglect in this area sometimes ends up in losing a valuable staff and the gap cannot be filled for quite long. The



**“If an employee leaves the company, look at his manager.” True, but at the same time also look at the organisation’s culture and philosophy and at those who are steering that culture.**

replacement cost itself is too high than retaining him/her aligning with the market value with a reasonable hike.

**Recognition by Execution:** Most of the time the worker on the floor or the staff in the cubicle come up with novel ideas and solutions to save cost, reduce wastages, doing the processes efficiently or minimising errors. If these efforts are not acknowledged or implemented and just ignored most of the time, then don’t expect that staff will constantly invest thinking energies just to let these go down the drain. Nothing is more discouraging for the staff than to see people around suffering when a solution available. Remember the quote: “A person who feels appreciated will do more than expected.”

**Empowerment:** If a staff has to ask for permission even to go to the restroom let alone to perform routine tasks and to take routine decisions, then feeling of being powerless and helpless overtakes him/her. Empowered employees can conquer the world, just make them feel important and valuable and involve them in decision making, and they will make you powerful.

An ingenious manager knows that the staff admiration of him/her is a ‘word of mouth marketing ad’ which ensures not only his/her own career progress and increase his/her respect in the senior ranks but he/she also earns goodwill for the organisation, where as a naïve or a bully manager defies these staff needs and reduce himself/herself to disrespect, portrays himself/herself as incompetent and bring defame to the organisation.

## Organisations’ Desires and Expectations from the Employee

On the other hand, when an organisation inducts an employee into the business, it does this with certain expectations and hopes from the employee to be beneficial for the organisation and its stakeholders. These expectations are divided into two parts as follows:

### Type C Expectations

It depends on two things to ensure that these expectations are met:

1. The values and philosophy of the employee and his/her traits of employability and adaptability and whether he/she is brought up and trained in a cultured, professional and result-oriented environment system.
2. To what extent his/her Type A and Type B needs are met by the organisation.

**Efficient and Productive:** Companies hires employees to produce results and contribute in the profitability. Ability to produce desired results within the available time frame is an enormous quality which is expected from the employee and such employees are valuable assets to the company.

**Dependable:** There are sometimes unanticipated situations where a manager needs additional support and understanding from the staff and expect him/her to go an extra mile beyond the routine tasks. For example, preparation for a high level crucial meeting, or if the

**Empowered employees can conquer the world, just make them feel important and valuable and involve them in decision making.**

manager is short of resources to meet an urgent order or a last minute information request or some document required at odd hours, etc., it is expected from the staff to be empathetic and deliver the support to the best of his/her ability to the company.

**Motivated:** Demotivated staff is as good as Rolls Royce without fuel. Both the staff and organisation can get benefit only if staff has motivation to perform and deliver the results. Ability to demonstrate motivation in odd circumstances differentiates staff from achievers and losers. This is the basic ingredient of success and the ultimate dream of any manager to see unlimited motivation in the team.

### Type D Expectations

Type D expectations from an employee depends on how extensive the quality and methodology of the hiring process is and this is the responsibility of the hiring department.

**Technical Competency:** The technical competency of the staff can be checked through credentials, practical tests, evidences of past achievements and references. Capability to perform the job is of utmost importance and needs to be confirmed before hiring the employee if the company expects the staff to deliver.

**Trustworthy:** Technical competency is useless if an employee is not trustworthy and is dishonest. He/she can do extreme damage to the business if he/she lacks



**Often in organisations there is an unspoken directive that staff cannot leave the office if the boss is there. It is an enforced culture to work late hours as a customary practice which destroys the balance in the life of an employee.**

this trait. This can be checked through criminal records, family background, market reputation and through references. Remember to pay utmost important to ensure the presence of this characteristic, as staff can be trained to acquire technical competency but not to be trustworthy.

**Team Player:** If staff is not a team player and do not have ability to work with his/her peers and seniors and subordinates, he/she can spoil harmony and equilibrium of the organisation. The traits of unhealthy competition, prejudice, complain and badmouthing

**Motivation is equal to money for the company, yet it is the most neglected area in an organisation's growth strategy.**

other employees should not be welcomed under any circumstances. Again, his/her repute, past record and references should be checked before inducting the candidate in the organisation. Remember, one bad fish spoils the whole pond.

### Type E Undesired Outcome

After having met Type A and B expectations, the employees as a natural outcome becomes motivated and productive and satisfy Type C expectations of the management. But in some cases there is a risk that they may fall into box E and the management may get undesired results (especially at mid or senior levels) as the staff may become complacent or smug with the passage of time. If a formal employee management framework is not in place in the organisation to circumvent such situations, the management will have to face disappointment with their efforts.

### Type F Strategy against Type E

This box shows the strategy of how to shield against Type E situations.

**Challenging Roles / Projects / Rotations:** After satisfying Type A and B needs of the staff, the management should keep introducing challenging opportunities to the staff by engaging them in different roles and projects not only to keep them motivated but also build up skills reservoir and develop the employee clones which will be helpful in the absence of the related staff in future.

**Training and Tools:** Sometimes staff is afraid and reluctant to step into different roles or take new projects mainly due to uncertainty, lack of knowledge, deficient skills or absence of adequate tools. If this gap can be bridged, it will not only increase the efficiency of the staff but also organisations can have a multi-talented workforce.

**Career Progression Maps and Tracking:** Nothing can motivate a staff more than to see where he/she is standing right now in his/her career and where he/she is heading to and how many more milestone has to be crossed to reach the destination. Mutual tracking by employee and manager at regular periods about the progress can help to identify the resources and skills an employee is required to cultivate to move to the next level.

**Fair Performance Evaluation System:** The most lethal weapon to murder the motivation and destroy the employee loyalty is to have unfair and prejudice performance evaluation where flattering, gender, race and personal relationships are rewarded instead of employee performance and contributions. 'Timely' and 'just' performance evaluation oblige the staff to give his heart to the company. Remember, "Justice delayed is justice denied."

Organisations need to understand that everyone from a floor cleaner to a top rank official is a marketing fellow in the company – "good treatment good publicity, bad treatment bad publicity for the company" – within their circle of influence.

Imagine an organisation with no employees. Will there be any single customer? Not possible, customers are the product of employees. (Happy employees, happy

**Staff cannot work on enthusiasm alone for long when there is no food on the table.**

customers! Frustrated employees, frustrated customers). And 'frustration' do not stick to a place for long...

Don't forget that if the customer is the King, then the employee is the Queen in the game of business chess, who not only saves the King but also destroys all the adversities around the King if used rightly.

**Quick Tip:** In emergency, for instant refuelling, just remember to use the 4 R's shown at the end of the diagram.

# Self-Motivation for Accountants

by Altaf Noor Ali




**M**y search for a famous world leader or a billionaire who's a professional accountant did not yield anyone familiar. Sure, there must be a few finance ministers (as in Pakistan today) and some CEOs of the world top corporates from our fraternity. Is that status a verdict against the self-motivation of accountants?

Always thought it was difficult to motivate others. Even more difficult is to keep oneself motivated everyday of one's life, especially if one happens to be an accountant.

Motivation is what drives us to action. Self-motivation is when you become your own coach or mentor and talk yourself up to achieve higher things in life.

Life is too short to be spent waiting for an inspiration, it's all do-it-yourself stuff. Go on and find your own recipe of life that keeps you self-motivated.



Many fresh qualified accountants seem to lose their sense of motivation on qualifying. Why? Possibly, because they remain so focused and for so long on their qualification that once that mark is achieved, with a decent job as a reward, the self-motivational trip comes to a halt.

Apparently, professional accountants are likely to be highly self-motivated people, and for good reasons. On your way to qualification, one goes through a hard time working and studying together, without any external force to motivate you; your self-confidence takes a deep dip when you miss the passing mark at exams and you feel left out when your fellows pass, etc.

These challenges are tough but you are even tougher because you prevail over them to become a professional accountant. And guess who's the most important person to cheer you up all the way? You.

So far so good, you have now qualified and onto a reasonably decent job. Now what? Many fresh qualified accountants seem to lose their sense of motivation on qualifying. Why? Possibly, because they remain so focused and for so long on their qualification that once that mark is achieved, with a decent job as a reward, the self-motivational trip comes to a halt.

This is where it takes an accountant to know that the motivation cycles are like nine orbits around the sun, each signifying a different age; expanding as you move to a new situation.

What should motivate you if you think you have achieved everything in life? Nothing. That is why the only place in the world where no one needs any motivation is a graveyard. And that is why, the foundation to keep yourself motivated is to aim for something in your current phase in life and go all out for it, just what you did while studying for the qualification.

What should you aim for in your current situation?

Most people think that it's the money part that motivates and keeps you interested but for me, some aspects keep individuals interested more than money. For example? How about learning a new language, a new skill, or if you are too bored with your job, going on your own if you think your expenses will be met without difficulty. How about shifting to a new place or even a new country? How about pursuing your hobbies? How about a more balanced home-work schedule?

Even better, if you forget about yourself and start thinking about others. How about taking up a cause that you consider close to your heart? Start teaching voluntarily in any local school, if education is close to your heart or maybe you can benefit your Institute with your professional expertise as a volunteer? There is no dearth of good causes for any person to be attached to and to be a cause of happiness for others by doing good.

Whatever you do, it should be capable of keeping you engaged. Do not sit even after you turn sixty or eighty. Make it a point to make every day of your life count for something you did worthwhile.

Life is too short to be spent waiting for an inspiration, it's all do-it-yourself stuff.

The room on the top is wide open for a world leader or a billionaire who's a professional accountant. Or, you may even settle on making the corporation you work for the top of the world and become its CEO. I will be delighted to find us as a result of my search.

Go on and find your own recipe of life that keeps you self-motivated.



# ETHICS

**"It's not business ethics, it's just ethics. You have got to set a tone that we are going to be about ethics and integrity in every aspect, from who we hire to who we do business with."**

**Better  
Late Than *Never*:  
Be Ethical, No Matter the Costs**

by Elizabeth McIntyre



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t started small — just \$40,000.

HealthSouth Corp.'s quarterly earnings had fallen just short of Wall Street's expectations. It didn't miss by much, but it was still a miss. And disappointing Wall Street was hard to take, especially for a company that had met or exceeded expectations for more than 40 quarters in a row.

That's an impressive streak. And to have it ruined because of a paltry \$40,000?

So the decision was made among senior executives to play with the numbers, just this one time. It's only 40 grand, right? Just a rounding error, really. Because, after all, you don't want to disappoint Wall Street.

The next quarter, though, when the numbers fell short again — the die was cast. A new streak, this built on fiction, rolled on. And so began a \$2.7 billion fraud that would rock a Fortune 500 company and negatively impact the lives of employees, investors and their families.

Weston Smith was one of the many whose life was turned upside down by the accounting scandal at the healthcare giant. But Smith will be the first to tell you, as he did during a speech in Cleveland, that he was no victim.

Smith was HealthSouth's chief financial officer — complicit in cooking the books. By 2002, he had enough of the lying. His conscience was heavy, yes, but also he feared repercussions if he persisted. The Sarbanes-Oxley Act was enacted that year in the wake of the Enron scandal. Faced with the prospect of signing inaccurate financial statements, Smith resigned. A few months later, he went to the FBI with what he knew. And he knew a lot.

"I was scared to death," Smith said of his first meeting with the feds. He soon realised as the hours wore on that day that "stronger than the feeling of fear was the thankfulness. The lying was over."

Blowing the whistle didn't mean Smith got off easy. He was sentenced to 27 months in federal prison for his role, one of about a half dozen HealthSouth executives who served time.

Smith shared his story and offered perspective on ethics to Cleveland area business leaders. He spoke at a joint meeting of the Northeast Ohio chapters of Financial Executives International and the Association of Corporate Growth. The story he shared should give pause to any business person who thinks he or she can tweak the numbers and cut corners with the hope of getting away with it.

"It's not business ethics," he said. "It's just ethics. You have got to set a tone that we are going to be about ethics and integrity in every aspect, from who we hire to who we do business with."

The tone at HealthSouth started at the top with then CEO Richard Scrushy, and it was toxic. Smith described Scrushy as a leader willing to win at all costs, one who would skirt responsibility when things didn't go his way.

Ultimately, when HealthSouth's numbers weren't meeting expectations, Scrushy ordered that the books be cooked, and for six years, they were. The signs of the fraud were there for anyone who bothered to look closely: excessive startup costs, a ridiculously high growth rate year over year, inflated one time charges.

What still haunts Smith is the toll the scandal took on the innocent. "The investors in the company, the employees who lost their jobs, their kids. How selfish of me. To put my own kids through this."

A sense of ethics came late to Weston Smith. But it did come. He served his time. He's spreading an important message. It's one we can all benefit from. And it boils down to this: Do the right thing.

As Smith said, it's not business ethics. It's just ethics.

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# Innovative Capabilities - Where Are We Moving?

by Waqas Latif



In the latest Global Innovation Index (GII) Report published in September 2015, Pakistan has been ranked 131 out of total 141 economies surveyed around the world. What! Quite astonishing, isn't it? No doubt, we are a nation of many talented people. Infact, every now and then, we came across a success story of a Pakistani achieving brilliance and this brilliance may be witnessed in every facet of life. But, often this perception we have about ourselves is hit hard, when we came across surveys like above, which present us with harsh but true realities and force us to analyse our capabilities and performance against perceptions. Although, we might have little competition as far as '*jugaad* innovation' is concerned. But, *jugaad* innovation can hardly spur economic growth, let alone contribute to economic and intellectual development of a country.

## About Global Innovation Index (GII) Report

This GIi report 2015 marks the eighth edition of the survey initiated in 2007. Over the eight years, this survey report has become a credible source as a leading reference on innovation while providing benchmark for nations to seek for in the area of

innovation. The GIi 2015 report is being published collectively by Cornell University, INSEAD and the World Intellectual Property Organisation (WIPO).

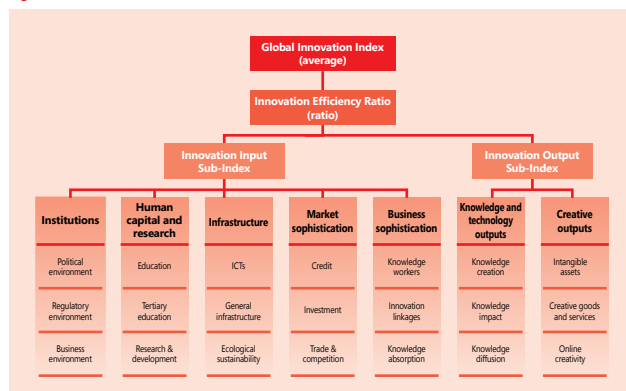
Innovation is considered to be a single most important factor in determining the success of any nation in the 21st century. It not only provides competitive advantage, but also enables creation of dynamic knowledge based economy which can sustain and grow. This GIi shows nations response readiness to the challenge of innovation and identify country's strength and weaknesses to innovation related policies. The GIi report 2015 uses 79 indicators to gauge innovative capabilities of countries against a framework using following seven main categories:

- Institutions
- Human Capital and Research
- Infrastructure
- Market Sophistication
- Business Sophistication
- Knowledge Technology and
- Creative Outputs.

## Jugaad innovation can hardly spur economic growth, let alone contribute to economic and intellectual development of a country.

This framework considers nation's innovative capabilities through research and development work.

Figure 1: Framework of the Global Innovation Index 2015



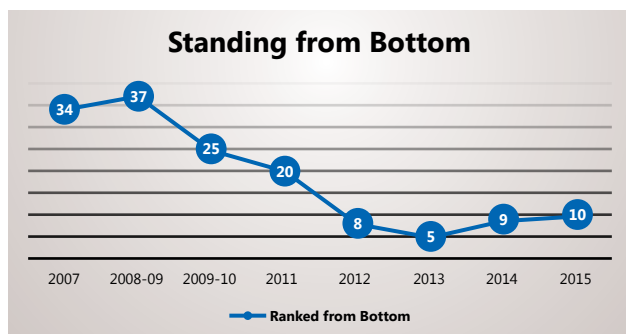
\*Source: GII Report 2015

## Pakistan and Global Innovation Index Report

As mentioned earlier, Pakistan is being ranked 131 out of 141 countries in 2015. The historical trend of Pakistan's ranking in GII past reports since its inception are as follows:

Year	Pakistan's Ranking	Total Surveyed Countries
2007	73	107
2008-09	93	130
2009-10	107	132
2011	105	125
2012	133	141
2013	137	142
2014	134	143
2015	131	141

Further, if ranking is being analysed in terms of standing from bottom, following would be its graphical representation:



Alarming trend, isn't it? Instead of moving upward in the Index, our beloved country has fallen each year and in the span of eight years, our standing has fallen from 34th to 10th in bottom and it may be concluded that either we are left far behind by other economies in this field or we have made no progress at all by ourselves. Let's now analyse, how our country has performed against each element in the GII framework.

## Pakistan and Institutions

Having a coherent and interconnected institutional system provides a base for any achievement in the field of innovation. There are three elements of institutional system namely political environment, regulatory environment and business environment. Pakistan's ranking against each element is as follows:

Element	Sub Element	Ranking
Political environment	Political stability	141
	Government effectiveness	117
Regulatory environment	Regulatory quality	118
	Rule of law	118
Business environment	Ease of starting a business	95
	Ease of resolving insolvency	73
	Ease of paying taxes	130

The political environment encompasses political stability and absence of violence/terrorism and unfortunately, Pakistan has lowest ranking in terms of political stability mainly because of the terrorism issue. The regulatory environment includes regulatory quality and rule of law, again not much to say, our regulatory institutions still lags institutional autonomy and implementation of rule of law is a big question mark due to corruption and other factors. On the business environment front, our performance is better due to ease of starting business and resolving insolvency. However, a lot needs to be done when it comes to simplifying tax structure and ease of paying taxes.

## Pakistan and Human Capital & Research

Human capital and research is a vital part of the innovation system of any country and mainly comprise universities, public sector research establishments, research funders and research and technology organisations. But, sadly, our country lags far behind in human capital and research work. Government's expenditure on education (% of GDP) for the last ten years remains on an average at 2.4%. The expenditure on research and development for eight years remains at an average of 0.25% of GDP as against regional average of 0.7% and world average of 1.7%, clearly demonstrating neglected sector in the economy. Although, in recent years, there is a change in trend with more focus on research and development through Higher Education Commission (HEC) but a lot more is needed to be done to foster economic growth and development.

## Innovation is considered to be a single most important factor in determining the success of any nation in the 21st century.

### Pakistan and Infrastructure

Information and Communication Technologies (ICT), energy supply and infrastructure are the nervous system and the backbone of any economy. They facilitate the production and exchange of ideas, services and goods into the innovation system and enables sustainable growth of any economy.

The ICT includes access and usage of telephone, computer, mobile-cellular and internet. As per ICT Development Index 2015 (an index published by the United Nations International Telecommunication Union based on internationally agreed ICT indicators), Pakistan's ranking is 143rd amongst 167 nations; it was 138th in 2010.

On general infrastructure front, Pakistan's performance is no better. Although there has been recent focus to increase the electricity output per capita to address the issue of load shedding and the construction of roads including motor ways and roads for China Pak Economic Corridor (CPEC) but, still a long way to go.

### Pakistan and Market Sophistication

Every economy needs access to financial institutions and investors to support entrepreneurial ventures and to encourage innovative business activities because the greater the degree of financing available for innovative, risky new products and services, the greater will be its impact on country's innovation capabilities.

Market sophistication includes credit, ease of protecting investors and trade and competition. In Pakistan, finance is not easily available especially to any risky innovative venture; the micro loans as % of GDP are very low. All in all, market sophistication is very low.

### Pakistan and Business Sophistication

The business sophistication shows how vibrant business sector is in the economy in developing and applying new technologies in their practices, products and services. It also reflects the overall quality of domestic manufacturing and services and how responsive businesses are to the market changes locally and around the globe.

Looking at some facts, Pakistan paid \$160 million in 2014 for use of intellectual property and over the past eight years, the value for this indicator has fluctuated between \$126 million in 2013 and \$107 million in 2007. Foreign Direct Investment (FDI) net inflows were only \$1.7 billion in 2014. Number of knowledge workers are very low, firms offering quality formal trainings are minimal and there are hardly any university industry research collaborations. As self-evident as it appears, business sophistication is also low in Pakistan.

### Pakistan and Knowledge & Technology Outputs

All the elements mentioned above mainly represents inputs to innovation system. This element represents the fruits of innovation system in terms of knowledge and technology. Comparatively,

Pakistan has better ranking for this element in GII framework being ranked at 101st place.

Pakistan's International Science Ranking, Scimago Journal & Country Rank (SJR) is 46 out of 239 total entries; SJR is a measure of scientific influence of scholarly journals that accounts for both the number of citations received by a journal and the importance or prestige of the journals where such citations come from. Similarly, the receipts for use of intellectual property were \$12 million in 2014 and over the past eight years, the receipts have fluctuated between \$6 million in 2013 and \$37 million in 2007. Further, Pakistan's high-technology exports (% of manufactured exports) were 1.88 % in 2013 worth \$348 million which was 1.09% worth \$120 million in 2004.

All these facts demonstrate that despite limitations in input elements, we were able to generate outputs which are remarkable in every sense.

### Pakistan and Creative Outputs

There are three elements of measuring creative outputs of any economy intangible assets, creative goods and services and online creativity.

In 2014, Pakistani institutions registered only 202 patents, 21,499 trademarks and 563 industrial designs which are far less as compared to regional averages, ICT enable organisational models (e.g. virtual teams, remote working and telecommuting) within businesses in Pakistan are minimal, our creative goods and services exports are very low as compared to the total trade. We have slightly better statistics for online creativity in Pakistan. It is merely due to the new trends and modern thinking. However, its sustainability is yet to be ascertained in years to come.

### Conclusion

To sum up, gone are the days when developed nations used to innovate and developing nations focused on foreign direct investment (FDI), licensing and other forms of technology transfer to attain the benefits of innovation. Now every nation must engage and contribute to the cause of innovation, not only to grow, but to sustain the ever changing global economic climate. Therefore, in order to achieve national innovation success, we must envision a four-level path to prosperity as described by Stephen J. Ezell, Robert D. Atkinson and Michelle A. Wein in their September 2013 report for Information Technology and Innovation Foundation. At the base level, the government must ensure key framework conditions such as rule of law, effective governance, culture of trust and risk taking, securing robust intellectual property protections, and promoting domestic market competition. The next level includes an effective tax, trade, and investment environment through stable policies and regulations and competitive tax structure. Then, later, a robust physical and digital infrastructure with skilled workforce, and finally, innovation and productivity policies like R&D tax incentives and support for innovative small businesses. Although this sounds an uphill task, but looking at the payoff over a long term, why not give it a try.





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