Management Decision

The manager's guide to internal control: diary of a control freak
K.H. Spencer Pickett,

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Biographical details

After a career in accountancy, K.H. Spencer Pickett spent two years at the National Audit Office performing value-for-money audits in central government departments. After which, his internal auditing career comprised nine years as an audit manager, responsible for a team of staff performing compliance reviews, fraud investigations, financial systems audits, corporate audits and computer audits. In addition he personally performed numerous top level investigations into control breakdowns.

His first book, on audit manuals, was published in 1993 in conjunction with the London Audit Group. It extended his research carried out for his Master's degree in internal auditing and management – on the topic of audit manuals.

His second book, *The Internal Auditing Handbook,* was published by John Wiley & Sons in 1997 and contains numerous diagrams, assignment exercises and practical examples.

He is currently the only senior lecturer in Internal Auditing at the Civil Service College in Berkshire, England. He designs, prepares, co-ordinates and delivers courses for internal auditors who are required to attain the government internal audit standard. This is a year-long scheme studied in blocks (six weeks in total). In addition, the students prepare for the Institute of Internal Auditors examinations at Practitioner Level (one year) and Professional Level (two years) on a part-time basis. He also directs systems-based auditing, internal control evaluation and fraud investigation courses. Part of his responsibilities involves managing a contract for the provision of auditing services to the Civil Service College that is carried out by freelance audit contractors.

Dedications

Love and kisses to my wife, Jennifer – without her, there would be nothing.

This paper is dedicated to Master Lajos Jakab – a man whose life involves teaching others that, with commitment, dedication, practice and hard work, one can achieve anything.

A special thanks to all those people who have helped me maintain the energy to write – including; my mother – Joycelyn, my children – Dexter and Laurel-Jade, my mother-in-law – Fredrica Livermore, Sue Preston, Jack Stephens, Theresa Murray, Michael Livermore, Mr Herbert Newman, Karen Stansell, James Milne and of course Professor Gerald Vinten. A very special thanks to the people of Jamaica – whose island inspired my words to flow and flow, including Pastor Wright whose blessing is still with me.

A very special thanks to Christina Dillon for her support and encouragement.

So long as the business community, managers, publishers and academics view control as a specialist topic – no one will take responsibility for ensuring business and government achieve effective controls.

Comments about this monograph are welcomed by the author
PICKETT@CSCOLLEG.ATTMAIL.COM

The manager's guide to internal control: diary of a control freak
Chapter one – taking time off

K.H. Spencer Pickett
MSc FCCA MIIA FIIA Ass.IPD

Abstract
Using the backdrop of an (apparently) extended visit to the West Indies, analogies with key concerns of internal audit are drawn. An unusual and refreshing way of exploring the main themes – a discussion between Bill and Jack on tour in the islands – forms the debate. Explores the concepts of control, necessary procedures, fraud and corruption, supporting systems, creativity and chaos, and building a corporate control facility.

Bill Reynolds sat in the doctor's waiting room and looked around. Waiting for test results was always difficult. He was a tall, slimly built man in his early 30s, with a small attractive face.

Did he have some mysterious illness that lay behind the feelings of exhaustion that he had been experiencing lately – or was it all in his mind? The latter would probably be harder to accept.

The receptionist interrupted these thoughts with a cheerful; "Mr Reynolds, please go straight through…"

Bill was greeted by Dr Todd as soon as he entered the consulting room. "Hello, Bill – take a seat."

Seeing that Bill looked apprehensive Dr Todd began; "I'm pleased to tell you that all your tests have come back negative. You are basically fit and well. Having said that, let me check your blood pressure as it's been a little high in the past. How are you feeling anyway?"

"Well doctor," Bill said after some thought, "I'm still not sleeping well and to be honest, I feel tired most of the time."

Dr Todd meanwhile tested Bill's blood pressure and mumbled "Yes, yes, yes," in the reassuring way that doctors do. "Your blood pressure's still higher than normal. Could I be so bold as to ask whether you're having problems at work, at all?"

Bill responded quickly. "Well yes, as it happens. Things are terrible at work. We've had industrial disputes, allegations of fraud, disciplinary action and system crashes. There are 12 dismissal cases awaiting industrial tribunals."

Dr Todd nodded and said "Go on…", while casting a sideways glance at his watch.

"In fact Dr Todd, we've just received an interim report from our consultants, which reads that our system of internal controls is inadequate. As a result, I spent two hours last week discussing this issue with the board of directors and we honestly don't know what to do. We're not even sure what the term 'system of internal control' really means, although none of us were up to admitting this. Meanwhile the chief executive is required to issue a statement on internal controls as part of

next year's annual report and she is really worried."

"Okay," interjected Dr Todd. "Let's take this in stages. When did you last take a break?"

"I've not had any time off for the last three years." Bill replied.

"Right" said Dr Todd. "Can you take a week off to recharge your batteries?"

"Not really. The board has to meet with the consultants in a fortnight's time to agree the terms of reference for stage two of the review, where we deal with the problems."

"So," retorted Dr Todd, beginning to get worried about the time this was taking. "You can take a week off and approach this issue with a fresh mind can't you? Look, what I am saying is, you must take a break and then tackle the problems that have led to the high levels of stress you've been experiencing. Take a week off, hire a tour guide and do some sightseeing. Doctor's orders," he added with a chuckle.

Waving aside the anticipated protest from Bill, Dr Todd stood up and looking Bill straight in the eye said slowly; "It is important that you take my advice, as in the long run stress can affect your health and we must avoid this. Do you understand, Bill?"

Taking Dr Todd's hand, Bill nodded and promised to go straight to the travel agent.

What Bill had not told Dr Todd was that he had been promoted to the post of Head of Corporate Strategy on the basis of a psychometric test that categorised him as a control freak. He was meant to deal with the problems which the chief executive (CE) felt were mainly about staff failing to behave themselves. Having been in the new post some six months, apart from the new performance appraisal scheme that he was introducing, it seemed that the only hope for improvement was the work being done by the external consultants.

The next day Bill mentioned to the CE that he would be away for a week, which did not appear to present a problem as most people were booking a week or two's summer vacation at that time of year. The CE, Georgina Forsythe, called Bill into her office on Friday at the close of play and poured out two glasses of wine.

"Bill" she began, "before you go on leave I have to confide in you. I'm worried about the business. In fact, if things don't improve, I may have to offer my resignation."

Bill had known Georgina for several years and respected her as an honest and hard-working woman who really cared about all her employees.

"You see," Georgina continued, "I've built up the business and we provide what in my view is a quality product. But our systems have not kept pace and the latest project, you know, the new automated document management system has been abandoned as a failure. I pulled the plug on it yesterday. To top it all, I've been advised by the police that they intend to arrest our chief purchasing officer first thing tomorrow morning for tender fixing and accepting bribes. We'll have to go through yet another investigation and disciplinary on top of all the others. When you get back, I'm going to recommend we establish a fully-equipped compliance team to complement the two internal auditors we have. They can check and double-check on what is going on, in terms of breach of procedure and possible fraud."

"Shouldn't we wait for the consultants to carry out their review first?", Bill said after thinking this through.

Georgina frowned "Yes and no. I want to be seen to be taking action although I won't recruit to the team until the consultants have their say on the matter. You know it's all very well saying we have no system of internal control, and make me responsible for this failing, but so far no one can tell me what this system of internal control is, apart from a list of useful tips that go on and on. If I had everything we do double-checked, we would not get any work done at all. Anyway Bill, you have your break and let's tackle this problem head-on when you get back. Do me a favour and forget about work for a while. I need you fighting fit for this challenge."

Bill's spine tingled at these words and he felt a deep desire to get the problem under control. He almost wanted to cancel the intended vacation, but knew this would not be accepted. "See you in a week or so, Georgina."

Looking through the travel brochures, Bill said to the waiting travel agent, "I need a short break for next week – anywhere warm and touristy and somewhere I can unwind."

"Right, sir," came the reply, "It just happens that I have a cancellation for a Caribbean destination flying out this Sunday, that is tomorrow, and returning Tuesday week. How does that sound?"

Not showing much enthusiasm Bill asked for the details, which did in the event sound quite attractive. Maybe this would not be so bad after all. Since his wife had divorced him five years ago, Bill had not bothered about travelling for pleasure, particularly if it meant travelling alone. But this was different – doctor's orders.

Bill said "I've been advised to book a tour guide. Can you do it from this end?"

"Not normally, but I do have a reliable contact in Montego Bay. An English chap called Jack Durham, who now lives out there and operates a tour guide service. Actually, I used to organise yearly holidays for him and his family until he decided to pack up and move out there permanently. I'll fax him your details and he'll contact you on arrival."

"Sounds fine" admitted Bill, wondering whether he should just have stayed at home for a week, "I'll just be driven around and entertained. That'll do."

The travel agent wished that all his customers could be like this. Turn up, book a package and pay on the spot. This, however, was before Bill produced a detailed checklist of travel and hotel arrangements he wanted. After an hour going through the timetables, tour details, hotel arrangements and contact information, Bill finally agreed to the package and paid the amount due. As Bill walked out of the shop, the travel agent stared at his back wondering why some people insisted on being so in control. A holiday was supposed to be an adventure not a business project.

The flight was fairly relaxing, although as a control freak, Bill found it hard to sit back and let the pilot take care of the plane. Control freaks like to be in charge which includes being in the driving seat. Anyway this point was academic, since Bill could not fly a light aircraft let alone a 747 passenger jet plane.

Bill thought back to the previous night when he had drafted a comprehensive list of items to pack and meticulously placed everything in its right place in the suitcase. I guess I really am a control freak, he thought – I can control everything except what goes on at work – which is frustrating.

Going through customs at Montego Bay, Bill watched a group of calypso singers go through their welcoming routine with some amusement. Collecting bags, taking a taxi to the hotel and unpacking was all very uneventful. Resting in his room, Bill thought about the problems back at work and the tropical heat lulled him into a fretful sleep. The fact that a switch in the bedroom would have provided instant air-conditioning escaped Bill.

The hotel restaurant was pleasant and the sweet smell of fruits, spices and the delightful aroma of the occasional distant wood fires that were burning added to the night air. A

rum punch at the bar served by a friendly barman put Bill in the mood for an early night and recovery from jet lag. Taking a final drink for the night Bill was about to head for his hotel room when the barman summoned him to a phone behind the bar.

"Yes?", Bill enquired, "Who is it?"

"Hello, it's Jack Durham. I'm informed that you want a tour guide. Is that correct?"

Bill vaguely recalled the name and although on impulse he was going to decline, he suddenly remembered that this had been arranged by the travel agent. "Yes, that's right. Er…I would like to do some sightseeing while here in Jamaica."

The conversation although stilted at times, closed on an arrangement for Jack to collect Bill at 10 a.m. the following day, thereby allowing Bill to catch up on his sleep and take a late breakfast.

Bill wondered if it had been wise to book the guide. Still it would only be for the day, and thereafter he could relax by the pool or at the bar and get through some of the paperbacks that he had brought with him. Jack Durham. Sounded like a bulldog type character. Nonetheless, Bill did feel a little isolated at being alone and having some kind of company would be nice.

At 10.30 the next morning Jack turned up and a somewhat put-out Bill indicated that this was a half-hour later than agreed. Jack was a short, well-built chap with a muscular frame developed over many years training under the great Hungarian self-defence master, Master Lajos Jakab – reputed to have invented the most comprehensive self-defence system ever.

"Oh", mumbled Jack, "You're still on UK time. This is Caribbean time – it's a little more flexible…"

Bill looked at his watch before realising that this remark related to perceived time, not actual time. Frowning and not caring to work out what this meant, Bill got into the driver's side of the car before being asked to move across to the passenger's seat.

"Sorry" said Bill "Instinct, you know."

"Don't tell me you like being in control!", said Jack.

Bill started at the word 'control' and smiled saying; "That word is banned for this week," not bothering to explain what he meant. Now they were even, since he had not fully understood what Jack's remark about time meant.

Jack was a very informative guide, pointing out the sights along the way. The air-conditioning made the ride comfortable enough. Jack explained; "I'm taking you out to Safari Village where you can get some shots of the crocodiles and Princess, the tiger."

"Fine" agreed Bill, sitting back and letting Jack take charge.

After a few minutes Bill could not refrain from taking control and started his firm but gentle interrogation. "What brings you out to the Caribbean to work as a taxi driver?"

"Hold up," snapped Jack "I'm a tour guide not a taxi driver – this is a Toyota not a Lada."

Dear me, thought Bill, I just do not understand half the remarks this man makes. This is going to be a difficult journey unless we can communicate better than this. Toyotas, Ladas – what's the significance?

"Anyway" Jack continued: "Over to our left is Sunset Beach. The jets fly straight over this beach to land at Montego Bay Airport – it's quite an inspiring sight. Further along is Dead End Beach. This used to be a through road to the airport, until one day a jet plane flew in to land and the air gusts pushed a bus loaded with passengers into the sea. After that the road was blocked off and thereafter referred to as Dead End."

The sight of the sun bouncing off the glorious blue sea which flowed along the coastline was quite beautiful to behold.

"You ask me why I choose to live here," continued Jack." Well, I'll answer you by saying:
The year's at the spring;
And day's at the morn;
Morning's at seven;
The hillside's dew-pearled;
The larks on the wing;
The snails on the thorn;
God's in his heaven
All's right with the world.
(*Positive Thoughts,* 1995)

"Robert Browning explains why I prefer to live in a less developed environment better than I ever could."

Taken quite aback Bill was lost for words. "Er…very nice…" was all he could say.

Sensing Bill's discomfort, Jack interrupted; "Before you go on, I should tell you that I collect poems, articles, quotations and any words that I feel should be noted for future reference. It's part of my mission in life."

A strange man thought Bill, wondering whether to explore this conversation further. Bill looked at the scenery. It was beautiful – the colours, flowers, coastline and the people going about their business and work in the hot sun as the car rushed past them.

"What is this mission?" ventured Bill thinking – what the hell. We have to talk about something. Slowing down to avoid a pothole, Jack looked at Bill as if wondering how much more to say. Finally, Jack remarked; "It's just that I'm writing a book at the moment and as part of the research, I collect articles and book references."

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Once again Bill weighed up the pros and cons of continuing this conversation. Making up his mind Bill enquired; "What's this book about?"

"Oh", replied Jack "I doubt you'd be interested."

After further cajoling from Bill, Jack went on; "I was a career auditor back in England. You know, an internal auditor. Anyway I packed this up to come here with my family, and conduct tours during the tourist season. This meant I had a lot of time on my hands and I decided to write a book on internal control."

Bill laughed out loud, much to Jack's surprise. An auditor – oh no and one that's studying controls – a living nightmare. Apologising quickly Bill exclaimed;

"Sorry. No, it's just that this does interest me although…well this is a holiday so let's not talk about controls any more. Agreed?"

"Absolutely" agreed Jack.

Arriving at Safari Village, Bill noticed that Jack negotiated a suitable entrance fee with the attendant of $100 Jamaican each. However, a party of American tourists behind them in the queue were charged $200 each, after which Jack winked at the attendant. Maybe these flexible charges fell in line with the flexible timing Jack referred to earlier.

"Let's move on to a small town called Falmouth." suggested Jack after the tour had finished. "We can get a nice meal in the shopping mall and you can pick up some souvenirs."

Falmouth proved to be an interesting town busy with the hustle and bustle of market day. After several hours they were on the road again, heading back to Mo'Bay.

As they drove along, Jack announced, "I'm now going to introduce you to Irie FM, a radio station dedicated to reggae music."

Thereafter a soothing beat flowed through the car speakers. After introducing Bill to a couple of bottles of the local beer called Red Stripe, the car journey became almost magical as the countryside and coastline flashed by, along with overtaking cars – Ladas by the look of them, each with the driver's arm drooping out of the window.

Bill became more relaxed and as usual his conversation turned to the problems at work.

Little by little he relayed to Jack the trouble, control breakdowns and poor performances and scandals that were an everyday feature of the workplace. Jack listened like a trained therapist nodding slightly and mumbling "yes – I see," at the right places.

Bill drifted off to sleep and on waking up demanded; "Well, what's the answer to my problems then?"

Quick as a flash Jack replied; "Seven squared – I think."

Like the good friends that they were fast becoming Bill retorted instantly; "Very funny, I don't think." and laughed. "Come on, what is the answer?"

"Well" murmured Jack swallowing the last piece of a mango, "There are no real solutions – it just depends on the situation and what you are trying to achieve."

"Okay" snapped Bill getting into the conversation, "You're just like all the auditors I've ever met – no answers, just mumbo jumbo…"

"You go too far" jested Jack. "There is a solution." Jack continued. "Look your hotel's just round the corner so I'll be quick – You need to establish a Corporate Internal Control Facility…or better still a Corporate Internalised Control Facility. Get it? – internalise controls – and get people to take charge of themselves and their controls."

Tired, Bill looked at Jack and wished him goodnight as they drove into the hotel forecourt. As he got out of the car Bill thought again about what Jack had just said and held the door open saying; "Look Jack. Let's do some more touring tomorrow and continue this conversation. I know, you bring your reference file of articles and let's explore the key issues. Perhaps I could take some notes. To be honest, I need to embark on a journey through this concept of controls. I would get much more from my vacation if this was added to my tour across the island. I'll bring my dictaphone and we can record our conversations. That way we will have a record of this concept of internalised controls that you can get typed for your book. You can cross reference it to the material in your file. Can we make this a deal?"

"As we say in Jamaica, Bill – No problem…"

Chapter two – concepts of control

"Good morning Bill," said Jack and this time Bill did not bother to check his watch, or comment on Jack's time-keeping.

"I thought we might take a trip to Boston Beach in Portland, they sell the best jerk pork and chicken in the world."

"Jerk pork being…?" enquired Bill as the car pulled out.

"The pork is seasoned with pepper and salt and various herbs. After marination, it is smoked over an open fire until cooked. They use a special pepper sauce to bring out the flavour."

Bill mumbled "Mmm…sounds delicious."

"We'll drive back to Falmouth," Jack was saying, "straight through St Anne's Bay and into Ocho Rios, the famous tourist resort. We can stop there and get a snack and a drink if you like. Then we'll hit the main road to St Mary, into Portland and then past Port Antonio and on to Boston. There's a small district in Portland, just past the border of St Mary called Windsor Castle. We can pick up some mangoes from Miss Luna, a sweet old lady who lives there."

Ocho Rios and a background to controls

The car swept on through miles of winding roads and countryside sparkling in the sun which danced through the trees and foliage. Meanwhile Jack relayed the history of the island and its many varied inhabitants. Jack glanced at Bill who appeared to be drifting off, lulled into sleep by Jack's slow and deep voice with its faint Jamaican accent acquired over the years. Noticing this, Jack changed tack and announced;

"Let's talk about controls!"

"Yes…" replied Bill, suddenly brought back to the world of consciousness. "Yes, I would like that. Before you start Jack…Let me turn on the dictaphone." Bill wondered whether Jack was aware of his capacity for talking at length on almost any subject one could imagine.

"I should tell you that my company apparently has inadequate systems of internal control and this I find annoying. Managers cannot spend all their time checking on staff.

This is not what modern management is about. We're going to set up a compliance team, maybe as part of internal audit, and they will carry out these checks, leaving managers to manage and not police staff."

Bill paused and wondered why he became so emotional when talking about controls; it was such a negative subject. Maybe it was not such a good idea to spend his vacation discussing this concept. He would probably end up having a stroke by the time he got back to England.

Jack asked; "Why do you feel compliance teams are the answer?"

"Well, control is about checking up on past performance and assessing whether standards are being adhered to. Managers are more interested in coaching staff for future performance and encouraging development. Therefore, let the auditors do this after-the-event checking, it makes sense."

Jack was silent as he swerved to avoid an overtaking Lada that had cut in in front of him, just as an oncoming Leyland truck sped past. The next few moments would probably set the tone for the rest of the day. Would it be best to let Bill spout on about his ideas, or should Jack speak about some of the theories he had developed over the last three years? What the hell, thought Jack, He'd go for it and win Bill over. He'd turn a control freak into an internal control freak. Or, more correctly, an internalised control freak.

"There are those," Jack launched into discussion mode as he glanced at the dictaphone whose red light indicated that it was recording everything , "who feel we are over-audited. Let me see if I can remember a quote from Michael Powers:"

> …audit begins to take on a life of its own increasingly decoupled from the processes and events which it is intended to address (Powers, 1994, p. 38).

"Many writers have criticised systems and routines that are created just to provide additional bureaucracy. Business re-engineering is about cutting through red tape and redundant processes. In fact Michael Hammer and James Champy argue that:"

> Several jobs can be combined into one with a case worker responsible from start to finish…and that this creates better control

because it is easier to supervise fewer people with greater responsibility… workers make decisions. The old model entails accountants, auditors and supervisors who check, record and monitor work (Hammer and Champy, 1996, pp. 51-9).

"They suggest that these assumptions need to be discarded."

"Ah hah…" retorted Bill. "What about accountability and transparency? These things underpin control and ensure regularity surely. I should not need to tell you Jack – checks and balances, checks and balances."

The brief silence allowed a moment's reflection. Jack opened up further debate:

"Back to Michael Powers, who goes on to suggest;"

Face to face accountability has been displaced by trust now in the audit process and compliance regulations promote obscurity not transparency (Powers, 1994, p. 27).

"So control is not achieved through extensive checking and double-checking. It is a process more to do with having clear objectives and making sure these are achieved. There is more. Our activities must be constrained by a strategic and ethical framework, which is where the concept of compliance comes in. The other key point, is that we can only make sure objectives are achieved in so far as this is possible. There is always a degree of uncertainty that must be catered for. Nothing is perfect. In fact Leonard Cohen wrote:"

Ring the bells that still can ring
Forget your perfect offering
There is a crack in everything
That's how the light gets in
(Schiller, 1994, p. 26).

"Mmmm…" mumbled Bill, "You sound just like my old school English teacher. Always had a poem or two to hand."

This remark seemed to confirm the day's role-play whereby Jack would preach his convoluted theories and Bill would ask the occasional question.

Bill reached for a thick folder which lay on the back seat and flicking through it, noticed that it contained articles, diagrams and references that were loosely connected to the topic of internal control. "Let's stop for a beer, I'm thirsty", suggested Bill.

"I've got a better idea", said Jack and stopped the car beside a group of young boys who stood around a wooden cart. "Ice cold jelly?", shouted Jack and proceeded to purchase a huge green coconut with its top sliced into a spout. Bill watched Jack drink deep from the coconut's spout. "Try some, it'll stir your heart and quench your thirst at the same time", growled Jack wiping his mouth with his handkerchief.

Bill asked for a straw and drank from his coconut and trying to copy Jack's growl, ended up stifling a choke instead. This boy really needs to be defrosted, thought Jack, he's too tense.

"Right. I guess it would be best to speak formally so the recording will pick up the precise meaning of these ideas. We also need to indicate where a diagram or quote comes from. You'll need to give each diagram a reference number," said Bill as they got back into the car. "I've found your extracts from the *Collins English Dictionary*."

"Let me read the definition of control:"
  1 to command, direct or rule;
  2 to check, limit, curb, or regulate; restrain;
  3 to regulate or operate;
  4 to verify by conducting a parallel experiment in which the variable is held constant or is compared with a standard;
  5 to regulate financial affairs, to examine and verify accounts;
  6 power to direct or determine: under control;
  7 a means of regulation or restraint;
  8 a device or mechanism for operating a car etc.;
  9 a standard of comparison used in a statistical or scientific experiment;
  10 a device that regulates the operation of a machine;
  11 a dynamic control is one that incorporates a governor so that it responds to the output of the machine it regulates.

"Control chart:"
  a chart on which observed values of a variable are plotted, usually against the expected value of the variable and its allowable deviation, so that excessive variations in the quantity etc. of the variable can be detected.

"Controller:"
  a person who directs, regulates, or restrains… (*Collins,* 1991, p. 349).

"Hold on Bill." Jack found an opportunity to interrupt. "Lets start at the beginning. You suggest that control is primarily about constraining things."

"Yes." agreed Bill, "it's about holding back and stopping things from going wrong. Like the brakes on a car…"

Jack interjected "Okay. But my view of control is based on a more dynamic concept of all those processes that ensure objectives are achieved, as far as they can be. As such it is not a case of holding things back but of driving them forward. Making sure the car does what it is supposed to do."

"But it must also act as a fail-safe mechanism that stops problems from escalating out of control", Bill replied.

Jack sensed that they were entering the real journey, one even more exciting than the views and colours that flashed past the car windows as they drove along the coast. "Right", Jack replied, "let's take the control chart that you referred to in the definitions. This in its most basic form sets an upper and lower limit within which activities should fall. I have included this as a diagram in Figure 1 of the reference file."

Figure 1
The control chart

Budget versus Actuals = Variances
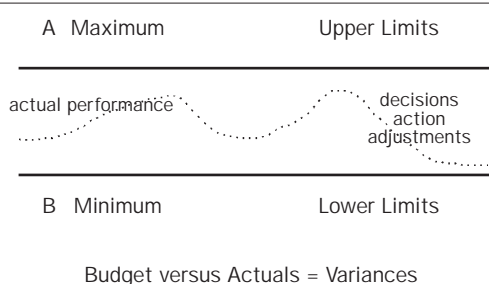
"We can argue that control is about keeping all things within these two limits, or we may suggest that the top bar constrains activities whilst the bottom one acts more as a driving force. A form of push-pull strategy, making good things happen whilst at the same time stopping bad things. Meanwhile, our efforts are simply directed towards comparing actuals against budget, or standards, and then seeking to correct variances."

Bill commented, "I accept this, which is why I say that we let the auditors measure these activities and ensure they meet set standards. The control chart belongs to them while managers can work on providing services or outcomes. This is quite straightforward and I really don't see control as the corporate issue. It's just a nuisance, that's all."

Jack continued his line of argument; "I can comment on your view of control as merely a nuisance by pointing out three key issues; first society now demands some degree of corporate governance from large organisations and as such, argues that your CE is the person responsible for the task of reporting back to shareholders on his or her efforts in this matter. Secondly, control can be about life and death…"

Seeing Bill's raised eyebrows and smug smile, Jack hurried on with his deliberations; "We have said that control is about setting and achieving defined objectives?"

"Well, yes." said Bill.

"Okay", Jack launched into the debate whilst steering with one hand only, around a rather steep bend. "What is the primary objective of regular medical smear tests for women?"

"To detect cervical cancer early so that it can then be dealt with." answered Bill after some thought.

"Okay", Jack went on. "I read a heart-rending case reported in the English press about a widower whose wife had died of this disease after receiving the all-clear from a smear test. Read page six of the file you have in your hand."

Bill flicked through the file and read out; John was puzzled to find an envelope on the doormat addressed to his wife. He picked it up and opened it. Inside was a letter calling her back to the hospital because it was suspected her smear test had been wrongly graded. A lump stuck in John's throat: His wife had died two years earlier of cervical cancer. Slowly the true extent of the tragedy dawned. Not only had he had to endure losing his wife, leaving him to look after their two children, but he now began to realise that her death had been unnecessary (*The Mail on Sunday,* 1997).

Jack took over, "Apparently he was not alone and 81,000 tests have been rechecked and 300 women were recalled for treatment. This is the real impact of poor controls. Mistakes were made, procedures were poor and work was not properly checked by the hospital in question. The key objective failed and if you read John's story, you cannot help being moved."

Bill was silent, which appeared a good enough signal for Jack to get to his third point; "The final point concerning controls is that if they are too limited, although they can deal with Blockages and Running out of Road they may lead to Lost Opportunities."

Unknown to Jack, Bill had spent some time reading up on controls when this issue first came up on the corporate agenda. Nonetheless these terms had not appeared in his reading material and so came the inevitable question from Bill; "And just what are you going on about?"

"Well," Jack continued. "Work published by Edward DeBono back in 1980 (DeBono, 1980), suggests that blockages can be dealt with by a company using the correct procedure for dealing with this, as Figure 2 in the file illustrates:"

Figure 2
Blockages

"You simply solve the problem in the most appropriate manner, whilst still moving between the upper and lower limits."

"When you have nowhere to go and run out of road, you simply obtain more information, or direction, and off you go pushing ahead, still within the two set limits (Figure 3). The problem with controls in this form of the control chart that we agreed was a suitable model to use, is that there are non-standard routes that we may miss which result in lost opportunities as Figure 4 shows:"
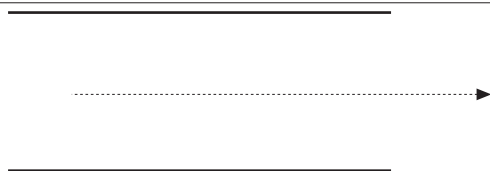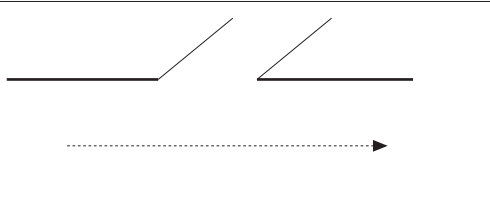
Figure 3
Run out of road

Figure 4
Problem of no problem

"Here we move between the upper and lower limits set by our adopted control standards and fail to use our creative energies to seek new opportunities. This in the long run means our business becomes extinct. I've adapted DeBono's models to suit my analysis but you get the point."

Bill absorbed these arguments and responded softly; "If we are not careful we will return to your earlier suggestion that there are no real answers to the control question. In fact I'm surprised to hear an auditor speak about creativity." Feeling a little smug Bill continued, "I can give you a quote from Monty Python's Flying Circus, a popular comedy show from the 1970s, that summed up the role of accountants, and I presume auditors, in life. Let me see now – it's in this file somewhere. Yes, an accountant turns up at a recruitment agency and is told by the recruitment consultant:"

In your report here, it says that you are an appallingly dull person. Our experts describe you as an appallingly dull fellow, unimaginative, timid, spineless, easily dominated, no sense of humour, tedious company and irresistibly drab and awful.

And whereas in most professions these would be considered drawbacks, in accountancy they are positive boons… (Cohen and Cohen, 1995, p. 268).

"Hmm, I'm amused", mumbled Jack. "However going back to the main argument, you appreciate that there are not many chief executives who can give definitive statements on internal control and there are fewer external auditors who will issue positive statements on this matter, particularly where they relate to non-financial controls. It would mean that they effectively assume liability for anything major that goes wrong with the company thereafter. We have then a clear expectation gap. Society wants these statements whilst no one knows how on earth they can be issued without such heavy qualifications that they actually become meaningless."

Bill saw an opening. It was not that he did not find the arguments interesting, but as a control freak, he wanted to take part in an active debate and not listen to a monologue. "Our external auditors are excellent. They have introduced value-added audits where they encourage us to adopt risk assessment, process reviews and a wider perspective of audits outside the old tick and check model."

"I accept this", Jack was saying. "But I still say that corporate management is responsible for internal controls, and they can only discharge this role by making all persons who work for or have contact with the organisation also assume responsibility. This is why I recommend the corporate internalised control facility. I mean facility to imply facilitation in assisting people in living up to these additional responsibilities."

Remembering his brief research into controls, Bill said "What about the standard control models used in management textbooks? For example, Figure 5 covers the Weihrich and Koontz model:"

Figure 5
A standard control model
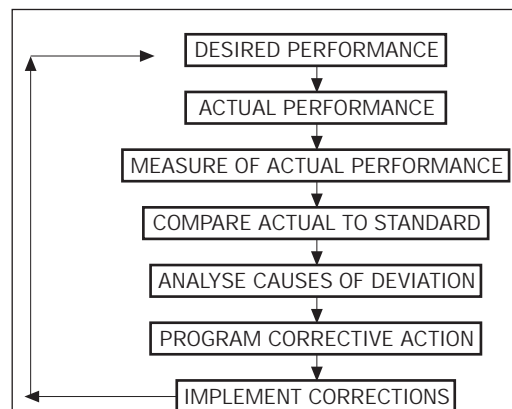
"They argue that you should tailor controls to the managers, their plans and culture, use exceptions at critical points, make them objective, flexible and economical and ensure corrective action is taken to comprise a feedback loop."

Jack responded; "There is nothing wrong with this and other similar models. They comprise suitable techniques that form part of the armoury of controls. In fact, one well known model called The COSO model sees control as consisting of monitoring, control activities, risk assessment, control environment and information and communication. What I am looking for, is a model that explains the entire control concept including the need to ensure change and creativity. I promise that by the time you return to England, you will have all my ideas. In one sense, our discussions are helping me develop the models that solve my problem in understanding control."

"This is just as much a journey through controls for me," admitted Bill.

"Look," suggested Jack. "We'll be in Ocho Rios in a few minutes. Let's recap. What have we said about controls? We agree that it is high on the corporate agenda and that it is difficult to make definitive statements about this matter as it affects an organisation. The feedback loop and control chart are good techniques that can be used to promote good control. We have suggested that the definition of control as containing behaviour may impair creativity within organisations. I think we should dedicate today to control concepts and this first part of the trip to Ocho Rios is about background material. The next stage up to Boston Beach, I think should be used on the concept of systems as this goes hand in hand with control. In fact, your consultant's report talks of poor systems of internal control, does it not?"

Bill agreed, as they entered Ocho Rios looking for a suitable place to park the car.

Lunch at Ocho Rios

Sitting around a table outside a small restaurant with a dish of ackee and saltfish in front of them Jack said; "I don't want you to think I view controls as the highest form of human thinking. They can be very basic at times and I've copied one quote from an Enid Blyton book I've spent many hours reading to my two children, that I would like to refer you to. Here it is:"

"Right that's settled then" Said Pete. "We're getting on. Now about saving up for fireworks."

"We'll all bring what we can as we usually do," said Barbara. "I've got a bit of money in my savings box already that I can bring. Who shall be treasurer?"

"Better vote for one," said Pete. He took out his notebook and tore the page into seven neat strips, and handed a strip to each person. "Every one got a pencil?" he said. "You haven't Pam – well take mine for a minute. Now – write down the person you think would be a good treasurer – someone to hold the money for us, and keep it safe, and count it each time we bring any. They'll have to keep the figures in a book, so that we know what we've got and who brought it. Ready? Write the name down then of the one you want. It must be someone good at figures of course. We don't want a muddle made of our money." They all sucked or chewed their pencil, and frowned. A good treasurer? One who could manage figures well? One who would not make a muddle? (Blyton, 1958).

"This is basic internal control at its best; agreed roles and responsibilities, documentation that is verified. A record of income and accountability, segregation of duties, a review and monitoring committee, custodial security and frequent checks. Over and above this, is a key objective of saving to buy fireworks. How about that!"

Bill chuckled. "Not bad. I do remember reading the Famous Five, but not the Secret Seven. But could you fit the creativity problem into this model of control?"

"Well, within the procedure for saving for fireworks, there needs to be a facility whereby we can move away from the emphasis on security and think about what to do with the money. Or bringing in new ways of obtaining the necessary funds," suggested Jack. "This may mean someone saying – let's give the cash to the local school as it is collected and ask whether we can attend their fireworks display. Or, let's collect donations around the village and organise a community display. In this way we are not constrained by the procedures that I've described earlier. These will be adapted to fit the circumstances, once the objective has been revisited."

Bill tried an ice cold drink called Supligen, which he sipped slowly. "What's your definition of control then?" he asked between sips.

"To be honest. I feel it's a cop-out to formulate a subject definition along with a hundred-point criterion, as in the final analysis, it becomes too general and therefore meaningless. I could argue that controls are mechanisms to ensure objectives are achieved. If I had to pull a list from my back pocket – it would read that they should be flexible, clear, economical, understood, communicated, usable, adaptable, agreed, accepted, meaningful, fit the culture, based on exception reporting, supported by information systems, promote excellence, promulgated by top management, protect assets, promote compliance,

[101]

secure value for money, be in line with defined risk criteria and so on and so forth… The problem is that this list does not really add to our understanding, as it consists only of a series of relevant words."

"I guess the starting place for controls is to decide what you really want to do. Everything else flows from this. I've noted a famous quote from Winston Churchill that illustrates this point. He said in one famous speech:"

> You ask "what is our aim?" I can answer in one word: "Victory!" Victory at all costs, victory in spite of all terror, victory, however long and hard the road may be: for without victory there is no survival (Cohen and Cohen, 1995).

"This basic aim set the foundation for the many years of struggle that was to become known as the Second World War. I guess that control is about having an aim, making sure you have the means to achieve it and managing those risks that can impair your ability to get there. It is a driving force that moves you in the right direction, but it tempers your energies within a framework of strategic guidelines and ethical rules. It seeks to promote achievement but also requires compliance with these policies. It should provide safeguards against fraud and corruption and give an assurance that value for money is secured. It is concentric in nature as the circles starting from the middle consist of: you; your team; your section and then your department – bound together as an organisation by corporate, strategic, ethical and communication frameworks. Right at the heart of these circles is your soul as this is where control starts – from self-control; self-awareness and an appreciation of what the organisation is trying to achieve and how you can best contribute to this task."

Bill listened then said "So your view of control is as a holistic concept, rather than an additional process superimposed over the corporate and operational business processes."

Jack nodded and said "Yes, which is why I believe you merely need to facilitate the spread of this concept throughout your organisation and develop these control circles. Because I argue that control starts with self-control, stress is very dangerous, in that it results from seeking control where there is none. This equation cannot be reconciled and so the body cannot feel comfortable with the mind. I seem to remember the philosopher Epictetus arguing that:"

> There is only one way to happiness and that is to cease worrying about things which are beyond the power of our will (*Positive Thoughts,* 1995, p. 161).

"You can check the file to see whether I got that quote right… " Seeing that Bill was starting to look uncomfortable with the topic of stress, Jack decided to leave it for a later stage in their discussions and added, "However, our route takes us into the journey through systems theory…"

A nearby craft shop caught Bill's eye. He stared at the sculptures and paintings under the watchful gaze of the shop assistant who suggested they finish their meal and come and view the goods in more detail. After twenty minutes spent negotiating a suitable price for an oil painting, they embarked on the second leg of the journey.

On to Boston and systems

They were on the road again, through the bypass towards Oracabessa and Noel Coward's last residence, Firefly. It is available for those who wish to rent the accommodation and enjoy its most spectacular views across the bay.

"Right." Jack began. "Your organisation suffers from poor systems of internal control."

Bill replied; "Well, yes. But the consultants call this a poor system of internal control, implying that there is one such system that flows through the organisation. Do you think this is feasible?"

"There is one difficulty about systems theory that we need to get around from the start. This is, that systems can comprise a whole or a million sub-sets – depending on how you wish to view them."

Bill was pretty much getting used to these open-ended comments from Jack, which were so far from his view which, in the final analysis, demanded a straightforward answer to all things. Jack continued; "My view of systems is that they start from the soul – that is deep within the person and all other things are related together to comprise a whole. That whole is defined as such for that moment in time, and changes through time, and from different perspectives. Corporate communication then binds these fragments into a whole that is the organisation."

Noticing Bill's look of scepticism, Jack stopped and thought about the best way to get his message across. "Bill – let's explore some of the views that have been expressed on this matter."

This was the key to get Bill to start leafing through the reference file on his lap. Jack stopped at a gas station and went inside for chewing gum while the attendant filled the tank. Bill took the opportunity to select the

references that were filed under the heading – "systems".

As they got back on the road, Bill read through the quotes "Right, here's one from Harold Geneen; he suggested:"

> Business is many things, the least of which is the balance sheet. It is a fluid, ever changing, living thing, sometimes building to great peaks, sometimes falling to crumbled lumps. The soul of a business is a curious alchemy of needs, desires, greed and gratifications mixed together with selflessness, sacrifices and personal contributions far beyond material rewards (Exley, 1993).

Bill continued "I guess this makes it a little difficult to set a system of control within this hotbed of emotions."

Jack retorted, "But an organisation is a series of emotions – controlled emotions in the sense that they are directed towards business goals. Read the next reference by THE Opanishads." Bill read:

> As is the human body, so is the cosmic body.
> As is the human mind, so is the cosmic mind.
> As is the microcosm, so is the macrocosm.
> As is the atom, so is the universe
> (Schiller, 1994, p. 219).

"Yes." agreed Jack getting excited. "You have in the file a similar quote by H. Stapp: "

> An elementary particle is not an independently existing, un-analysable entity. It is, in essence, a set of relationships that reach outwards, to other things (Schiller, 1994, p. 233).

Jack concentrated on a series of tight bends, not helped by a huge oncoming tanker which swept past them at great speed. He lightened up and removed the habitual grimace that he wore when negotiating a difficult stretch of road. Jack continued; "You get the point. Systems are all interrelated. My current interest is in SuperString theory, which suggests that the entire universe is connected by an invisible thread, that has a complicated dependency chain that both affects it and allows it to affect other things. This is why we must view an organisation as a series of systems. Control is thus about getting these system components to recognise their respective responsibilities for contributing to the organisation in a defined manner. We cannot simply set standards, and get a team to look for compliance with these standards. Most externally imposed control is resisted by the subject. There is a philosophical debate over the ethical rights of someone to exert control over another. Do you remember you used the dictionary to define the controller as a person who directs, regulates, or restrains? What we need is control facilitation that ensures people are able to direct, regulate or restrain themselves. They need to understand why

this is important, how it can be achieved and how one's role relates to others – or how one's processes relate to other processes and wider corporate procedures. One aspect of systems theory that I find particularly useful is that of synergy."

"You mean the old two-plus-two-equals-five routine?"

"Correct. I explain this concept by pointing out that the components of a motor cycle lying on the ground are each valuable in their own right. They cost money to buy and store, obviously some parts more so than others. However, having put the individual components together in line with the manufacturer's recommendations – we have something entirely different. We have a transportation system, capable of taking people and things from one place to another. This is synergy at work where the end result is of much greater value than the sum of the individual components. There is more. We need a rider, fuel, a road system of sorts, a destination, knowledge of the route, road tax, insurance, good riding conditions and so on for the transportation system to be of any use. We may have all these things, but if the rider feels tired and cannot operate the bike, it will not go anywhere. In fact, the number of factors (or sub-systems) that underpin the transport concept are infinite. If the rider carries an important report a hundred miles and then finds that the document could have been e-mailed in a matter of seconds, the journey has no value. If the objective is to get the report to the client as soon as possible, then this goal has not been met by using the motorcycle. If the objective is to get the client to act on the report, then the rider may deliver it and present its findings, which may make e-mail inappropriate. In this case, the use of the motorcycle is justified and the systems objective is met. It depends on what you are trying to achieve and how you go about it. The owner of a company may wish to use the motor bike because he just enjoys the ride and the excitement of biking. It's his company and if this is what he wants to do – the objectives have been met. Again it depends on the definition of a transportation system."

"The concept of entropy is also important. This is the tendency for systems to decay and fall out of synchronisation with their environment if not maintained. Whenever an organisation becomes inefficient and starts to fail – it is because of this principle. Systems of internal control also fit this bill. They must reflect the realities of organisational life and so be relevant and up to date. If not they too will fail."

"A system is what you want it to be. If it is meaningful to you then it is important and

this in its own right means that you see it as a system. To someone else, this may be a small factor of a wider system, because it has less importance to them. The greatest challenge to organisations is to get staff to adopt common perceptions and so ensure their efforts are co-ordinated and have meaning all round. This has to happen because of the nature of system's interdependencies. If the post room does not work, then our manual correspondence fails to arrive and this will cause problems. Say the post room is staffed by incompetents – cheques may get lost and important documents may disappear or be interfered with. Most organisations don't see the value of the post room and the way it interfaces with the rest of the organisation. This applies equally to electronic communications media. Again, an agreed definition of systems, processes and links would greatly assist an organisation's efficiencies. Although we would still have different perceptions of reality as consisting of a series of complicated systems."

"You said that control is about setting systems objectives and achieving them?", Bill enquired.

Jack looked thoughtful; "This is the case – but business is about moving through the process of achieving objectives. Life is not based on a zero-one formula where we have either met or not met objectives. It is a journey through the processes that move us towards our objectives, in that achievement is about growing and developing towards excellence. There is no natural start and finish."

Bill interjected; "This makes it a bit hard to set up performance appraisal if we need to set targets, measure the extent to which they have been met and so judge performance."

"Fine." Jack agreed, "But the focus should be on where you are going in terms of performance and not what you were able to do last year or last month. We should be proud of what we have achieved but eager to get to new achievements. Let me refer to the words of Dr Wayne W. Dyer:"

Don't evaluate your life in terms of achievements, trivial or monumental, along the way…Instead, wake up and appreciate everything you encounter along your path. Enjoy the flowers that are there for your pleasure. Tune in to the sunshine, the little children, the laughter, the rain, and the birds. Drink it all in…there is no way to happiness; happiness is the way (*Positive Thoughts,* 1994, p. 290).

Bill was listening with his eyes closed and there was some danger of his succumbing to the jet lag that had been building up. Jack made one last point before Bill actually drifted off completely. "We can view control

as a detailed process but we must try to keep it simple. This is a key point since the mind likes to work on one basic concept at a time. Bill could you read out a quote I picked up from Woody Allen?"

Bill managed to find the page and mumbled: I'm astounded by people who want to "know" the universe when it's hard enough to find your way around Chinatown (Schiller, 1994, p. 235).

Now wide awake, Bill continued speaking; "Now, we have spent some time skirting around the issues and viewing systems as ongoing relationships. But let me tie you down a little. How would you view the staff performance appraisal scheme within this concept of systems? I'm having real problems trying to establish a corporate scheme. People are being very sceptical and I overheard someone suggesting that it would be used as a way of deciding who to get rid of, when we implement the downsizing exercise that I'm also working on for later on in the year."

Jack glanced around at Bill "I told you that this journey is not about pat solutions. I cannot be pressed into this…"

Bill interrupted "Just as we make progress you back off. I still think that auditors spend their time writing reports that really make little difference at all. If they cannot provide solutions, then why employ them at all?"

"That's unfair. Anyway I'm no longer an auditor so you cannot use that argument with me. Look Bill, the key point with systems theory is that you cannot consider one corporate issue, such as performance without looking into the organisation as a whole. Simple solutions are what we can call quick fixes. The reference to the work of Ralph Kilmann in his book *Beyond the Quick Fix*, brings out many key points. Let's take one extract:"

Essentially the complex hologram represents a completely integrated view of all living systems,…At the same time, the functioning of organisations cannot be separated from the psychic struggles of its members. Only with a simple machine view of the world can one pretend that individuals and organisations are two discrete, tangible parts…If managers work with just the simple machine parts of the organisation, they will be severely limited in what they can control and manage (Kilmann, 1984, pp. 9-10).

"He goes on to comment about the systems approach;"

While the systems approach has provided a better way of understanding the interdependence at the surface level – where things can be easily observed and measured – the holographic view requires driving to the depths of human psyches, elusive assumptions, and hidden cultures. Thus, integrated

approaches include not only a great variety of perspectives at the surface level, such as strategy, structure, and reward systems, but also perspectives that probe the essence of human nature…Any integrated approach to organisational success also must include a variety of leverage points in order to control – hence manage – performance and morale. A single approach that attempts to "fix" a problematic situation by influencing only one point and inadvertently or purposely ignoring all the interrelated aspects is doomed to fail (Kilmann, 1984, p. 14).

"This is where I think you may be going wrong. Being in control is like a balancing act, where you weigh up all important aspects and use performance appraisal schemes to help drive through the required changes. Unfortunately, performance appraisal is essentially about communication systems. If managers cannot tell staff what they think is important and how they are doing and help them in this task, then it will fail. It is also about mutual trust and the ability of corporate management to set clear direction. Again it goes back to people and how they behave. Some argue that people act in a way that brings them closer to their perceived goals. The problem is getting everyone to understand and work to the same goals – not an easy task. Again much comes down to good communication. You start establishing performance appraisal schemes by reviewing your communications and ethical infrastructures and ensuring they work. These are all systems in their own right and together form a corporate whole. In fact by itself, good performance appraisal is a control, as long as it fits in with the organisation's cultural base."

"Okay" Bill said, "What about an automated documentation system that failed as a computer development project? What do you think went wrong there?"

"It's not possible to diagnose a problem without carrying out a review, you know that. What I can say, is that these projects will not work, unless top management are behind them and users are fully involved in deciding what is required and how it is delivered. Controls over the project in the form of good methodologies and communications are also essential. People will support a project where they see clear benefits. Document management systems will appear where the organisation pushes for efficiency, and people feel comfortable working within a paperless environment, whilst being dependent on their computerised systems, normally in the form of a corporate network. Where this is not the case, these new initiatives may be resisted. You will probably find that you fell short somewhere along the line. Most probably it

relates to an overall lack of a control culture that we know is a problem in your company. This is mainly due to people being scared to take responsibility for fear of being disciplined somewhere along the line. It's not helped by adopting an authoritative command and control environment. You said that your CE was reluctant to make a statement about internal controls and, unfortunately, I imagine that this position would set the tone for the rest of the organisation."

"What about fraud and corruption, Jack? Any advice here?"

"Let's leave that subject for another day." Jack replied. He went on "I don't want to harp on about systems of control and systems theory. This is found in all good textbooks on management and auditing. What I want to impress upon you is a fundamental model of human activity. I call it the Jekyll and Hyde dimension. This is, that systems both push and pull. Managers use the carrot and the stick and likewise the world is full of driving and resisting forces. The reason we have problems working out how to use systems processes is due to the inherent conflict within this model. We want to push ahead at work but we must try to avoid pitfalls – but there is always some risk involved. This was well put by Blake and Mouton in their Management Grid (Figure 6), where they assessed whether managers were more concerned about the welfare of their staff or the system outputs."

Figure 6
The managerial grid
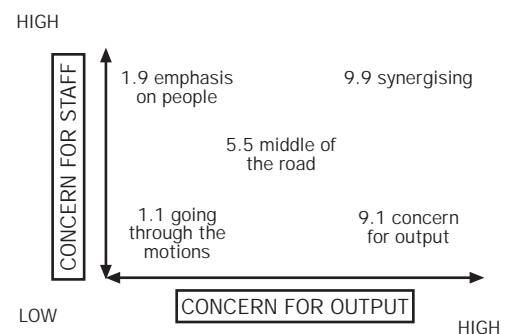
"As such one cannot always have it both ways. One view of management is that it is about managing business processes and then managing the problems these processes cause employees. We will come back time and time again to this problem. I am convinced that it comes back to the fundamental conflict between science and art. The science of control is straightforward, and is based around the control chart. The problem is that the very opposite of what you want to happen, happens where you adopt this approach too

rigidly. The art of control recognises this, but veers towards chaos where staff re-invent processes in a search for excellence and success. To accept that chaos (i.e. the random re-patterning of systems as a response to forces that support change and innovation) equates to good control, is a somewhat strange argument. Your compliance team solution falls on the scientific side of control. The organic adaptive model is now accepted as the norm under the weight of the many critics of the traditional command-control models, that don't allow us to cater for change and enlightened management. I argue that this balancing act requires a great deal of skill and does not sit well with the growing call for better corporate governance. We will have to revisit this issue many times before your vacation is over."

Bill watched the landscape of St. Mary flash past, through Port Maria, along past the huge banana plantations and then into Annotto Bay, a busy town centred around the police station.

"We can get fresh mangoes further down in Windsor Castle." said Jack.

After a further 15 minutes drive, they arrived at a small shop and Jack asked the whereabouts of Miss Luna. As she was not around, he negotiated a price for the mangoes that were laid out for sale.

"Right" continued Jack, "let's get through Port Antonio and into Boston, there's still some way to go before we get there."

Some time later, they arrived at Boston and ate spicy jerk pork and indulged in various soft drinks and fruits. The return trip was quite relaxing as the car drifted back through the colourful countryside.

After half an hour, Jack, looking thoughtful, started to say: "There are two more issues that we need to address to conclude our discussion on control concepts."

The few minutes silence that occurred after this statement may have been meant to allow Bill to guess at these outstanding items. Bill didn't bother and continued to view the scenery.

Jack continued "This is related to risk and views concerning the form that control takes. Let me take the concept of risk first…"

Bill finally took his cue to take part in some verbal sparring. He said; "Yes. My reading suggests that controls are directed towards areas that represent high risk. High risks, being the amount at risk, times the likelihood of this amount being lost or depleted (expressed as a percentage between 0 and 1). The system is established, for argument's sake say a purchasing system. The system objective would be to acquire and pay for supplies and services used by the

organisation. The control objectives would be concerned with doing this in such a way as to promote value for money, compliance with procedure and to deter fraud and corruption." Bill had remembered this from an auditing book he'd read, when he first came up against the control problem. He went on; "We then establish the type of risks that may mean control objectives would not be achieved, say for example pressure selling, and then seek to tackle these by the use of controls. Or what you auditors call control mechanisms. Risk then drives controls and in this way real problems are dealt with."

"Excellent" Jack announced. There is not much to add to this, but I will say that I have a slightly different slant to this equation. Let's start with the diagram I developed in Figure 7:"

Figure 7
A model of risk
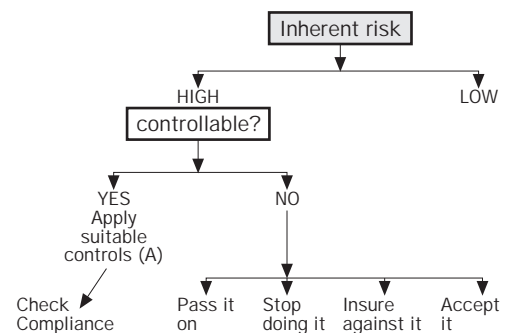
"The model you have described means controls are located at point A. Here we tackle high risk areas that can be controlled through the use of sound control mechanisms. We may go on to make sure these controls are being complied with. However, my view is that the entire risk management model implicit in the above diagram is in itself a key control over managing an organisation. The perceived risk rating as high or low should also be subject to control, as this will change as new information or altered circumstances dictate. Control needs also to be exerted over the strategies whereby we seek to contract out problems, or insure against them happening and so on. These all form part of the overall control process and not just the various control techniques applied at point A, such as a central point for contact with suppliers to prevent pressure selling. So we adopt a wider view of controls as something over and above a series of one-off techniques."

Bill did not object to this discussion. He asked "What about your second point concerning views on control?"

"Well. The other point that I think we need to note is that many people see control as a foreign body superimposed over business processes. For example, many still state that it is all about information. If we give managers the right information then they will always be in control. Again, I believe there is nothing wrong with these views, it is just that I would add additional features to make it more dynamic."

Bill was obviously not taking all of this in. Frowning, he said; "What's your problem here Jack?"

"Well. I have developed two separate models of control to illustrate these differences. Let me see, you have them in the file under Figures 8 and 9:"

Figure 8
The control beam
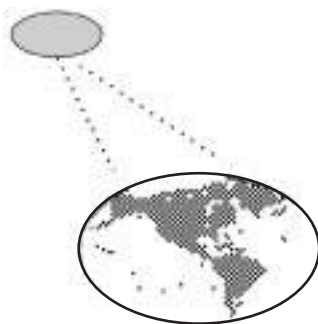
"Here control is seen as a foreign body beaming down information on the earth, or for our purpose, the organisation. This highlights problems, non-compliance and general trends. We set up this satellite control and this tells us what is going on. A process that is superimposed over the operation."

Figure 9
Gravitational model
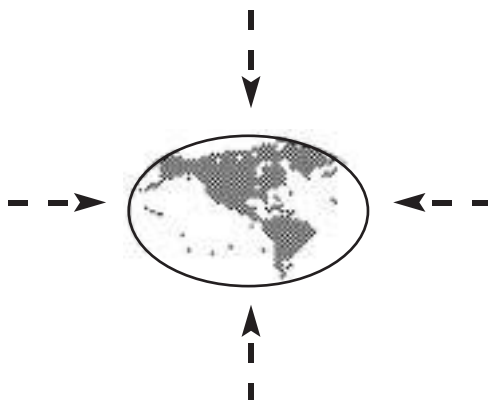
"In my preferred model, control is more of an invisible but dynamic force that is akin to a gravitational pull over the planet earth, i.e. the organisation. It keeps an amount of order and retains respective relationships between components that sit on the surface of the planet. It is internalised and in one sense not noticed, as it pulls things together and stops matter from spinning off in all directions or disappearing into space never to be seen again. I know what you are going to say – and I agree people still want to jump, swim, fly, fall over and fight gravity. They even want to break the bounds of gravity and travel to other planets. This is fine, but nonetheless gravity is still the principal force and structured efforts to break free simply reinforce its importance. As such, control becomes invisible, dynamic and affects us all in a natural way that we do not even notice."

The miles whizzed by as they fell silent and enjoyed the scenery.

After an hour Bill restarted the previous discussions; "I appreciate the point you make about control that means it is not a device but a concept that has no right or wrong answer. However, I must get something more concrete before we leave this discussion. You suggest that being in control is an art and not a mechanical matter that can be set out through a defined checklist and a fixed model. You use poetry to describe the underlying theory, and I accept that this highlights key features that would otherwise be hard to document. You feel that it is invisible but dynamic – ever present perhaps. Nonetheless, I feel that the day would be incomplete if we did not derive some sort of concrete model and framework that could be used to capture the essence of control. Unfortunately, my personality-type needs this result to function; so I am able to control the idea of controls – if you see what I mean."

Jack gave this idea some thought as he negotiated the winding roads. "Okay," he finally said. "Let's take it from the top. There are many useful models of control including the control chart and the feedback loop. There is also a criterion which sets a framework for control that we've listed earlier. My study of control is akin to a journey, looking at interesting points from the stance of viewing the subject of control as an art, not a science. I have no final solution and this is not the point anyway. The current trend is towards downsizing, empowerment, increased delegation, process re-engineering, and coaching as a replacement for supervisory management. This gives a different control perspective, where old command/control models based on top downwards instructions are being replaced by adaptable models. Superimposed

over this is the constant change factor that means past performance and past activities are no longer good measures of future success. The upside is that newer interactive information systems mean there is less delay in getting the right information for decision making. Against this background, the only real control model we can use is one of self-control."

"All else moves too fast for systems to follow staff around and spy on them much as a closed circuit TV system might. The only ready-to-go model I can give you of self-control is one wherein each member of staff is required to understand and apply what I call a Management Control System. This is a series of processes that together form a complete system, comprising interlinked sub-systems. This is in the file as Figure 10:"

Figure 10
The management control system
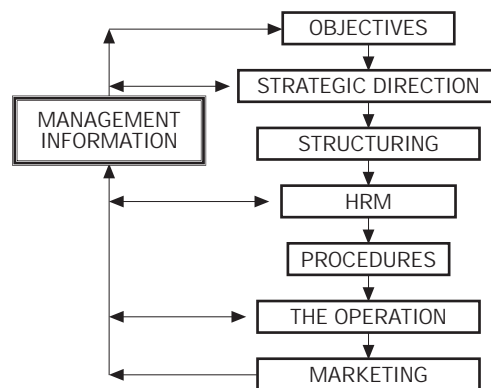
"Here, directors, senior managers, line managers, team leaders, staff and all employees are expected to hold clear objectives and put together a strategy (based on effective decision making) for achieving these objectives. They then need to ensure that an appropriate mechanism is used for employing staff or other resources that fall under their responsibilities. The human resources should be secured and developed in the best way possible, so as to work to the stated objectives and this is where procedures come in as a defined way of performing and reviewing the work that this entails. The operational process itself must be managed so that it adheres to quality, security and procedural standards. Marketing ensures that the product or service is available to and meets the needs of users and stakeholders. Superimposed over these processes are information and communication systems that give feedback and let people know what is going on and what decisions are being made. Innovation, leadership,

motivational and change management techniques would be employed as parts of the driving forces that make this model work. If everyone in an organisation was trained to adopt this model, or parts of the model that related to their responsibilities, then the organisation would be in control. That is not to say that the uncertainties that confront all organisations and processes would mean there would be no problems or mistakes. These would also have to be managed. But it does mean that a basic system of control would be in place and ready to be applied. We can ask for nothing more and this is what the chief executive would report on in any annual report on internal controls."

Luckily Bill had not fallen asleep but was listening with interest to these remarks. He eventually said; "Do you have no time at all for a criterion that could be applied to control concepts?"

Jack relented; "We can have a go at this if you like. Let's list some of the more basic examples:"

"1 We need good segregation of duties where necessary. Having said this, empowerment means not separating tasks for artificial reasons."

Bill glanced at Jack and said "How would you define segregation of duties?"

Jack replied "We are coming into Buff Bay. Let's stop for some coco bread, we can have this with fried fish later on. I tell you what – you buy a few of these."

Bill went into the bakery, paid the cashier and received his coco bread from one of the shop workers at the main counter. Jack carried on where he had left off; "You have just witnessed segregation of duties where cash handling is separated from stock movement, i.e. the stocking and handing over of the various baked products. This means, the manager can reconcile the receipts for the day with the movement of cakes, bread and so on. It also means that the shop helpers have no contact with cash as this goes to the cashier only. This is a basic example, but segregation is essentially about not allowing one person to control an at-risk process (that is – it involves the movement of funds and goods) from start to finish.

If in the bakery you just visited, each of the five workers baked bread, stored it, sold it, and received and accounted for cash received for sale of this bread, there would be no way to ensure these transactions are being accounted for properly. The owner would never be sure his resources were being used properly or that he had received all cash due to him. He would not be able to trace any

perceived shortfall to an individual worker."
Jack went on "Let's continue the list:"

"2 Authorisation – here we may need to seek authorisation of important transactions which have a high value. The act of authorising brings out another concept; that of internal check since another person will get involved where needs be, to ensure the transaction is correct and proper."

"3 Security is another key control where we keep unauthorised persons away from valuable items, or for that matter information as well. Physical security is self-explanatory, whilst logical security is used by computerised systems, where say passwords are needed to access the various databases."

"4 ID codes log the person who accesses a computerised system and that brings into play the concept of audit trails. Here – where possible, we trace who did what in any transaction. Physical access devices can also log individuals. We can then get reports which show whether the patterns are regular, or if necessary, carry out investigations into someone's activities if we later find problems to do with regularity."

"5 Verification is another important concept, that depends on being able to check that something that should be there, is there. Stock checks, inventory reconciliations, inspections, asset checks and regular callbacks for assets used outside the office, means we have control over attractive and portable items. Cash-ups may be seen as a form of verification, where we ensure the money we should have taken does exist and agrees with our records."

"6 Control totals can be used to aggregate transactions and compare this with a separately held total to trace the movement of transactions through a system – that they are present and correct."

"7 Supervisory review is another good control. We ask that managers and supervisors satisfy themselves that work is up to standard before it goes out. The way this is done is up to them but we can set stan-

dards in this respect. Organisations with poor disciplinary records normally have failings in this aspect of management. Either managers do not know what they are doing and so cannot review their people's work, or they just don't care."

"These are only examples and if I were to discuss procedures, good human resource management practices, information systems and so on, I would simply be repeating what is in the Management Control System (MCS) that I described earlier. I have put together a checklist setting out attributes, risk and best practice on each aspect of the MCS in Appendix A of the file."

Bill appeared to be experiencing an overload of information. His body language suggested that the work on concepts of control was complete at this stage in their journey. He made no response to Jack other than to nod his head slowly and smile in basic agreement with these words. Well, you did ask – Jack thought to himself.

They fell silent as they listened to the reggae music that Jack had turned up on the radio. They stopped at a rum bar in Port Maria, where Jack introduced Bill to several friends who insisted on pouring out rum-based drinks, using a bottle of rum they had bought earlier.

Bill spent the rest of the journey in silence, with a fixed smile on his lips as the rum and music combined to produce a relaxed feeling. It started to get dark and Jack opened the car windows and turned off the air-conditioning to let in the cool evening air as the sound of crickets echoed outside the car. Bill drifted off to sleep.

"You're home", announced Jack as they drove into Bill's hotel.

"Right…Good…", Bill said in a slurred voice as he slowly woke up.

"Tomorrow," Jack went on, "We will visit Negril and our journey will take us into the world of office procedures."

Bill agreed, as he said his goodnights and armed with a bag full of coco bread that he had no idea what to do with, he made his way towards his suite.

Chapter three – Negril and the art of using procedures

"Good morning Bill." The familiar greeting brought a smile to Bill's lips and he thought about the pattern that had developed between the two men. Driving, sightseeing, exploring the country's cuisine and the discussions that had been a feature of each trip.

Jack continued, "We'll take a trip along the other side of the north coast and visit a seven-mile strip of white-sand beach which contains the beautiful holiday resort of Negril. Have you brought your swimming gear?"

"Oh, yes." Bill confirmed without bothering to mention the bag he carried with him on each journey containing trunks, towels, a medical kit, and an assortment of paperbacks and other things on his checklist of travel gear. Jack would only use this information to support his view that Bill was the last of the control freaks.

"Remind me; what's today's topic of conversation?" Bill said, rubbing his hands together and trying to hide a faint ironic smile.

"Procedures" replied Jack emphatically. "This is a key control and there is much to explore here."

The car pulled out of the hotel car park and swung along the coast road, this time going in the opposite direction so that the sea was on the right of them.

Bill, feeling particularly enthused, decided to take the initiative this time and launched into his thoughts on the subject of procedures. Once again, he had been glad that his research into controls had included material on procedures. The consultant's report had made reference to this issue as particularly lacking throughout the organisation.

"If you like, I can describe my model of procedures and I will probably be able to give you a comprehensive checklist of attributes of good procedures. A model, attributes, pros and cons of using procedures in an organisation and I believe that will be that. We can put this subject to bed quite quickly and relax for the rest of the trip." He looked at Jack with a sense of triumph and clicked his fingers for emphasis.

"Sounds good enough." Jack agreed. "Before you start. Let me test you on something. Do you recall the words – There is a lack of formally documented procedures and this issue must be addressed by management

to ensure good systems of internal control…?"

Bill turned to the window and watched the white surf spray into the sparkling blue sea. A trick question perhaps. Well, let me see, he thought…Finally he said;

"That reminds me of the sort of thing the consultant's report on controls said. How did you know this? Have you read the report?…" He stopped suddenly realising that this was a silly question. How could Jack know anything about his company?

Jack replied – "I'm basically repeating what most auditors' reports say at some point. This is what we call a throwaway comment – I didn't allow my auditors to use these bland statements as they are meaningless to management. Management agree with the auditors' comments. The auditors disappear and a year on nothing has happened. I've seen it happen time and time again. In fact on one high risk audit, we asked the section manager if we could view his operational procedures – he said he'd let us have them next week. It turned out that over the weekend he put together a few pages setting out how his staff worked and submitted these as his procedures. When I realised this I had a heart to heart with him and we spent the remainder of the audit advising him how to prepare and implement good procedures…"

"Okay." Bill interrupted eager to get on with his lecture. "I hear what you're saying and this is fair enough. Now let's return to the model I mentioned earlier. However, before we get to this I will argue the importance of procedures." Bill stopped and licking his lips realised that this was much like being at work and delivering one of the formal presentations that he had become much versed in performing over the years. The difference being that this was enjoyable and stress free.

"Anyhow," he continued "I have noted that work flows in organisations are becoming more and more complicated. At times no one really knows how an entire process works as it crosses sections and departments. My company is working on an initiative whereby managers can get to grips with work flow management. It may be possible to get them to draft diagrams that set out the flows and who is affected – as an aid to understanding,

and share this knowledge across sections. This is where procedures become important so that people know what they are doing and what goes on elsewhere in the organisation. This was supposed to be integrated into the automated document management system, until the project crashed. Anyway, where was I? Yes – procedures. Procedures are there to help direct staff and lend consistency to our operational processes. They form the basis for defining activities and I would like to think they have a key role in the type of internal training programmes that the organisation develops."

"I recall work done by Carolyn M. Zimmerman and John J. Campbell (Zimmerman and Campbell, 1988) where they argue that procedures consist of a set of instructions that describe a task or process. They go on to suggest that the three main parties involved in developing procedures are the writer, the reviewer and the users. Their diagram, in Figure 11, is the model that I would support for preparing such procedures:"

Figure 11
Preparing procedures
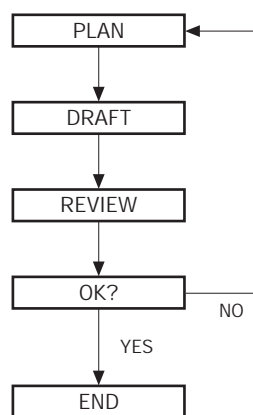
"To get this into perspective they reckon that 40-60 per cent of the time spent on procedures is spent planning them. Let me refer to one of your quotes to support the view that procedures are important:"

A coroner has slammed procedures at a hospital after a blood sample from a dying patient went missing. The Coroner had to record an open verdict… He said "The method of taking blood is absolutely chaotic if this could take place…" (South London Press, 1997).

"Here's another good quote from the health service:"

A patient at Cane Hill Hospital's secure unit who had disappeared for three hours committed suicide by throwing himself in front of the Gatwick express, a Croydon inquest heard. The inquest into the death heard that it was not unusual for patients to leave the centre and visit the local pub for a drink… Cane Hill would no doubt look into their procedures in the light of this incident (*Croydon Local Guardian*, 1997).

"Excellent." Jack looked sincere when he announced this. "I suspect that you have made a study of this matter – that correct Bill?"

Bill shrugged his shoulders and laughed. Refusing to be drawn into an admission. Instead he went on: "I also said that we can make a list – you know a formula that, if applied to the development and use of procedures, would ensure that they work. In fact, such a list could be used by the new compliance team where they could check up on the use of procedures and assess whether they have been properly installed. This will go a long way to sorting out our problems with poor internal controls. Agreed?"

"Absolutely", agreed Jack. "Look, let's stop at Lollypop beach and have a bite to eat."

Over a meal of fried chicken and rice the conversation continued. Jack suggested they took turns to compile the criteria for good procedures and the list ended up looking like this:

Jack	Bill
clear	simple
accepted	workable
communicated	formally documented
integrated with other procedures	reinforces quality
cross-referenced	structured
fits culture	part of performance apppraisal
well written	adds value to process
allows good judgement	standards well presented
not too bulky	automated where possible
reviewed	
makes sense	flexible
consistent	reflects roles
agreed with users	complete
used in staff training	list of abbreviations
mandatory bits made clear	compliance reviewed
promotes accountability	allows departures
not overly technical	does not stifle innovation
users fully consulted	
dated	prepared by experts
entails reviewing processes	signed off by management
staff happy to refer to it	makes people responsible
complies with legal matters	not seen as a hindrance
	not excessive
	bottom-up approach

As they came towards the end of the list, Bill felt that he could start to conclude these discussions and said; "We have a model. We have a list of attributes that we could expand on in some detail if needs be. I think we have done a lot of useful work on this subject. Now you normally like some form of philosophical quotation to close don't you?"

Jack smiled.

"Here I've found one by Chuang-Tzu;" continued Bill:

The purpose of a fish trap is to trap fish, and when the fish are caught, the trap is forgotten. The purpose of a rabbit snare is to catch rabbits. When the rabbits are caught, the snare is forgotten. The purpose of words is to convey ideas. When the ideas are grasped the words are forgotten. Where can I find a man who has forgotten words? He is the one I would like to talk to (Schiller, 1994, p. 58).

"I'll finish by suggesting that procedures must convey ideas, hopefully the ideas or visions that the organisation has for its future, its goals, and how it wants staff to behave and perform."

This was a good enough conclusion to prompt a return to the car and the trip on to Negril. Driving along winding roads and past small districts, several people waved as they recognised Jack's car. From time to time Jack would stop and engage in small talk which gave some light relief from the car journey.

After several hours they arrived at Negril and swam in the sea, returning to their shaded tables and chairs from time to time. Bill tried several cups of fish tea during these rest periods. The sun glared along the white beach and made everything appear brilliant and somewhat dazzling. Bill was looking forward to a relaxing drive home since they had dealt with the day's topic of conversation. At Negril, Bill asked a chap working for a nearby hotel whether they could use a sunbed as the sun had dipped low enough to sun bathe without burning. The attendant explained that the beds belonged to the hotel and were for use of guests only. Having said this, he gladly offered its use regardless of the rules.

Jack observed; "You have just seen a technical breach of procedure. We are not supposed to use the sunbeds but were given them anyway. Do you feel the chap should be disciplined Bill?"

Bill responded; "Not really. There must be some leeway. He is encouraging tourists to feel at ease and that must be good for everyone. The hotel he works for, the tourist industry and us, who can use the facility."

Jack suggested; "Let me refer you to a press cutting I filed recently and you tell me what you think about it:"

A traffic warden was arrested and handcuffed after trying to put a ticket on a van parked outside Buckingham Palace. He defied a policeman who ordered him to ignore the vehicle, which was making a delivery at a goods entrance... (*Daily Mail,* 1996a).

"This traffic warden had adopted a strict view of the procedure that all improperly parked vehicles would be given a ticket. He pursued this up to the point when he was eventually arrested. Who is in the right do you think?"

"Maybe he was overenthusiastic in his interpretation of the rules," declared Bill.

"Well yes." agreed Jack. "This is where a compliance team can also go wrong. Where they perceive procedures to be a fixed set of rules that do not take on board the environment within which they operate."

The rest of the time was spent swimming, relaxing under the shade of palm trees scattered around the beach and taking the occasional drink from the beach bar. The sunset over the coast showered rays of pink and purple colours which deepened as the evening progressed. This marked the end of the day at Negril and they embarked on the long drive home. Bill settled down to the journey and to his surprise Jack drifted into a further debate of what was supposed to be the now closed topic of procedures. Bill felt it best to let Jack have his say.

"All that you said concerning procedures makes good sense and I have no quarrel with it at all. What I need to do now is give you my views on this subject. It's basically the same as the criterion we just discussed although, in parts, with different emphasis. Bill, can you find and read out one of my favourite quotes from Professor C. Northcote Parkinson, of Parkinson's Law fame?" Bill flicked through the file and read:

The man who is denied the opportunity of taking decisions of importance begins to regard as important the decisions he is allowed to take. He becomes fussy about filing, keen on seeing pencils are sharpened, eager to ensure that the windows are opened (or shut) and apt to use two or three different coloured pencils (Exley, 1993, p. 27).

"Thanks Bill. Where we make procedures so tight as to restrict human judgement, they turn us into bureaucrats, who simply process information to give a predetermined result. I used to be a procedures man where I thought everything should be set out in a bound book that would constitute the rules. Some auditors are happy with this model as it promotes control by suggesting that management provide for set responses to set circumstances.

There is little room left for decisions or responsibility."

"The other problem I found with procedures is that they were being derived from the satellite model of control. Managers would feel happy that they had prepared a comprehensive set of rules that act as a guard over their staff and represented the official position. But the more complete and detailed the procedures the more likely it will be that they're ignored. At times they are prepared as one-off matters by specially recruited consultants. Over time they become more of a hindrance than anything else and end up being abandoned. This is most frustrating for compliance teams and auditors who perform compliance checks. They find breaches and follow this up with official reports seeking to re-impose the proper control but fail to understand that most people want to make things work in a way that makes most sense. George Bernard Shaw once said:"

> The people who get on in this world are the people who get up and look for the circumstances they want and, if they can't find them, make them (Exley, 1993, p. 59).

"People who draft procedures find it hard to cope with this aspect of humanity, let alone those that are meant to check on the application of procedures. We can use the shall-should-may model when drafting procedures. Here we make it clear what is mandatory (shall) say on immediate evacuation of the building when a fire is detected. Shoulds have less severe an effect, say relating to staff keeping a watch for obstacles that may impede fire evacuations. Mays are discretionary and may for example appear where staff are invited to join, say a health and safety committee reviewing fire procedures."

"We may need to talk of higher level procedures as standards or ideals where they relate to non-technical matters. Here we ask staff to live up to certain expectations rather than go through a mechanical checklist of duties. I've filed a quote from the writing of Carl Schulz that fits this concept. Read it out:"

> Ideals are like stars; you will not succeed in touching them with your hands, but like the seafaring man…you choose them as your guides, and following them you will reach your destiny (*Positive Thoughts*, 1995, p. 253).

Bill had taken on a look of mild interest, nodding gently and smiling as Jack spoke. Noticing this, Jack took the opportunity to restart his discussions and said; "We have a bit of a drive back to Mo'Bay. Let me give you the additional areas that I feel should be covered to complete our discussion on procedures. You are right to suggest that they form a crucial part of the system of internal control.

They describe and set standards about the way we should work in an organisation. At the outset we need to distinguish between:"

"1 *Policies* – I see these as high level frameworks that set ideals on important corporate issues. For example each component of the managerial control system that we discussed yesterday, should have its own general policy framework."

"2 *Corporate procedures* – These are set arrangements that cover the organisation and deal with key processes that tend to cut across sections and departments. Here it is difficult to allow excessive unilateral decisions as local events may well affect other parts of the organisation. The example I would use here is, say procedures on disciplinary action where we need to establish some form of consistency to deal with what can be a sensitive matter. There may be a number of rules attached to these procedures that are firmer in their requirements, that is they fall under the 'shall' category. This might relate to a rule where, say no one can be recruited without the involvement of the personnel section. If personnel are the only people who can authorise a new starter on the payroll, then it would be hard to bypass this requirement. I would imagine many formal rules that would form the basis of a health and safety procedure."

"3 *Technical procedures* – These I see as specialist manual-based arrangements where the normal rules for drafting procedures may not apply. As such they could become very detailed and contain long lists of technical material and activities. I'd imagine that great use of cross-referencing may be made. There is no way round these procedures as in the final analysis they would be required to support the handling of dangerous material or expensive resources. A scientific research company may have many such manuals so that experiments can be documented, reviewed and verified. A manufacturing environment may also make use of technical manuals where widgets may have to be produced to defined specifications."

"4 *Operational procedures* – These are the manuals that I am most interested in. They are extra guidelines used in service or administrative areas where the line managers may decide whether to use them or not. The other procedures (1-3) will be prepared by experts and there are many standard documents that can be used to derive corporate procedures relating to purchasing, recruitment, staff selection, performance appraisal, IT security, project management, staff grievances, equal opportunities, travel and expense claims, ordering, building security, health and safety and other well-known corporate systems. The

technical procedures would be used by people fully trained in the discipline in question. So a hospital would not have a procedures manual for removing a patient's appendix. This procedure would form part of the surgeon's extensive training programme. Similarly a nuclear power station would have detailed technical manuals covering issues such as materials handling and maintenance practices. I imagine that the required corporate and technical procedures manuals would have to be in place as a basic control. If not, there is no real starting place. No, it's in the use of the fourth type, basic operational manuals, that are applied by administrative or managerial staff that provides the most scope for securing better control. These are normally lacking or are inadequate. To address this topic I would wish to cover the following areas:

1   role of procedures;
2   models for drafting and implementing them;
3   the compliance issue;
4   an example – the complaints procedure;
5   putting it all together in a document management system."

"The major issue of creativity and innovation and how we can integrate these features into the control frame will have to be left for another day."

It dawned on Bill that Jack was relaying these ideas in such a matter of fact manner, that it could not be seen as a normal conversation between acquaintances. Bill frowned and he said slowly and quietly:

"Jack! You are going to use our discussions to write your book on controls, aren't you?"

Jack smiled and taking his hands off the steering wheel shrugged saying, "If you don't mind…talking through the concepts helps me clarify my thoughts. Your input has already been a tremendous help."

Bill thought this through. A bit naughty using an official tour to write a book on control. Nonetheless, he had already agreed and he was getting a lot from this journey through the world of control. "What are you going to call it?" he asked.

"Well I was going to call it the *Manager 's Guide to Internal Control.* But this sounds a bit boring. I may need to call it something like *The Diary of a Control Freak.*"

"So you're a control freak like me, Jack?"

"I was actually referring more to you – to be honest."

Bill settled back in the car and relaxed. Could be worse, he thought and said; "Okay – I believe you were saying something about procedures..?"

Jack was lost for words for a few seconds and concentrated on negotiating a series of tight bends. After a few minutes he went on; "Right let's get back to it. I've told you the ground that I want to cover bearing in mind the material that we've already gone through. The role of procedures is a good place to start. I see procedures as important, because they set direction and standards which is what internal control is all about. The problem we have is in deciding the form of these procedures. The typical audit reaction is to ask that they are formally documented. I did one audit and enquired about human resource management procedures that should have been issued by corporate personnel. They had a lovely package, but told me point blank that they had no budget to allow a set for each individual employee that would have run into the tens of thousands of pounds. The practicalities of the situation were all-consuming. I recall the words of Thoreau who said:"

Our life is frittered away by detail…Simplify, simplify (Schiller, 1994, p. 49).

"And this leads me away from my previous enthusiasm for comprehensive administrative procedure manuals. Organisational life is too complicated to seek to capture in a rulebook. I remember reading an account of the early life of Winston Churchill. At one stage he described the procedure for assessing his potential to enter a world-famous public school." Bill read out the reference on page 80:

I wrote my name at the top of the page. I wrote down the number of the question "1". After much reflection, I put a bracket round it thus "(1)". But thereafter I could not think of anything connected with it that was either relevant or true…It was from these slender indications of scholarship that Mr. Weldon drew the conclusion that I was worthy to pass into Harrow. It is very much to his credit (Cohen and Cohen, 1995, p. 80).

Jack continued, "It seems that there are some things that simply cannot be set out as a formal procedure because they tend to be over-ruled or simply ignored. I would argue that procedures should only be documented where it is necessary and comprehensive manuals should not be the norm. We need to employ intelligent people, who can work to high standards tinged with basic common sense and responsibility. My self-control, or internalised control model means operations are performed in the right way by people committed to this task and not through a dense rulebook. In his book, *Zen and the Art of Motorcycle Maintenance,* Robert Pirsig suggests that:"

…that's all the motorcycle is, a system of concepts worked out in steel…Steel can be

any shape you want if you are skilled enough …these shapes are all out of some-one's mind.. (Pirsig, 1974, p. 104).

"A procedure then is an accepted method of going about one's work and implicit in this, are standards of performance, quality and accountability. It may or may not become a document but it is important that it is under-stood and forms an integrated part of the organisational systems; as to constitute a valuable control."

"Before we move away from this definition let me find a quote that offers a word of warn-ing from the management guru, Peter Drucker, writing way back in 1972: It's on the next page – that's it, read it out;"

Reports and procedures are necessary tools. But few tools can be so easily misused, and few can do as much damage. For reports and procedures, when misused, cease to be tools and become malignant masters. There are three common misuses of reports and proce-dures. The first is the all too common belief that procedures are instruments of morality. They are not…The second misuse is to con-sider procedures a substitute for judgement…But the most common misuse of reports and procedures is as an instru-ment of control from above…Reports and procedures should be kept to a minimum, and used only when they save time and labour… (Drucker, 1972, pp. 164-6).

"Nicely said" remarked Bill. "But, another way of expressing this is found in the words of Algernon Sidney:"

Tis not necessary to light a candle to the sun (Partington, 1992, p. 646).

"My interpretation is; do not develop formal procedures for matters that are obvious. An abundance of procedures indicates an abun-dance of stupid managers."

"Common sense is a higher level concept that must rule in the end. In fact George Bernard Shaw highlights the proper use of army equipment:"

You can always tell an old soldier by the inside of his holsters and cartridge boxes. The young ones carry pistols and cartridges; the old ones, grub (Partington, 1992, p. 635).

"Now turning to models concerning the way procedures may be used by an organisation. You've already described the one where we find out what processes are happening and then draft and review the document, whilst constantly double-checking with the users. Let me refer you to another Figure from the file."

"Here I want to bring out the need to link procedures into the operational processes and the need to add value to the way it is carried out (Figure 12). Say for example we are granting car loans to staff. The procedure

Figure 12
Designing procedures
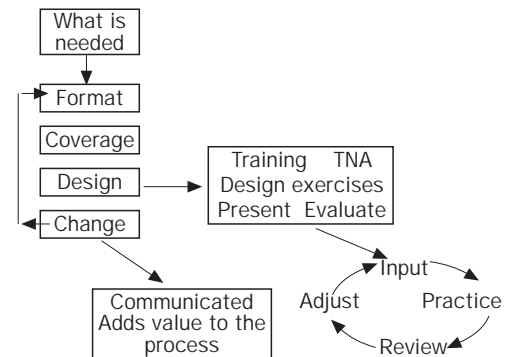
should act as a way of publicising the service and ensuring it is carried out in an efficient and effective manner. It may also instil a degree of ethical transparency into the arrangements. The other point is the link between procedures and training where we design and execute training around the adopted operational practices. Staff may practise and review their progress in meeting these standards and seek training where there is a shortfall."

"The next model I want to use is designed to assess the adequacy of the resulting proce-dures (Figure 13). I believe that four key fac-tors impact on this issue. This is – the skills of the people reading or using the procedure, which may imply a training requirement (or competency shortfalls) if there are problems here. The next is the skill of the writer, who would have researched the process and defined the underpinning practices that form the basis of the procedure. The extent to which the procedure supports and adds to the process, (and other associated processes) is seen as an additional factor in the success or otherwise of the resulting document. Lastly, there must be a positive impact on business objectives. This will not happen where the procedure leads to poorly motivated staff. Each of these four forces must be in balance

Figure 13
Adequacy of procedure
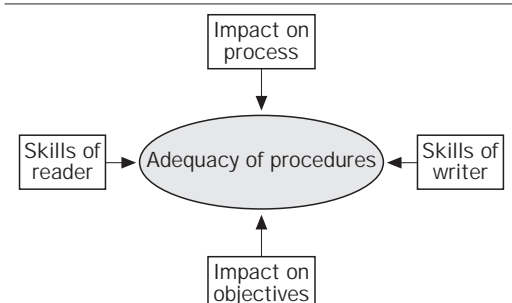
before the procedure can be deemed a valuable aspect of internal control."

The final model I would note here relates to a nine-point process for developing and adopting the procedures and ensuring compliance. We can discuss this in some detail later. At this stage I would suggest the process flows I've jotted down in Figure 14 of the file:"

Figure 14
Compliance model

Compliance

"Lets take a brief look at each of the above stages:"

"**1** *Development* – involves reviewing the underlying processes, simplifying them and working with users – then drafting an agreed document that reflects the required activities."

"**2** *Induction* – it is important to introduce the procedure to new starters and show existing staff a new or improved procedure."
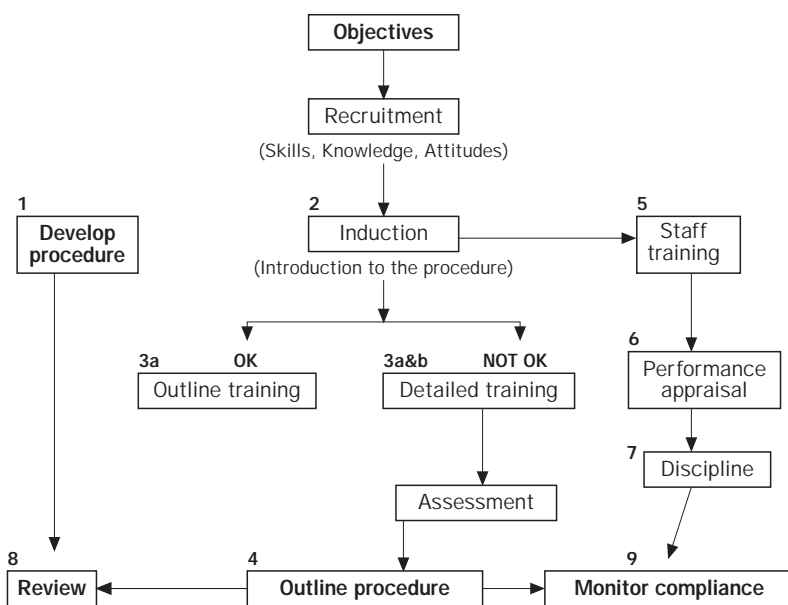
"**3** The training manual may be broken down into two levels. Where staff are assessed as able to apply procedures, an outline manual (a) can be provided. Where this is not the case, a more comprehensive package (a&b) with exercises can be given to them to work through."

"**4** After the training or induction period, we turn to a short-cut outline document with key tasks and processes summarised for use thereafter."

"**5** We have argued that the skills of staff affects the degree to which procedures are successful. The training on procedures is mainly about knowledge and to supplement

this, we should also seek to develop the underlying skills and the appropriate attitudes as a parallel training initiative."

"**6** We would want to link the way staff are using procedures in their performance appraisal framework. In this way, it is seen to have some meaning to the work people do and their individual development programmes."

"**7** This is a fall-back position, where if all else fails we may need to discipline staff for breach of procedure."

"**8** The review process should be straightforward in that it entails keeping the procedure relevant, vibrant and up to date."

"**9** This stage deals with compliance and it is the line manager's responsibility to ensure staff comply with procedure. This is best done by getting staff to understand how they can monitor themselves and supporting them in this task."

"I want you to refer two references I've made to a book by Richard Tanner Pascale called *Managing on the Edge*. The first one relates to examples of procedures used by two contrasting department stores."

Bill obliged by reciting:
…systems intensive Macy's…things are nailed down, controls costs vigilantly, strives to minimise inventory, policies shrink, and rewards and punishes its sales staff for doing things by the book. Macy's rule book is an inch thick; Nordstrom's rules can be summed up in two sentences - Rule 1: use your good judgement in all situations. Rule 2: there will be no additional rules (Pascale, 1990, p. 64).

"We can equate this to our model above, where we argued that the skills of staff was one key factor in assessing whether procedures will work as an important control or not. This view can be extended to suggest that, if we employ sensible and professional staff, they will not actually need inch-thick procedure books. Bill – now read the other reference to this book:"

Too much equilibrium can lull an organisation into a stupor of self-complacency. Ironically, the old mind-set encourages us to devote a great part of management energy to maintaining equilibrium, eliminating tensions, enhancing consistency, and achieving a happy medium. But when you eliminate the polarities, you sacrifice vitality (Pascale, 1990, p. 85).

"We have defined procedures earlier to bring out the view that they help management set direction which is a fundamental component of control. At the same time, we need to admit to the growing view that if control is about achieving success, organisations cannot be successful if they install too much order and too much direction. This order stagnates

systems and stops them being at the cutting edge; a vital component of success in the new millennium. Procedures are particularly prone to this criticism. If they seek to maintain order and the status quo, they may actually promote a lack of dynamic progress which will eventually lead to disaster. We have arrived once again at the Jekyll and Hyde dilemma – two conflicting forces that are both required to be present at the same time. I will need to find a solution to this dilemma before your vacation is up…"

"We have formulated the role of procedures in the control environment and outlined a few models that allow us to examine this role in more detail. Let me move on to the next stage – that of compliance. This will be of interest to you where your search for controls is based on the presence of a compliance team. The official audit position is simple; if there is a procedure or a control process, such as signing for portable PCs, we would wish to see that it is being adhered to. The audit view is to assess the degree of compliance before working out whether this control works. If there is poor compliance, we report this and will look for the impact i.e. consequential problems. So if staff are not signing for notebook computers that they take home, we may seek to discover whether we can account for these machines and whether any are in fact missing. The procedure is there – it is not being used and PCs may go missing as a result. This equation is quite straightforward and a compliance team may be used to undertake this type of work. Before we leave this topic I must issue a warning about the use of compliance in managing resources. A dip into the library of references may be of use here. Sir John Harvey-Jones has said:"

> It is the responsibility of the leadership and management to give opportunities and put demands on people which enable them to grow as human beings in their work environment (Exley, 1993, p. 33).

"This must be something more than setting procedures and ensuring staff use them in their work. Professor C. Northcote Parkinson reinforces this view:"

> The person who is devoted to paper-work has lost the initiative. He is dealing with things that are brought to his notice, having ceased to notice anything for himself. He has been essentially defeated in his job (Exley, 1993, p. 33).

"We all have views on the position that blind adherence to a comprehensive rule book is seen as defeating rather than promoting good control. Before we start this debate, we must set out quite clearly that compliance is important. Yesterday I argued that control can be a life or death matter – it is important. I also feel that non-compliance, or a failure to observe basic standards of monitoring and review can also lead to dire consequences. Turn to the press report dated 1 March 1997 which details an avoidable accident:"

> Four companies were fined a total of £1.7m yesterday for gross negligence that led to the collapse of a ferry walkway in which six people died and seven were seriously injured…the companies failed to check the design, construction and installation… (*The Mail on Saturday,* 1977).

"By the same token an 'obey all orders' mentality may not always be the right answer. We should return to George Bernard Shaw for an insight into this:"

> When a stupid man is doing something he is ashamed of, he always declares that it is his duty (Partington, 1992, p. 635).

"This theme runs throughout the world of literature and art. Ralph Waldo Emerson has said that:"

> Whoso would be a man must be a nonconformist (Partington, 1992, p. 276).

"We have argued that the art of control provides a greater challenge than the science of control. So here – Art Rules OK! We have to recognise the poetry of non-conformity and disorder as well as the importance of conformity and order. There is a spiritual element of procedures that impacts on the soul. Moreover, we have argued that self-control starts with the soul."

"To assess compliance with procedure we need to examine the role of conformity in organisations. Charles Handy's view is found in his book, *The Age of Unreason.* It's towards the end of the file – yes there it is:"

> For those in charge continuity is comfort, and predictability ensures that they can continue in control. Instinctively, therefore they prefer to believe that things will go on as they have before (Henry, 1991, p. 272).

"Building compliance around this principle then has inbuilt dangers. Simply getting staff to action a predetermined procedures routine leads to foolish consistency and all this entails. Ralph Waldo Emerson brings this home with the words:"

> A foolish consistency is the hobgoblin of little minds, adored by little statesmen and philosophers and divines. With consistency a great soul has simply nothing to do (Partington, 1992, p. 277).

"Great souls are suppressed and fools shine. McGregor has developed a model that views management as having the power to create lively, creative staff who want to shine (theory Y) or lazy, inhibited people who must be pushed into work (theory X).The attitudes are created by the way people are treated by their

managers. Against this background have a look at McGregor's views – it's in the file:"

> Theory X leads naturally to an emphasis on the tactics of control – to procedures and techniques for telling people what to do, for determining whether they are doing it, and for administering rewards and punishments… attention is naturally directed to the techniques of direction and control…Theory Y on the other hand, leads to a pre-occupation with the nature of relationships, with the creation of an environment which will encourage commitment to organisational objectives, and which will provide opportunities for the maximum exercise of initiative, ingenuity and self-direction in achieving them (McGregor, 1960, p. 132).

"We need not pursue this point further as it leads in one basic direction, where a compliance-based organisation is developed. In fact enlightened management has been through this debate many times and one solution is to encourage the use of coaching to manage staff, as a supplement to the compliance with procedure model. Coaching is about development and not just actioning procedures (Figure 15). Bill – read out the reference from Nancy Stimson. She has expressed this aspect of the role of coaching:"

> A conscious deliberate process which adds value to people's work experience, so that "ten years' experience" can become much more than one year's learning repeated ten times (Stimson, 1995, p. 14).

"Coaching uses encouragement for securing improvements which is based on giving staff responsibility for their goals, actions and results. We can relate this to the control procedures environment. Instead of using downwards control and command can we use controls as part of the learning process and link these to the three key staff components:"

> "*knowledge* – understand the procedures and how they feed into other sections and organisational goals generally."
> "*skills* – right techniques applied – we can use procedures as a way of focusing these skills to the task in hand."
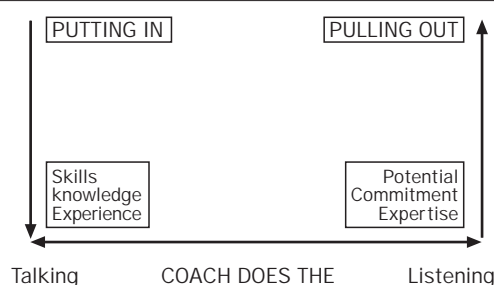
> "*attitudes* – uses procedures in a creative way that adds value to the organisation and its customers."

"Now turn to the page on Paul Kalinauckas and Helen King:"

> Coaching within a competency framework enables individuals rather than dictates to them. Attitudes and behaviour can only be changed or modified by the individual concerned (Kalinauchas and King, 1994, p. 4).

"We are moving further and further away from the compliance model of management – now coaches put in their skills and get employees to respond positively. Paul Kalinauckas and Helen King go on to explain this position:"

"They argue that future opportunities are targeted as the key to success:"

"That is not to say that we can simply ignore problems, mistakes and breach of procedure. It would be wrong to suggest this. Corporate governance is about taking responsibility for all that goes on and this includes the downside of organisational life. We cannot talk about compliance without discussing non-compliance. Coaching and bottom-upwards (or theory Y) management does not depend on ignoring staff who blatantly breach important procedures and place the organisation at risk. It is just that a positive environment is seen as better than a punitive one. Your organisation is facing many industrial tribunals for unfair dismissal and this is a bad sign. An organisation with a strong disciplinary procedure generally indicates poor human resource procedures – since discipline is a last ditch effort where management has failed (Figure 16)."

"Breach of procedure may be symptomatic of poor procedures that make little or no sense. Alternatively, where the procedures are sound, non-adherence should be treated as an indication of failings in staff competencies that should be put right – i.e. a training and development (and coaching) need. This retains a positive environment. It may also indicate that procedures have been badly

Figure 15
Coaching styles

Figure 16
Coaching orientation
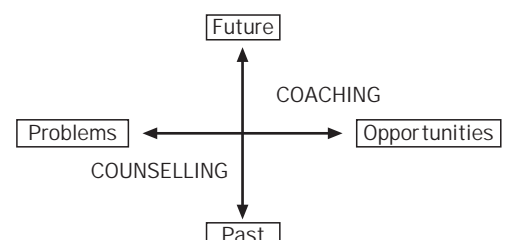
taught. 'Sitting with Nellie' may mean Nellie's inadequacies have also been acquired."

"A well-known model uses this idea of constant development so that procedures can be internalised and compliance is not an issue. It is simply a question of how well the internalisation of learning model has been adopted using this model (Figure 17)."

Figure 17
Competence

"Nonetheless we must still be able to deal with and put right problems. Whatever our adopted theories we cannot achieve good systems of internal control if our procedures allow an abundance of mistakes and uncorrected problems. There are times a manager must reprimand staff. We can use the approach taken by Kenneth Blanchard and Spencer Johnson in their book, *The One Minute Manager.* Look at the reference to the one minute reprimand:"
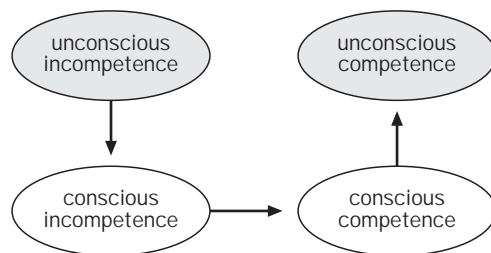
1   Tell people beforehand that you are going to let them know how they are doing in no uncertain terms
First half
2   Reprimand people immediately
3   Tell people what they did wrong – be specific
4   Tell people how you feel about what they did wrong – and in no uncertain terms
5   Stop for a few seconds of uncomfortable silence
Second half
6   Shake hands, or touch them in a way that lets them know you are honestly on their side
7   Remind them how much you value them
8   Reaffirm that you think well of them but not of their performance
9   Realise that when the reprimand is over, it's over
(Blanchard and Johnson, 1994, p. 59).

"We must go back into management theory and use the work of Maslow to assess the impact of mistakes or breach of procedure. Maslow's hierarchy of needs starts with physiological/safety needs where a person wants to secure the basic amenities of life before being in a position to turn towards the higher social and self-esteem needs.

Organisations that meet these higher needs can be successful because staff will tend to be self-motivated at work. An employee who is so motivated will initiate his/her own procedures where this makes systems more efficient or adds value to customers. Take an example I've seen happen at work:"

An administrative officer noticed that whenever she phoned account customers, she received comments from them concerning a new product that had been recently launched. After a few weeks she approached her boss and suggested that she develop a tracking procedure where these comments could be scheduled and passed over to the marketing section for consideration. This became so successful that marketing took over the procedure and received useful feedback from customers which was then fed into the research and design programmes.

"This member of staff must have been high up on Maslow's hierarchy of needs to view procedures as something that was the responsibility of all staff to initiate and develop. This could be in the form of a formal document or simply an agreed arrangement that may or may not have been confirmed in writing. It really doesn't matter. Now let's get back to breach of procedure and how this is dealt with by an organisation. If we adopt the enforced compliance approach we may instil such fear into staff that they revert to the lower aspects of Maslow's motivational drives in that they fear for their security i.e. their jobs. Self-preservation becomes the keyword and all designs on development, initiative and self-control fall by the wayside. Punishment-based organisations have this problem. They think the control and command model is most effective. In terms of controls promoting the achievement of objectives, a robot-like workforce, working to fixed procedures; with a compliance team looking over their shoulders, may not bring out the best in staff. It certainly flies in the face of the current support for coaching and empowerment as the way forward. A pertinent quote from McGregor will fit this argument:"

…People need to learn to take responsibility…however, he has arranged to obtain a constant flow of detailed information about the behaviour of his subordinates, and he uses this information to police their behaviour and to "second guess" their decisions…he sees no inconsistency in his behaviour, nor does he recognise some other assumptions which are implicit: "People can't be trusted" or "they can't really make as good decisions as I can" (McGregor, 1960, p. 17).

"Bill – turn to the reference on the work of Paul L. Brown which illustrates this point:"

…Reinforcing consequences – encourages behaviour – Punishing consequences – discourages behaviour…In healthy organisations the reinforcers outweigh the punishers….The dangerous organisation is one in which the punishing consequences outweigh the reinforcing consequences for both desirable and undesirable behaviour…the organisation's book of rules and regulations rivals the *Encyclopedia Britannica*…good performers get the same harsh treatment as poor performers (Brown, 1982, pp. 80-1).

"The growing trend to use compliance teams as the solution to control problems has some support. But it must be set against the concept of maintaining self-esteem and basic business etiquette. I have said that control is about self-control and that it starts with one's soul. The soul is protected by self-esteem, i.e. a regard for oneself. I want to develop this argument at a later stage, but here I would like to say that one has to be comfortable with oneself as a basis for self-control. From there one moves forward. If you develop a punitive organisation where self-esteem suffers this will not be achieved. You'll find some choice words by Ann Landers that highlight the importance of self-respect."

If I were asked to give what I consider the single most useful bit of advice for all humanity, it would be this: Expect trouble as an inevitable part of life, and when it comes, hold your head high, look it squarely in the eye and say "I will be bigger than you. You cannot defeat me." Then repeat to yourself the most comforting of all words – "this too shall pass." – Maintaining self respect in the face of a devastating experience is of prime importance (*Positive Thoughts,* 1995, p. 196).

"We can develop the problem where compliance with procedure is incorrectly used as a key control by returning to the work of Ralph Kilmann. Read this out Bill:"

Most people, however, do not make the full transition from egocentric child who believes in magic to renaissance adult who knows all science. Instead, most people worry about the consequences of doing something wrong, unintentionally having caused harm to other people, or being punished for causing an undesirable outcome. Some people are so afraid of being held responsible that they do not act. Other people are willing to act as long as they can blame someone else for the results. Naturally, if the results are positive, many people would enjoy taking the credit. The paralysing fear, however, is that they will be held accountable for something negative (Kilman, 1984, p. 266).

"How are we going to encourage people to take responsibility for procedures and develop them in a blame-based culture?"

"I've been on audits where people have admitted, in confidence, that they do not document their work procedure because they feel it would make a rod for their back. One person felt sure he would be made redundant if his job was documented in such a way that it could be done by someone new to the section. There is something wrong with this environment; it is not a well-controlled environment. The greater the externally imposed compliance controls, the more this situation is likely to arise."

"There are ways that compliance can be dealt with in a positive manner. First and foremost we must be able to deal with non-compliance with procedure properly, bearing in mind the importance of the employee's self-esteem. In their book on business etiquette, Lynne Brennan and David Block have various rules that help one administer criticism."

Bill read:

Criticism can be a potent form of persecution and just about everybody is affected by it…The right kind of criticism is never directed at the individual's character but at the way he works – positive criticism doesn't send someone away humiliated and resentful. It motivates him to work better and harder…A reproach should be combined with an offer to help find a solution to improve matters….Criticism is a private affair and wherever possible should be delivered discreetly (Brennan and Block, 1991, p. 57).

"Thanks Bill. They go on to provide what is wise advice for the busy manager (perhaps the compliance team should also think about this):"

It is a wise boss who ignores the occasional petty problems that do not affect his employees' welfare or the company's productivity (Brennan and Block, 1991, p. 57).

"We have mentioned the way that procedures may be breached because they don't make sense in the first place. We have also dealt with the impact of skills, knowledge and attitudes on procedures – any shortfalls in these aspects of competencies will lead to problems. What we have not yet discussed is the out-and-out mistake. Breaches may occur because of simple mistakes. You mentioned salary overpayments as one problem in your company, and I have seen this happen where a salary tape was run twice and £1m overpaid in the month-end run. History records many examples of mistakes. Turn to the page on the *Titanic*;"

On 14 April 1912 – 1,513 men, women and children died when the "unsinkable" ship, the Titanic, hit an iceberg on its maiden voyage. There was a lack of lifeboats as the number provided was in those days based on tonnage and not number of passengers

(there were 16 boats with 1250 seats for the 2300 people on board). Reports are that the ship was run at full speed although icebergs were spotted, probably because they thought she was unsinkable. There were also problems making radio contact with other ships in the area. These weaknesses were reported in a full inquiry after the accident and procedures introduced to tackle each of the above points (Blundell, 1992, pp. 72-80).

"The shipping industry is now safer due, unfortunately, to this major disaster. People learn from mistakes and there is no procedure that is fail-safe. They are organic and must be adapted to keep pace with the demands of the workplace."

"Look at the following reference. Here Ralph H. Kilmann once again comes to our aid by illustrating this:"

Human beings are not entirely rational, nor are they very objective, when contemplating decisions and actions…It is because these particular limitations do exist that formally documented systems are required in every organisation. When documents are at their best, they are convenient and necessary guides to all decisions that should not be left to memory, subjective interpretation, and simplistic analysis….When documents are at their worst, they steer behaviour in the wrong direction…the deadliest document is one that is very difficult, if not impossible, to change (Kilmann, 1984, p. 194).

"There is great power in the theory of mistakes that shakes people's fixed position and moves them on and forwards. I have read many writers who see the positive side of such problems and I won't bore you with my complete list of these comments. There are a few however that fit this discussion and there is no harm in repeating them. Like all good auditors, I started from the classical school of management where authority, structure, planning and exception reporting was the key to control. Since then, I've discovered the human resource approach and thereafter moved into a systems view of management before a brief return to psychoanalysis as the best answer. From here I have moved on and considered complexity and creativity while superimposing over these disciplines what I can only describe as a spiritual view of management control. Poetry fits well with this perception and as such I start with the words of Henry Wadsworth Longfellow:"

But nearer the dawn the darker the night,
And by going wrong all things come right;
Things have been mended that were worse,
And the worse, the nearer they are to mend
(*Positive Thoughts,* 1995, p. 338).

"For a more straightforward comment let me quote Herbert Spencer, an English philosopher, who said;"

The ultimate result of shielding men from their folly is to fill the world with fools (Partington, 1992, p. 658).

"As a final word, the simple truth is well expressed by Elbert Hubbard:"

The greatest mistake you can make in life is to be continually fearing you will make one (*Positive Thoughts,* 1995, p. 91).

"Your compliance team will have a major task in getting adherence and not creating an environment of fear and oppression. There is a fine line to tread on reporting back on what staff are doing and providing advice and support in their efforts to secure control through good procedures. The former is based on the use of punishers where people are 'found-out' and reprimanded as they breach procedure. Take a look at the view on the effectiveness of punishers as the principal control that is discussed by Paul L. Brown:"

Punishers are specific consequences that decrease the likelihood of a specific behaviour occurring in future…If you use the technique of punishment, make sure it is effective… it often results in serious complications. Problems with punishment:
- only produces a temporary change in behaviour;
- requires the constant presence of the manager;
- does not teach new more appropriate behaviour;
- produces a conditioned emotional response – when security is threatened fight or flight emotion occurs;
- emotional side effects transfer to the manager;
- punishment can produce inflexible behaviour;
- it may suppress or decrease more behaviour than planned;
- can cause counter control – staff then use punishment model (Brown, 1982, pp. 119-24)

"Paul L. Brown also argues that:"

Punishment used as a predominant method of control makes people less effective – more mistakes and stress (Brown, 1982, p. 121).

"When a manager has identified a breach of procedure there must be scope to take a course of action that reflects the severity of the situation and the implications of the breach. We need to be flexible in our approach to this subject. One well-known model can assist us here:"

"Conflict resolution classification:
- avoidance – look the other way or withdraw.
- defusion – delaying tactics dealing with minor issues only.
- confrontation – power, physical force, bribery, punishment as a win-lose position or negotiation which seeks a win-win result by resolving the conflict with compromises (Figure 18)."

Figure 18
Conflict resolution
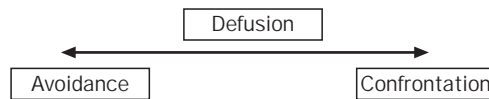
"This brings out the multi-dimensional view of management action – that may not be as straightforward as seems at first sight. There is no point making a mountain out of a mole-hill. But where the breach is serious then this must also be recognised. Read out the rules for using punishment set by Paul L. Brown:"

- use when the undesirable behaviour is dangerous;
- behaviour is distracting other employees;
- confidentiality is violated;
- affects customers;
- other change procedures do not work.

And when applying punishment:
- decide what consequences will follow behaviour;
- tackle specific behaviour – not general attitudes;
- should be made personal;
- do it as soon after the event as possible;
- use consistently;
- follow by reinforcing desired changes (Brown, 1982, pp. 125-8).

"We will deal with the question of internal discipline when we get to the topic of fraud…best to leave this for another day I think."

"I have to get through more material on the topic of procedures before the day is over. Before we leave the compliance issue I must introduce what I call the 'It must never be allowed to happen again' model of control procedures. I've noticed over the years that society tolerates many situations where there is a complete absence of sound procedures that mean when the inevitable disaster happens, the consequences are dire. This can relate to penning-in football supporters; not bothering to license security staff at night-clubs; not stopping visitors from passing over drugs to prison inmates; employing child-care workers without checking whether they have committed sexual offences; allowing public workers to retire on medical grounds when they are not really sick; releasing mentally ill people from secure care units who have expressed dangerously violent tendencies; allowing politicians to accept cash to represent business interests and so on. Basic controls are lacking but action is only taken when a disaster happens and the general public make calls for improvement. Extensive enquiries that could take many years to com-

plete, result in long-winded reports that go on to recommend 'it must never be allowed to happen again'…"

"No one asks why we didn't get sound procedures working before these disasters proved that proper procedures were required. It may be better to ask whether the people responsible for these areas have other responsibilities that are as badly administered?"

"To recap again – we have dealt with the role of procedures as a key aspect of the system of internal control. We have prepared a few models to assist this task. Some time was spent on compliance as an issue. I promised to provide an example of a procedure as well as link this into a document management system. Let's stop for a cold drink at a bar I know nearby and then get stuck into an example of an administrative procedure."

Bill drank a Red Stripe beer and looked around the bar. Four people in the corner were playing dominoes with zest. The night air was cool and a refreshing breeze blew through the bar, making a nearby palm tree sway from side to side. Bill finally revealed his thoughts to Jack;

"You go on and on. Your argument rambles and twists and turns in all directions…"

"Well Bill. I did say we would take a journey through the world of controls. This I see as much the same as the rambling, winding roads that we have been driving through over the last few days."

Bill understood. That was not a bad analogy – winding roads and colourful sights – rambling words and numerous examples and quotations. He took refuge in his drink, asking hesitantly;

"How much further to go before we get back to Mo'Bay?"

Jack laughed – "You mean how much more discussion is left today? Well less than an hour you'll be pleased to hear. Jack, when I give you my views on control, you can add your thoughts – why don't you?"

"No – that's okay. You just carry on and I'll speak when I think I need to."

With that the two men wished everyone at the bar goodnight and continued their journey.

With the dictaphone once more turned on, Jack carried on almost as if he were giving a lecture; "I was going to give you an example of the way procedures can contribute to the system of internal control. Before I do this let me tell you about a problem I came across with a large cashiering function accounting for millions of pounds of income each week. When working for this organisation I received a phone call from the director of finance who explained that one of six cash bags had gone missing, containing some

£30,000. He asked me to interview the staff and prepare a report for the local police who had been informed of this theft. During the course of these interviews, I discovered that there was no procedure to cover the most important control over cash, i.e. relating to the movement of cash and accountability. Many people had had contact with the six cash bags before they were handed over to the security firm who collected only five of them. While the police pursued a criminal investigation, I recommended comprehensive procedures for making sure someone was responsible for the cash at all stages from bagging to handing over – and that this responsibility was properly supervised and documented. Cash bags were left unattended on desks and this was one of those 'it must never be allowed to happen again' systems. Breach of procedure in these types of systems is all important. I still stick to my guns in saying that people want good procedures and they will devise and improve them if given half a chance. In fact, during the interviews, staff expressed a wish to be able to track cash within the cashiering office as they felt this would protect them if something went wrong. As it stood, they all fell under suspicion."

"Going back to an example of good procedures. Let's take a situation where we want to allow customers to complain if they wish to."

"We must start with a sound policy statement that sets the tone for the actual procedure. This policy may say that we actively seek views from customers and that all employees are responsible for securing and responding to any problems brought to their attention. Most companies go wrong where their staff view complaints as a major threat that should be avoided. They also try to duck this problem by making sure they are not responsible for what they see as a negative aspect of business life. What they fail to see is that complainants simply stop using the products or service and tell their friends and relatives to do the same – unless they can get a positive response to their problem from the company. If they get this response they may go on to give even greater support to the company in future. As such there is much that can be gained from a good complaints procedure (Figure 19)."

"When establishing a complaints procedure (or for that matter any other procedure) think about going through each of the above processes:"

"1 *Objectives* – We need to decide just what the procedure is meant to cover and what its goals are. This is important, as it sets a frame within which the procedure will operate. There is only so much a procedure can do and if a complaints procedure is meant to obtain

Figure 19
Complaints procedure
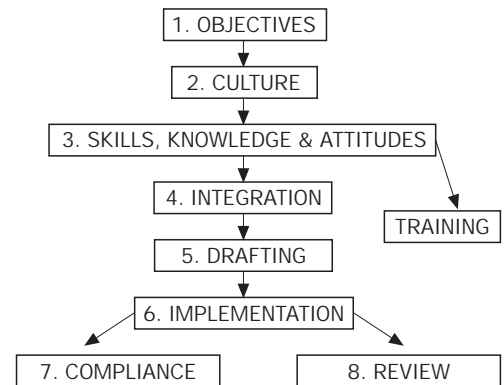
feedback from customers and deal with any problems they may experience with the product, then this demands an attitude from all staff that promotes this view. Words written in a formal document have no value at all unless they lead to this change in attitude. The goal should not be to draft a formal procedure, it should be expressed more in terms of ensuring that customers' concerns are identified and addressed. Harold Geneen – former chief executive, International Telephone and Telegraph Company has said:"

I think it is an immutable law in business that words are words, explanations are explanations, promises are promises – but only performance is reality (Exley, 1993, p. 24).

"2 *Culture* – We can support the type of culture we want to see by the use of appropriate procedures. Not forms and documents but the approach the organisation has towards its customers. This was said many years ago by McGregor who has argued:"

The most important point with respect to management by integration and self control is that it is a strategy – a way of managing people…forms and procedures are of relatively little value…The manager whose underlying assumptions are those of Theory X cannot manage by integration and self-control no matter what techniques or forms are provided him…the tools for building this managerial philosophy are attitudes and beliefs about people and about the managerial role, not manuals and forms (McGregor, 1960, p. 75).

"A procedure can go some way towards creating a positive culture but in one sense – if the right culture is not in place, the procedure will fail."

"3. *Skills, knowledge and attitudes (training)* – It is a good idea to think about the types of skills and knowledge (required to acquire the skills) and attitudes that should be in

place to live up to the adopted standards (which is what a procedure should be anyway). We should think about the way staff currently deal with problems experienced by actual and potential customers. Any new procedure will probably cause a training need to be identified as we think about how staff will discharge the requirements of the new initiative. It may indicate a need for training in communication skills, listening skills, awareness of conflict management and negotiation skills. It may require some investigative skills in working out what problems are being relayed and how they arose. My view is that training staff in procedures is probably the most effective way that a training budget can be applied. So long as this is geared towards knowledge, skills and attitudes, and that there is effort directed at understanding the procedure. It is better to train staff on the implications of new procedure than to simply issue them with a rulebook. We used an earlier model to illustrate how a comprehensive training procedure may be slimmed down into a short reminder for staff once they have been trained in the new arrangements. The coaching approach to management can be used to get across corporate procedures. Check the reference file for Paul Kalinauckas and Helen King who suggest that coaching involves:"

- active listening;
- questioning skills;
- giving praise/recognition;
- building rapport;
- creating trust;
- being non judgemental;
- being candid and challenging;
- working with other's agendas;
- giving encouragement and support;
- focusing on future opportunities;
- getting to the point;
- using observation skills;
- being objective (Kalinauckas and King, 1994).

"There is no reason why these activities should not be based around the way staff use the adopted procedures. The empowerment concept is here to stay and relies on the manager assuming a different role where he/she encourages performance by one-to-one input into the employee's own development and work. We concentrate on knowledge, skills and attitudes but know that these can only be changed by the person starting from the current reality to the new vision – it is more than training, counselling or simply setting targets and monitoring. We can maintain control by getting people to recognise the areas they need to develop and deal with. Again this is not the old command and control framework based on past performance but a

futuristic model where we seek to get the employee to reach for their competencies i.e. – in this case, via the effective use of procedures."

"**4** *Integration* – We need to make sure the complaints procedure fits with other organisational standards. It should reinforce roles and responsibilities. Staff will assume some form of role but there are others who may need to organise returns, compile statistics, send out formal letters and assess whether the company has dealt with a problem that the customer insists should be taken to the top. It has to fit with corporate strategy. Read out the comments by Robert L. Kuhn and Louis Kuhn on complex decisions:"

> Complex decisions in unfamiliar areas must be factored in simpler subdivisions in familiar areas. Only then can strategic routines and procedures be applied…the critical test of strategic management is internal consistency. Does the overall plan make sense? (Henry, 1991, p. 76).

"One of the most interesting aspects of organisational control is the fragmentation that many companies experience whereby each section has a different view of the business. Internal conflicts and power struggles are the norm. Top management have a completely different view of success from their more junior staff. Executives may lay off hundreds of employees and this streamlining is used to turn the company around to profitability. As a result they earn bonuses and their contracts are extended."

"Meanwhile middle management have to deal with the fallout from redundancies and perceive the entire exercise as a complete failure. When the company goes on to employ inexperienced people the following year, as a result of an upturn, this reinforces the latter negative view. Peter F. Drucker takes the view that:"

> Each level needs its particular vision, it could not do its job without it. Yet, these visions are so different that people on different levels talking about the same thing often do not realise it – or, as frequently happens, believe that they are talking about the same thing, when in reality they are poles apart (Drucker, 1972, pp. 155-6).

"Corporate procedures tend to magnify this problem if care is not taken to ensure they fit with other systems."

"**5** *Drafting* – I continue in my view that procedures should form the basis of staff training programmes and should be documented with this aim in mind. Having said this, we do not have to write everything down. In fact the rule should be to document something only if it is absolutely necessary. Otherwise simply leave it as the exercise of

good common sense. We will explain how customers' problems should be addressed but we need not detail every possible activity related to listening to customers and responding in a positive way to their concerns. Some things are basic common sense. As Louis Armstrong used to say:

If you have to ask what jazz is, you'll never know (Schiller, 1994, p. 8).

"We also need to ensure that common sense rules – in that parts of the procedure may simply say the person should use their judgement. This may be the case when deciding whether to refer a case to the section that handles unresolved complaints or seek to sort them out at the time and place they are identified. The procedure may simply say that the latter should be attempted unless this is not possible. We must leave some room for intuition. Don't worry – we can refer to my notes on Weston H. Agor to determine where intuition should be used by managers:"

- when a high level of uncertainty exists;
- when little previous precedent exists;
- when variables are less scientifically predictable;
- when "facts" are limited;
- when facts don't clearly point the way to go;
- when analytical data are of little use;
- when several plausible alternative solutions exist to choose from, with good arguments for each;
- when time is limited and there is pressure to come up with the right decision (Henry, 1991, p. 166).

"I will not go on to explain these concepts in greater detail – just use your common sense. Before we go on to discuss drafting the procedure – a word of warning. Read from the press report entitled – 'This Criminal Waste of Paper':"

Billy, 12 has been caught shoplifting. The police now have to fill in a pile of 40 forms, an inch thick. No wonder our justice system is close to collapse… (*Daily Mail*, 1996b).

"An army of form fillers has no use at all in a dynamic, adaptive organisation. Carolyn M. Zimmerman and John J. Campbell have detailed a sensible way of preparing procedures:"

- decide on tasks and schedule them;
- set out the objectives of the procedure;
- decide on sections required;
- referencing list – documents used in procedure;
- may need a glossary of complex or obscure terms;
- list of roles and responsibilities;
- systems overview;
- precautions – special notices e.g. data protection;
- materials needed;

- personnel – people in place for procedure to work;
- the procedure – action steps – instructions;
- review or acceptance procedure;
- attachments;
- identify key tasks for each person;
- the document design, look and writing style;
- decision point and graphics;
- forms used;
- review (Zimmerman and Campbell, 1988, pp. 12-45).

"6 *Implementation* – The key to implementing the procedure is to start before a word is written. Introduce the concept of setting this procedure and ask staff to get involved in the process. Get them to view the drafts, test them, discuss them at team meetings and solve any problems that result. If there is mutual trust, a caring organisation, a culture of responsibility, but not blame assignment, and people are self-motivated and self-controlled then there will be no problems. If any of these attributes are missing, then it will fail. All else to do with implementation has been dealt with in staff training – mentioned under skills, knowledge and attitudes. An example may help here:"

I remember one occasion when I attended my doctor's surgery for a pre-booked appointment. On announcing my arrival to the receptionist I was asked to wait. After an hour of watching patients come and go, it suddenly dawned on me that something was wrong and I asked the receptionist why I was still waiting. She checked her system and said the doctor would see me in a few minutes. I said I would still like to know why I had waited an hour. She insisted that my turn would be next. I repeated that I wanted an explanation for the delay. She said that she forgot to log me as waiting on the system. I asked why she had not told me that in the first place when I asked why I had to wait. She looked most annoyed and asked me to sit down and wait. I asked for a complaints form and after much fussing around she pushed a soiled form in my direction. I explained what had happened to my doctor and that I would lodge a formal complaint – who, at this remark, shrugged her shoulders and said, 'nothing to do with me'.

"If people who work for an organisation accept that they represent it, and are prepared to listen and apologise to customers where necessary, most people would not bother to take complaints further. Unfortunately, this is not always the case."

"7 *Compliance* – We have already spent some time discussing compliance as an issue. Nonetheless we need to make sure that staff understand and are using the complaints procedure. They need to comply with it. How-

ever I have a note from McGregor's work on the topic of control information:"

> If such summary data indicate to the manager that something is wrong within the organisation unit for which he is responsible, he will not turn to staff, but to his subordinates for help in analysing the problem and correcting it. He will not assign staff "policemen" the task of locating the "culprit". If his subordinates have data for controlling their own jobs, the likelihood is that they will already have spotted and either corrected the difficulty themselves or sought help in doing so…Self control is a relative, not an absolute concept…A subordinate who is new on the job is obviously not in a position to accept the responsibility for complete self-control (McGregor, 1960, p. 161).

"The problem arises where we hold the complaints database centrally and seek to instigate disciplinary investigations every time a complaint is received in defined areas of the organisation. The data are used to police the sections and their managers. One can imagine in this situation, instead of encouraging complaints as important feedback from customers, managers will want to suppress the information. Or, try to get the 'blame' assigned elsewhere. An informal 'nothing to do with me mate!' policy then operates and our original objective of actively seeking feedback from customers and ensuring any problems are dealt with, fails. We will have achieved the very opposite. We end up encouraging managers to hide problems and stopping customers from lodging formal complaints, maybe by not making it clear that they can and should be encouraged to submit their views."

"I refer you once again to the danger in setting up compliance teams and using them to discharge this policing role. It adds up to the same problems in the long run. We need to discuss the idea of control as impacting on success – poor controls stifle initiative and using McGregor's theory X, create friction and poor performance – theory Y can be used to build positive relationships and self-control as the right climate where we develop good performance, whilst a policing state using staff (e.g. internal audit) takes away this responsibility on the basis that staff are theory X in profile. This may become a trap and excessive central control can mean managers have fallen into the trap of making the compliance checks more important than the operations that they are designed to control. There are no absolutes and each depends on the situation – what works in one place may not elsewhere. Spying on staff through figures may lead to a 'beat the system' climate whereas if we work to the same goals – the

manager's job may simply be to empower staff to get and use the information and advice that they need – to unblock blockages. There is great scope for progress here and this fits with the coaching view. We still need to develop procedures but maybe we should use policies more as a framework and let employees devise their own procedures."

"8 *Review* – Procedures will never be perfect. They should not be designed with this aim in mind. They are based on a representation of reality and the types of decisions that may be made by members of an organisation. As representations they are models and, as such, exhibit all the faults and flaws that such models have. They are based on paradigms which have been described by Gareth Morgan:"

> the term is used here in its metatheoretical or philosophical sense to denote an implicit or explicit view of reality (Henry, 1991, p. 82).

"Constant review and updating is a way of life, which is why it is best to set the procedure in outline terms and not in fine detail."

"We may have thought we can provide for most occurrences but in the end we must review our procedures to ensure we allow people to think. If they do not then the procedure will not work. Look at the words of Daniel J. Isenberg on how senior managers think:"

> Two findings about how senior managers do not think stand out from the study….it is hard to pinpoint if and when they actually make decisions….they seldom think in ways that one might simplistically view as "rational"…managers frequently bypass rigorous, analytical planning altogether, particularly when they face difficult, novel, or extremely entangled problems. When they do use analysis for a prolonged time, it is always in conjunction with intuition (Henry, 1991, p. 44).

"Rationing our procedures in line with these arguments is a good idea – if not, they will not form a control but simply a hindrance."

"Any review must be done in conjunction with users of the system and in our case this is both employees and customers. Employees deal with, or refer the complaints, while customers are front-line users of the system. Most major complaints stem from perceived failings in the complaints procedure itself. In the final analysis, the arrangements we have for dealing with complaints may be causing the complaints that are pursued through the system as they fail to be resolved at each stage. If, for example there is no provision in the current procedure to apologise to the customer (or keep them appraised of the progress of their complaint, or allow a simple comment to be recorded, or allow lessons to

be learned by the company), then it will most likely fail. If our training programme has not taught staff how to manage someone's heated emotions as they explain their problem – then again, the complaints procedure will fail."

"The eight-stage model I have just described comprises a system in its own right. This system has to be in place before we can use the concept of procedures as part of the overall internal control system. I would like to describe one other similar model that brings out the importance of training and developing staff using internal procedures as the cornerstone of this activity (Figure 20):"

Figure 20
Outline complaints procedure
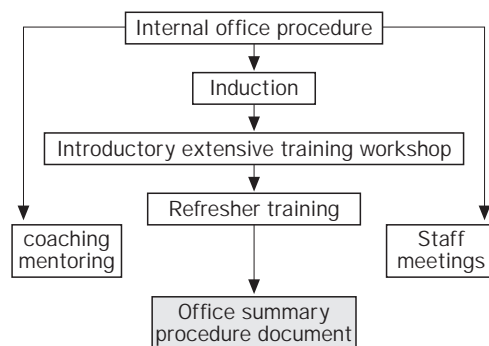
"So, instead of the procedure being just another detailed document given out to staff on their first day at work, it becomes a dynamic process. We have already dealt with the process of preparing and implementing the procedure (the eight-stage plan). Here, we need to ensure that staff understand and are able to use the procedure. The start is induction training for new staff or for newly introduced procedures. Next comes short awareness training courses (perhaps for half a day), so that all existing employees know about the procedure. The more extensive training workshop is for staff who need a detailed understanding of the procedure. This will require a comprehensive document along with exercises and explanations that employees can work through over, say, two or three days with a professional facilitator. I have shown a refresher course in the diagram to keep staff appraised of changes and remind them of the procedure. This is also available for those that are experiencing problems with implementing the procedure. Superimposed over this process are two important managerial mechanisms where procedures are fine-tuned, communicated and discussed. There are staff meetings – where operational realities are discussed and work teams can ensure there is good interface with current

practices. The second is the coaching and mentoring initiatives where managers simply talk to people and help them get to grips with work practices. At the very bottom of the above model sits the short (summary) office document – which sets out the role of the procedure, the policy framework, bullet points of key matters and examples of any documentation that is used. Any comprehensive document (if there must be one) will have been given out as part of the training courses and referred to only infrequently. If staff need constantly to delve into the comprehensive document, there is something wrong with the procedure – it is too complicated (technical manuals excepted)."

"The final issue I want to deal with is putting all these procedures together within a document management system. Control is not commensurate with the number of standardised forms that have been devised. An abundance of documentation leads to excessive paper work, over-control, bureaucracy and in the long run a lack of effective control. Judgement and discretion must come before form-filling. The problem we have is that we may have many standardised documents, many of which will revolve around an information system that requires many input forms or reference documents. The rule of devising as small a number of forms as possible should be applied here. Typically however, there will still be many forms and documents that will be floating around the organisation – and they will have to be managed properly."

"A document management system (DMS) is almost mandatory in any large organisation because of what is now known as information overload – there is just too much information circulating around most organisations. Formal documents, archived material, reports, forms, procedures notes, updates, correspondence and so on abound. Managers now walk around organisations mumbling 'really – I didn't know that!' every time someone tells them of a new development. A staff newsletter is useful although this may be seen as a propaganda tool if it is not used properly. Team meetings, management updates, circulars and so on can also help."

"What is more important is to make someone responsible for documentation and storage. You will probably need several things including:
1 responsible person akin to a DMS database administrator;
2 computerised retrieval system;
3 policy on retention of documents and retention periods;
4 tracking system to tell who prepared what document and which one is the current version (version control);

5 conflict management procedures where one can arbitrate between interested parties and inconsistent documents;

6 information security policy that defines access rights, data privileges and protections;

7 support from executive management who keep an eye on the DMS;

8 corporate network where all key information is held and used;

9 access facilities for all staff from work, home and/or remote sites;

10 an automation policy involving text, pictures, graphics, moving images, video conferencing. Originals are scanned (and backed up) then destroyed;

11 culture of automation where people do not need to 'touch paper' to feel comfortable with information or images. One way is to discourage the frequent use of the photocopier. We may also wish to see automation from key stakeholders such as suppliers;

12 'download' culture where staff regularly strip data from the network and use this for local decision support systems;

13 fully equipped back-up procedure that has been tried and tested;

14 staff training located around these issues. We would also look for innovation from staff – where new ideas are encouraged and developed;

15 An effective IT infrastructure that supports the above – reliability, efficiency, accessibility and flexibility are keywords that should be driven by users and acted on by IT staff and not the other way round."

"I see the DMS as organic – it is a system that grows, develops and adapts itself to changing needs of the organisation and all its managers and staff. Only if it reacts to demands from the workforce can it be seen as a key control. If it is devised by the IT steering group and forced on staff – it will have little or no use. The database administrator simply sets data parameters and basic rules on security, confidentiality and data integrity – the rest is up to members of the organisation."

"Right Bill – that's it. That's what I wanted to say about the use of procedure as a key aspect of control."

Bill realised that he was meant to say something having drifted off to sleep whilst listening to this speech.

Finally his brain clicked and shifted into gear and the words followed: "Well then – what's the answer?"

"It's still seven squared." Jack said as he launched into an enormous laugh. "I could

have said this at the outset and saved myself a lot of hot air…"

Bill saw the funny side. "Can we sum up then?"

"Absolutely." Jack replied; "We're pretty close to home." How do we sum up, thought Jack, harbouring a strong suspicion that Bill had not been listening to all that had been said over the last hour or so. "How about some quotations?"

Bill's reply indicated some disquiet "You use a lot of these and some are pretty much out of date now. Is that because you can only get hold of older textbooks here?"

"Not at all," came Jack's reply. "I use references that I think are important. I don't believe we should throw away older material simply because it was written some time ago. If what has been said is important, then it is important. Anyway let's take some of these quotes. Procedures should inspire enthusiasm as Norman Vincent Peale says:"

There is a real magic in enthusiasm. It spells the difference between mediocrity and accomplishment…It gives warmth and good feeling to all your personal relationships (*Positive Thoughts,* 1995, p. 210).

"They should be simple and not demand a range of complicated techniques. Winston Churchill once said about planning his strategies during the Second World War:"

Then I demonstrated with the help of three matches my idea of Poland moving westwards (Cohen and Cohen, 1995, p. 81).

"In the end, we may not need to express the basic actions of life. All procedures must make sense in a most basic way. Lin-Chi conjurs up the image of this essential point in a few lines:"

When hungry, eat your rice; when tired, close your eyes. Fools may laugh at me, but wise men will know what I mean (Schiller, 1994, p. 130).

"Moreover procedures cannot be perfect, they must leave room for getting one's hands dirty. It can do no harm to recall the words of Ts' Ai Ken T'an:"

Water which is too pure has no fish (Schiller, 1994, p. 118).

"In the final analysis, procedures are about making things better. For the worker, the team, the company, the organisation, key stakeholders and society in general. This making better is about being comfortable with one's work and the organisation. Having peace of mind – nothing more. Robert Pirsig has explored this and many other issues, suggesting that:"

Peace of mind isn't at all superficial. It's the whole thing. That which produces it is good maintenance and that which destroys it is

bad maintenance…The ultimate test's always your own serenity… (Pirsig, 1974, p. 168).

"Whatever we have said – procedures have a basic role in an organisation. To conclude our discussion a simple solution to control is provided by Lee Lacocco:"

Start with good people, lay out the rules, communicate with your employees, motivate them and reward them. If you do all those things effectively, you can't miss (Exley, 1993, p. 48).

"That's about it on the subject of procedures. We've got a few more miles to go before we get back into Mo'Bay. Why don't we relax and leave any further discussions for tomorrow."

Much to Jack's surprise Bill was still awake and actually wanted to continue the debate. Being the control freak that he was, Bill could not resist asking:

"We still need a bottom line on this. You've gone on and on, dropping numerous quotes into your talks. But your views have no real conclusion – I have not been given…well…the answer."

"Okay." Jack was forced to backtrack. "My objective is to discuss topics related to control so as to create a greater overall awareness. I don't see that there are definitive answers as such. If you really insist – you can put down the reference file and I'll give you what I think are the key points. Let's list them:"

"1 My model of the management control system includes procedures as a vital component. Procedures outline how an organisation wishes its activities to be conducted. If staff understand and apply them, we are getting closer to good internal control."

"2 The task of preparing and using procedures is a system. We must move away from viewing procedures as important documents – it's how they are developed and used that is important."

"3 We can end up with a very brief document or no document at all as the adopted procedure. The process behind understanding and applying the procedure entails getting involved in detail. If a manager is unable to produce a detailed procedures document on request this is not necessarily a bad thing. If staff know what they are doing and have had their competencies assessed (knowledge, skills and attitudes) then we have a starting place for quality performance."

"4 Procedures should be owned by the users. They should develop and amend them whenever necessary. They should check their own compliance and an external imposition. When a management by fear regime is in place it can cause poor controls where people refuse to take responsibility or refuse to make decisions."

"5 We cannot aim at perfection – this is not the point. A common-sense approach whereby we move towards organisational goals and customer satisfaction is good enough. Procedures that do not entail these components should be discarded unless legally required."

"6 Each manager and member of staff must ask themselves – am I happy with the adopted procedure? does it need to be documented? do staff use them properly? do they fit with the diagrammatic models that we have discussed earlier – i.e. are all key aspects of these models properly addressed? as such am I, my team and my section in control?"

"7 Building on the above. A review of procedures necessarily entails a review of the operational processes that underpin them. This is a most useful spin-off benefit. Again, we do not need to wait for consultants or auditors to tell us how best to work. This aspect of management is the province of each and every employee."

"8 Breach of procedure needs to be dealt with. It may be that the procedure is lacking, or the breach is trivial or departure is right because of the special circumstances. If not, we need to take action and if this involves a reprimand then so be it. We need not wait for a compliance team to tell us whether things are being done properly. This is ridiculous. If staff cannot tell whether procedures are working or not, then this shows there is a training need. Centralised policing because staff cannot be trusted, is indicative of a failing organisation. Its energies are directed towards discipline – to the detriment of any hope of achieving excellence."

"9 If procedures don't work – fix them. They are only useful to the extent that they make things easier. People should not moan about cumbersome bureaucracy when they are not prepared to suggest improvements."

"10 Lastly, since ten is a nice round number, I would suggest a final point. We should make procedures part and parcel of everyday management practices. They should be discussed at team meetings, staff appraisals, coaching events, induction and other training courses and staff development programmes."

Bill recognised that this was a fair conclusion to the topic of the day and noticed that Jack was slowing down as he started to run out of

steam. Refreshed from his intermittent dozing off, Bill felt like pushing Jack to the limit.

"Jack – I appreciate all that you have said. But I would like to explore your spiritual approach to control and procedures."

Jack could not be sure whether Bill was being serious or not. Having spoken for two hours non-stop, Jack felt that the day should now be drawing to a natural close. To start a fresh conversation would be very tiring. Jack noticed a smirk on Bill's face as if to say, if this was an endurance test Jack could not take the pace. Perceiving a second wind coming up, Jack took up the challenge, "Bill – turn to the reference from Superyou by Ann Naylor:"

With awareness, we can consciously exercise choice over the thoughts we hold. The good news is that we are responsible for everything that shows up in our lives, whether we initially interpret it as good or bad. Ultimately, everything can be of value to us… Responsibility is not the same as fault or blame. It is about accountability (Naylor, 1996, p. 6).

"Returning to the organisational dimension. A common perception is that everyone knows the overall mission of the business and their role. Self-control is important as again it is not top-down but part of one's role. Information reports and procedures are seen as belonging to the person to help him do and measure his work and not for managers to spy on him. If this happens a game results, where we doctor the reports to suit top management and energies are used solely in this task and not for the benefit of the business. For example, procedures are only useful if they help the person, not to create the notion of top managers looking down."

"Having said that, we have a problem when the traditional systems approach is based on simply perceiving the organisation as simple machine parts. We also tend to sort things out through a series of quick fixes that maintain the status quo. This is not progress since we need to adapt and change to keep up with our environment. We need an integrated approach that perceives systems as consisting of much that is unseen. But can these intangibles (psyche, culture and assumptions) really be controlled and how? We recognise these issues, understand how they fit into the overall business systems and we seek to manage them as well as possible – the biggest single problem is dealing with the child in all of us where we shun responsibility and risk for fear of failure. If we are also charged with dealing with factors that we cannot control, then this makes it worse. We must build processes that incorporate risk and uncertainty and the innate human psyche that is wholly unpredictable. Quite a

challenge? But we need to explore this point further. We can ask people to understand and address their motives and ensure we can use controls in a constructive manner and we will keep coming back to these ideas as we develop our control processes. Perfection is not the answer as this again hides from control when it cannot be achieved and assumes a zero-risk/no-change position that will in the end mean the business fails. If we view organisations as a mass of personalities we get closer to the truth. How to control this is another matter."

"Many feel that human energies are crucial to organisation success and systems on paper are just that, paper systems and procedures. They achieve nothing – only the potential to unleash and direct energies. If they cannot do this, then we will probably fail. The classical post-holder/office concept has given way to the change agent concept where making things happen is the main goal. This in turn dents the status quo with many repercussions. Controls that seek to maintain the status quo through an aversion to deviance will not promote the culture that would pursue these changes. The control chart becomes a blinker that restricts organisational growth. What can replace the control chart? (Figure 21)"

"Maybe we should be linking our effort to the underpinning skills, knowledge and attitudes:"

"The task then is to equip people with the necessary tools and ensure the competencies (SKA) are energised towards the required goals via the defined stage posts (Figure 22). There stage posts measure how far they have got and as we arrive at the goals, we redefine them. We need to make sure stage posts provide rewards in their own right since the goal is really a mission that cannot be achieved as
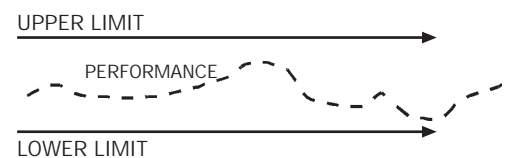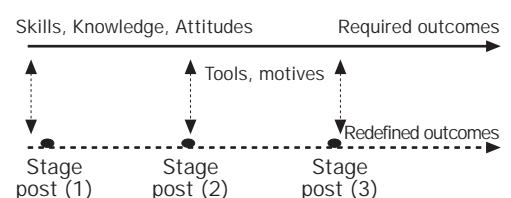
Figure 21
Control chart

Figure 22
Competencies chart

one would 'capture' something. It is a vision of what we would like to be in the future. As we move closer to it, we re-focus this vision as we progress. Creative people do this re-focusing, while change agents design the vehicle through which movement is achieved. Staff are able to move of their own free will by believing in this vision. In this context – control systems recognise the need to achieve goals (stage posts) by motivating people to move towards them whilst ensuring barriers to success (inhibitors) are removed."

"For example – we may need to balance our corporate image with cost-cutting exercises. How can we stick to our image and not sacrifice standards for a quick fix?"

"Observing control is not believing in control. It is blind obedience and normally the main reason why good people leave companies (excessive procedures, no freedom, being treated like children – no mutual trust). Shared control allows an internalisation which means self-control (and self-interest) equate to organisational control (and organisational success) – where staff cannot ride with the wave of success the organisation feels, then there is no control, only discipline and rigidity."

"Ah…we're back at Mo'Bay – see those lights ahead of us. That's the houses set up on the hills outside of Mo'Bay town."

Thousands of twinkling lights shone down at them as the stars also competed for their attention. Trying to hide a feeling of complete fatigue Jack continued:

"Let's end with a quote from Peter F. Drucker. Here it is:"

Reports and procedures should focus only on the performance needed to achieve results in the key areas. To "control" everything is to control nothing. And to attempt to control the irrelevant always misdirects… finally, reports and procedures should be the tool of the man who fills them out. They should never themselves become the measure of his performance (Drucker, 1972, p. 167).

Bill turned to Jack and mumbled: "You mean you've finally run out of quotes – thank goodness. This must be the first time ever…" While Bill moved a weary body out through the car door, Jack laughed and said to his back. Don't forget what Peggy Walker said."

"And just what was that."

"Something that we cannot provide for in procedures – it goes as follows:"

When faced with a decision, I always ask, "What would be most fun"? (*Positive Thoughts,* 1995, p. 223).

As Bill disappeared into the night on his way towards the hotel front porch, Jack heard him say, "Goodnight Jack….Oh tell you what – tomorrow – let's dedicate it to the subject of fraud."

Chapter four – fraud, corruption and lots of rain

"Good morning, Jack,"; Bill shouted his greeting as Jack drove into the hotel car park and placed the car in an area shaded by a large ackee tree.

"Morning, Bill," Jack looked up at the sky as soon as he got out of the car. It was overcast and there were huge dark clouds rolling around the skies.

A loud drumming sound echoed the thunder that was coming in from the east.

"I think we're in for storms today." announced Jack as he walked across to where Bill was sitting on the veranda facing the car park.

"Hmm" Bill murmured, "Does that mean it's not a good idea to tour around today?"

"Well – the rains can come and go very quickly, or they can be very heavy and fall for some time, washing everything away. We really need a weather forecast."

A few minutes discussing this point with the hotel receptionist, Ruth, made it clear that storms were expected all day along the north coast. She suggested that they use the hotel pool and when the rain arrived they could always retire to the bar or the games room. The satellite TV was also available in the games room.

Bill secretly thought a day lounging around the hotel would be quite pleasant. He suggested;

"Why don't I invite you to spend today here Jack? We could still resume our discussions."

"Sounds good enough to me."

The two men gravitated towards the pool table, which was in the open air but covered by a large canopy. Bill picked up a cue and this seemed to indicate what they would be doing for the next few hours.

The receptionist adjusted the mechanism at the pool table which meant that all games were free – and both Jack and Bill began displaying their skills and got on with the game.

Potting a striped ball, Jack clicked on the dictaphone and started the verbal proceedings, thinking to himself how many key points they might be able to pot during today's conversation.

"Right," he said "So today's work is on the subject of fraud?"

"Yes, absolutely."

"What do you know about fraud?", Jack enquired, playing a safety shot much to Bill's annoyance.

"Exactly nothing," came the reply.

"Right" said Jack feeling a little embarrassed about his lengthy speeches yesterday. "I have a lot to say on this – if you don't mind that is."

"Fine. Our consultant's initial report has suggested that fraud could arise because of our lack of controls. It also appears that our chief purchasing manager has been involved in underhand practices. The police have enough to arrest him and I will have to deal with the consequences when I get back to work. Fraud and corruption are unpleasant subjects – there is nothing positive about them – just human greed. But what I'd like to know is, why is fraud not part of the managerial control system that you keep referring to. Surely it is an important component of control?" Bill then missed what should have been an easy pot and swore.

"Well", Jack took up the questions. "The managerial control system consists of key processes that should be dealt with for good control to arise. But, there are also key control objectives – i.e. that which we seek to achieve to promote good control. They include:

- compliance with procedure – we discussed this yesterday;
- sound management information – we will leave this for another day;
- value for money – i.e. economy, efficiency and effectiveness and our subject;
- the protection of assets and interests that may be subject to fraud and abuse if left vulnerable."

"These assets are protected by good procedures and accountability as well as physical security. If we are not careful they will be depleted by dishonest persons."

Making three pots in a row, Bill interjected "I guess if we employ good people – we will be okay? The problem with fraud and corruption by employees is that it flies in the face of current management practices. Most organisations have reached an enlightened view of management, where we get staff to take full responsibility for their activities. Instead of

giving them a long-winded job description we now say you are responsible for this area and leave the rest up to their good judgement, exercised within the bounds of our standards and procedures. This is great in getting commitment from people and allowing them to release their energies in a dynamic manner. However, once fraud is on the agenda we return to policing, checking, supervising and documenting everything. We go back to the view that people cannot be trusted. You just cannot discuss controls without addressing the issue of fraud – it's impossible."

"I suppose we go back to the 'it must never be allowed to happen again' model every time a scandal happens. I anticipate this will be the case when the problem with my purchasing manager blows."

"Another problem is internal discipline when employee fraud occurs. Here procedures, instructions, investigations, reports, reprimands and all the negative aspects of management come back to the foreground. You cannot win. Management must come down heavily on staff where they are implicated in fraud. We would also need to carry out a detailed investigation along with all the repercussions of this."

"Right – where do we start?", Jack asked as he lined up a shot. Bill winced as the last red stripe spun into a side pocket leaving the white ball positioned nicely on the black, which Jack then missed. "I can tell you the areas I would want to cover on the subject of fraud."

"These include:
1 definitions;
2 responsibilities;
3 dealing with allegations;
4 detecting fraud;
5 carrying out investigations;
6 internal discipline;
7 the ethical dimension;
8 whistleblowing;
9 example of a fraud investigation;
10 prevention."

"How about that as a start? We arrive again at our magic number, ten."

"Sounds good enough to me, Jack. How about some of your famous quotes? I understand you now take a spiritual view of life?" Bill laughed as his safety shot meant that Jack was snookered.

"I am pragmatic, Bill. I use standard material where it fits the circumstances. I will use poetry when this better expresses a view. There is no fixed position. It all depends on what I'm looking at and how I'm feeling at the time."

"Foul!", suggested Bill, as Jack failed to reach the black ball.

Standing back from the table, Jack reached for the book of reference material. "Let me see. You want some good quotes do you? How about one that expresses the human frailty in all of us. Like the commission of mistakes and succumbing to temptation – as expressed by James Shirly in *The Lady of Pleasure:*"
I presume you're mortal, and may err
(Partington, 1992, p. 646).

"Right." continued Jack – "Back to the ten areas that we should cover:"

1 Definitions

"We can say that corporate fraud can take many different forms. It can be perpetrated against the organisation – as happens when a gang intercepts your cheques in the post and diverts them. It can be perpetrated by an entire organisation, where it fabricates its financial accounts to secure bank loans. It can be carried out at random through a smash and grab incident where say someone walks into a wages office and robs it. It can be a common fraud that is programmed into the figures, such as minor pilferage. It can be perpetrated by people who do not work for an organisation – say someone submitting false invoices to the payments section. Where this happens one would call in the police and they would instigate an investigation. An organisation would not have authority to access third party information and there is not much we could do outside of co-operating with the police authorities. The type I'm most interested in is employee fraud where we take on people who do, or try to defraud us, via their special position in the organisation. Fraud is not set out as a particular criminal offence. One definition argues that fraud involves the use of deception to obtain an unjust or illegal advantage. This advantage may be financial, or simply a defined personal benefit or advantage. It may be secured for the perpetrator or on behalf of someone else. Fraud covers offences such as:
• theft – simple or conspiracies;
• forgery;
• bribery;
• corruption – say accepting gifts from a preferred supplier;
• misrepresentation;
• false accounting;
• fraudulent conversion;
• extortion through the use of blackmail; and
• other things that fall under the generic banner of deception and illegal acts."

"A feature of many frauds is the act of concealment, sometimes associated with false accounting; the idea being that the fraud

remains undiscovered and the person responsible is not found out, in contrast to the smash and grab frauds, where the problem is immediately obvious. Having said that, frauds come in numerous forms and formats."

"At times, when the transactions become too complicated, we may only be able to prove false accounting. This latter point is important – since we can only say someone has committed a fraud when this can be proved to the satisfaction of a court of law – i.e. beyond all reasonable doubt. The keyword in this respect is the existence of relevant and sufficient evidence. That's the big problem with fraud – if there is a lack of relevant evidence we have no crime. Even if we're sure someone is guilty. That's the frustration."

"Some quotes:"
Government departments have lost £280m through poor financial control and irregularities, according to the Comptroller and Auditor General's report for 1994-95 released this week. Sir John Bourn pointed to weaknesses in departmental procurement procedures and the inadequacy of government specification, which has resulted in unplanned additional expenditure (*Accountancy Age,* 1996a).

Mafia type crime syndicates are behind multi million pound frauds of European Union funds, the European Commission claimed yesterday as it announced it had discovered some 5,000 cases involving nearly £1 billion last year...Some of them also traffic in drugs, in people and in money laundering... (*The Guardian,* 1996).

"Some argue that fraud depends on motive, means and opportunity. That is a person has a motive for committing the fraud – they may have financial difficulties or feel the company owes them. In fact, I have a theory that all fraudsters justify their actions. Their excuse may be warped or it may simply not add up to acceptable standards of behaviour. Nonetheless, they still have some kind of excuse that satisfies them. Means is a bit more obscure as a concept. Some argue that the criminal must have the intellectual capacity or be 'streetwise' enough to plan and get away with it. It may also require the ability to lie or conjure up a convincing excuse and so require the type of personality that can pull off these acts. Finally, the criminal must also be able to perpetrate the fraud – that is they have the opportunity. This may entail the use of passwords to computerised systems, or physical security devices such as keys or keypad numbers. They may be in a position of trust that gives them defined privileges. The point being that motive and means is not enough, without being given a chance to defeat the

systems and controls. A more cynical view of the three-component model is that – if all these attributes are in place (motive, means and opportunity) then there is likely to be a fraud – not a very comforting thought. The upside is that a little research may isolate the types of areas at risk and some of the signals that there could be problems – for example a payments clerk who can action payments unsupervised, and who has just been told he will be made redundant in a month's time."

"Let's see what the accountants think about fraud trends:"
English Institute of Chartered Accountants Audit Faculty survey (1997) on the types of fraud that will have greatest impact on UK companies:
• misrepresentation of results;
• tender fixing and procurement fraud;
• undisclosed liabilities;
• transactions with connected parties;
• computer fraud – manipulation of programs;
• also dummy suppliers – forged invoices (*Accountancy Age,* 1997).

This survey revealed view on fraud trends:
• decrease a little – 1 per cent;
• remain about the same – 12 per cent;
• increase a little – 37 per cent;
• increase a lot – 50 per cent.

"I don't need to go on. Fraud is big business and if you allow your organisation to become vulnerable – someone, somewhere, sometime will probably take advantage and defraud you. Your systems of internal control are there to act as a safeguard against this risk. In fact if you talk to a typical manager about the goal of internal controls, he/she will probably link them to the problem of fraud more than anything else. Certainly the press and politicians take this view. They also feel that formal regulation by 'external-type' agencies e.g. auditors is the only answer."

"That is why I need to include fraud in any discussion of controls. My view is that the concept of fraud as something done by crazed criminal gangs or unbalanced employees is gradually being replaced by the concept of sleaze as the major concern of society. This is to do with a general 'get as much as you can' attitude that permeates throughout the corporate world, public sector and the political arena. This being more to do with a lack of morals or standards generally."

"It was George Bernard Shaw who first used the phrase:"
A great devotee of the Gospel of Getting On (Partington, 1992, p. 638).

"He also said something that, to my mind, brings out the concept of sleaze;"

A government which robs Peter to pay Paul can always depend on the support of Paul (Partington, 1992, p. 636).

"This is a wide concept involving social issues – but I take a narrow and slightly distorted view of these words. I use them to illustrate the 'scratch-my-back' theory. Sleaze is about an unwritten rule where all parties to a situation benefit. It forms a wide conspiracy where people take turns to take the cream off the milk. No one loses and all walk away happy. The key point being that most people know what is going on, but it suits them to maintain the status quo."

"It is as well to list some of the areas where fraud can occur. These will obviously vary, depending on the organisation, but can include:
- income;
- expenditure;
- petty cash;
- sales;
- payroll;
- travel and expense claims;
- overtime;
- bonuses;
- free gifts;
- purchases and contracts;
- computers;
- other attractive and portable items;
- information – e.g. customers database;
- credit cards;
- mortgages;
- public sector benefits;
- student awards;
- public sector housing allocations;
- insurance policies;
- capital contracts;
- government grants and loans;
- and many more…"

"Let's move on to roles and responsibilities in respect of fraud."

2 Responsibilities

"Talking about employee fraud is one thing. Getting people interested is quite another. Most people who work for an organisation will not be bothered about getting involved in this subject. It's something for the director of finance, or the head of personnel or the chief executive. Well I've got some bad news. Fraud – understanding it; finding it; investigating it and making sure there are controls to prevent it – is the responsibility of everyone. This is a key point."

"Organisations which establish a fraud team need to be careful. If you suggest that it is not a concern of anyone but the specialist fraud team – you have introduced a basic flaw in your systems of internal control. We come back time and time again, to the view that self-control is the only way forward. Taking away responsibility for control from staff and managers is wrong. We'll get back to this point later."

"Let's turn to the question of stewardship. Peter Block in his book on stewardship argues:"
…We remain watchful of people who have power over us; we feel that the organisation is the creation of someone other than ourselves, and that the changes we want to make still need sponsorship and permission from others at a higher level…Stewardship is the umbrella idea which promises the means of achieving fundamental change in the way we govern our institutions. Stewardship is to hold something in trust for another… (Block, 1993, Preface).

"This stewardship is not discharged by relying on a mature, long-serving employee who is loved and trusted by everyone in the company."

"A reference will help illustrate this:"
…Frumpy with thinning hair and often dressed in dirty clothing and trainers, none of her colleagues marked her out as a criminal mastermind. Yet, in one week, she walked out of the Northampton Post Office where she was a counter clerk with a total of £231,896 in used notes stuffed into shopping bags. The first thing her employers knew was days later when they found her groceries in the safe – instead of cash destined for sub-post offices… (*Daily Mail,* 1996c)

"It is not discharged by ignoring fraud on the basis that it really doesn't matter. Proponents of business re-engineering have in the past suggested that:"
…Checks and controls are reduced…controls must make economic sense…deferred controls…allowing limited abuse and looking at trends rather than individual instances at less cost…internal audit would fear the abuse in giving managers credit cards…but unauthorised spend will be picked up later… (Hammer and Champy, 1996, p. 58).

"It is certainly not discharged by leaving it all to a central fraud team, or internal audit. I really don't want to be prescriptive, but we can discuss the roles of specific parties in respect of fraud. In fact, Bill, it may be better if you had a go at this", concluded Jack realising that excessive talking was affecting his performance at the pool table; having lost three games in a row. As if to reinforce this point, Bill missed an easy shot as he thought through his list of interested persons in response to Jack's challenge.

"Certainly," Bill replied while checking his cue for flaws. No, it looked okay, he thought.

He wondered whether they could stop talking and concentrate on the game – Bill's mind was playing tricks and he felt a little guilty harbouring these terrible thoughts.

"Certainly," repeated Bill as if to tell himself that this conversation was more important.

"I guess I can make a start." Thinking back to his reading on control, Bill could not remember any material relating to fraud.

It didn't matter – he could hazard a guess:

"1 The chief executive must take steps to ensure the company is protected against fraud and if it does occur, ensure it is properly investigated and resolved.

2 The external auditors will be concerned about any fraud that impacts upon the accounts and their responsibilities to give an opinion as to whether they show a true and fair view or not. They may also refer less material problems to management. Moreover, they may express any concerns they have regarding a company's steps to guard against fraud.

3 The director of finance may be the nominated person responsible for investigating allegations of fraud.

4 There may be an internal audit set up to discharge the director of finance's responsibilities as just mentioned.

5 Individual managers have a duty to ensure fraud is dealt with via the appropriate organisational mechanisms, having reference to the parties I have just mentioned.

6 The head of personnel must ensure any staffing implication of fraud work is dealt with properly, and in line with internal procedures relating to staff discipline.

7 We may also have a compliance team actively looking for problems of this nature."

"How about that!" For Bill, this enthusiastic debate was actually improving his game. Jack ventured a muted round of applause along with cries of "Bravo, Bravo…well done."

3 Dealing with allegations

Jack had resigned himself to losing badly to Bill as the black trickled into an end pocket and Bill started suggesting in the most innocent manner that they keep a tally on the number of wins. Instead Jack sought solace in the day's topic of conversation. Jack continued;"

"Systems of internal control are designed to drive through good performance and stop bad things happening. Simple. They should stop frauds from occurring and everything will go well. In reality this simplistic model will never work. Things can and will go wrong and people will be tempted to dip their fingers in the till. Staff collusion is still harder to control. I need to include allegations and investigations in my consideration of systems of control, since there are times when we need to sort things out. In fact, we can use a standard 'PDC' model to reinforce this point. PDC standing for preventive, detective and corrective controls. The idea being:"

"P – To stop problems happening in the first place. So we seek to install strong control over assets at risk and ensure they are protected. For example, we may require cheques over a certain value to be countersigned by a senior director to avoid large amounts going out under one signature only.

D – If there are problems, we need controls that isolate them for our consideration. A bank reconciliation will tell us whether the amount paid on a cheque has been altered since it was drawn and dispatched. It will not agree with our record of that cheque and it could well be that the amount has been altered as part of a conspiracy to defraud the company. The point being that if wrong, or irregular transactions get past our first line of defence (preventive controls), they will still be picked up early.

C – Corrective controls seek to put right what went wrong. In respect of fraud, this may mean close contact with the local police, a hotline to the bank where funds can be frozen, where a cheque amount has been altered. These types of control seek to limit damage, correct errors or problems and may even involve a snap review of what went wrong – so that we can install better controls quickly if needs be."

"The fact that the company has an established procedure for dealing with allegations of employee fraud and subsequently launching an investigation is a control in its own right."

"This is why we need to ensure managers, staff, stakeholders and all those who affect an organisation, understand what fraud is about and know the company's policies and procedures on this matter."

"A company may encourage people to give tip-offs where they have reason to believe an employee is involved in fraud. In fact, a national scheme established by the British government in 1996 publicised a hotline for people who had knowledge of fraud by public sector benefits claimants:"

The shop-a-cheat hotline was buzzing yesterday. Within an hour of its launch as part of a government blitz on benefit fraud, more than 250 callers had phoned with information about possible fiddles. After four hours,

there had been more than 1,000 calls…
(*Daily Mail*, 1996d).

"If we use whistleblowers – most frauds can be found out", Bill suggested.

"This is not really whistleblowing, Bill. We can deal with this subject later. It's number eight on the list I think."

"Anyway where were we? Right…allegations. In my experience many frauds come to light because someone relays their concerns about irregularities. People stumble across a fraud or the perpetrator confides in them, and they decide to bring the information to the person they think is most able to deal with it. Some make anonymous phone calls, some write letters again either signed or anonymous. Others will tell you, but ask that their name is kept out of the matter. There are not many people who will want to be involved in a full enquiry. However, they still feel it is their public duty to inform. This is not to say that fraud does not come to light through other means such as exception reports, discrepancies say from information given by a customer on payments they have made, or someone may simply make a full confession. Going back to allegations. This is when a manager may experience fraud as an issue for the first time – when he or she is told that a member of staff is up to something. Most will panic. The right response is to go through the following process and ask:

1 What is the organisation's policy on dealing with allegations?
2 What do I say to the person making these suggestions?
3 Who can I turn to for advice?
4 What initial steps should I take?
5 Can I document the allegation and make sure I can contact the source of the information?
6 Could it be true?
7 What kind of evidence may exist to support the allegations?
8 Do I need to inform the police at this stage?
9 How do I launch an investigation?
10 Are there control weaknesses that should be dealt with?
11 Do I need to take urgent action to stop further losses?
12 Should I confront the subject of the allegation?"

"Let's spend a brief moment on each of these points. But before we do this, I want to emphasise that addressing these key questions is an important feature of the systems of internal control. If a manager or member of staff for that matter is not able to answer these questions – then the systems may fail. Okay, back to the list."

Jack was feeling more relaxed having abandoned the pool table to the receptionist and Bill who were now playing. It turned out that the receptionist, Ruth, was off duty and was able to join in. Ruth was a tall and most attractive woman of around 30 years old.

Bill nodded at opportune moments which suggested he was paying close attention to Jack's remarks whilst still managing to keep up with Ruth who appeared to be an accomplished pool player.

Jack feeling able to concentrate fully on his material continued; "Right – the list of questions:"

"Before we go on," Bill said – "we're looking at a list of key questions 1 – 12 within the points you are covering on fraud er…points 1 – 10 and we are on number 3, dealing with allegations."

"Correct," replied Jack, trying hard to remember if this was actually where he was in the debate. He frowned at Bill who had just potted a ball and thought – so he is paying attention. Not realising that Bill was thinking that this guess at where they were would pacify Jack for a while and he could get on with the game.

"Now – back to the questions." Hesitating for a minute Jack added, "we won't spend long on each one:"

"1 What is the organisation's policy on dealing with allegations? People within an organisation should not be left in the dark on the question of fraud. There should be a formal statement on this matter that indicates roles and responsibilities and what people should do when discovering a fraud, or when it is brought to their attention. In fact, going back to our discussion on procedures, we would want a clear policy on the whole topic of fraud and its implications. It would at least cover these 12 questions. We should also provide staff training based around this policy document."

"2 What do I say to the person making these suggestions? This can be difficult. Most informers ask to be kept out of things. They want assurances that this will happen and may well refuse to talk unless these promises are given. Unfortunately, you cannot do this. The local police or an internal disciplinary panel may need to hear from the informant. You can say that their name will be held in a confidential file and they will be told exactly who will be given access to it – which will be restricted on a need-to-know basis. You would then need to reinforce their public and corporate (if they work there) duty to give full information and that this is appreciated. At the end of the day, you

cannot force someone to talk if they do not want to – if you're not careful they may come out worse off for talking in the first place and this will discourage others."

"3 Who can I turn to for advice? The company should make this clear. We argue that everyone who works for an organisation is responsible for dealing with fraud. That is not to say they carry out this responsibility alone. There must be someone who is nominated to advise on frauds where they happen. It may be the director of finance, head of personnel, chief internal auditor, chief policy officer, chief executive (or some one working on his or her behalf), a specialist frauds advisor, a brought-in consultant, a security officer, the head of legal services or anyone who has the knowledge and position to assume this role. If this is worked out beforehand it helps."

"4 What initial steps should I take? This is quite important. It sets the tone for the rest of the enquiry. You need to work out how serious the allegations are. If they indicate a minor issue such as private phone calls then this may simply confirm that staff need to be reminded that there are rules on this. If however it is more serious then a full enquiry may result. In fact, private calls can be serious as I've seen a company phone used for frequent overseas calls running into thousands of pounds. What appears to be a minor problem may also be the tip of the iceberg. I've also seen many allegations that were based on limited knowledge and incomplete facts. The real picture was much more serious and implicated many people in wide-scale abuse. Good judgement is the keyword and again this is something managers can work on in a training environment."

"5 Can I document the allegation and make sure I can contact the source of the information later on? These two points are crucial. By documenting the allegation you are in effect opening up a 'file'. This is the first thing that the police or other investigating officers will want as the work is started. You never get the full facts from the first contact with an informant and it is important that they can be traced for further information."

"6 Could it be true? There are people who spread malicious slander. They tend to want to remain anonymous and give inconsistent information that does not stand up to detailed probing. The question then to ask is could it be true. If the claim is that Fred Brown is up to no good

– the point is – does Fred exist and could he carry out the alleged acts? If the answers are no – there is little work we can do on this matter. Again informants may only possess some of the facts and we need to take this point on board. However, it must pass the common-sense test – which is best posed by the manager for the area in question. If it could be true we need to take it further."

"7 What kind of evidence may exist to support the allegations? We agreed earlier that there is no fraud without evidence. This is still true. When receiving allegations we need to think through the type of evidence that would support the allegation. One obvious source is the information provided and it may be as well to capture this in a formally signed and witnessed statement from the informant. This is known as a witness statement which is taken down in the words of the statement giver. It is best to go through the material first before recapping and writing it down as a statement. This goes in the file and it should be in a format that could be submitted to a criminal court if needs be. The person giving the statement should be told that they may be required to give evidence based on this statement at a court of law, investigations panel or internal disciplinary hearing. The other point with evidence is to ask whether there are documents that need to be secured as a result. They may be in the possession of the suspect and we will need to think about keeping the matter secret and/or confiscating the documents. At an early stage the enquiries must be kept covert for fear of destruction or tampering with evidence. This is where most people go wrong – they immediately confront the suspect who then interferes with the evidence."

"8 Do I need to inform the police at this stage? The organisation should have a nominated person who will contact the police. It may be best to refer all cases to the police for investigation; we may make further enquires and keep them advised on progress or we may simply seek general advice on how best to deal with the problem. For example, in the case of fraudulent overtime claims, the local police may ask that the company investigate, open a file, analyse the documentation, carry out interviews and then pass the file over to them for a decision on prosecution (via the crown prosecutors). It may be as well for the company to install a policy whereby all allegations of fraud are passed over to the police

straightaway as any delays will cause awkward questions later on."

"9 How do I launch an investigation? The company will launch an investigation if needs be and this will involve the manager in some way. It should not be a unilateral decision and advice should be taken before too much work is done – referring back to point 3 above."

"10 Are there control weaknesses that should be dealt with? This is important and may entail quick fixes and a longer-term review of what went wrong and why. Most frauds are the result of failings in control – and we need to put these right. Quick fixes such as replacing locks where people have unauthorised access to secure areas are important to stop this type of abuse."

"11 Do I need to take urgent action to stop further losses? Unlike the previous point – this is to do with stopping the fraudster in their tracks. There is a responsibility to protect organisational assets and if we are told abuse is happening, while we may want to carry out a covert enquiry, we may need to stop further abuse by the suspect. If we let them continue we may get good evidence for prosecution (or discipline) but we must be careful. Allowing the abuse to continue once you are aware of it may be seen to be condoning it."

"12 Should I confront the subject of the allegation? The answer should be no – not without advice. If this is not handled properly – the person in question may hide evidence, go off sick with stress and sue the company for causing them undue suffering through unfounded accusations. They would also claim victimisation and would probably be able to show that the company had not acted reasonably (grounds for an industrial tribunal claim) and had breached its own procedures for carrying out proper investigations. A decision on whether to suspend the person pending the outcome of the investigation will also have to be made – but accusing them out of hand will lead to problems. An example will help illustrate this:"

A teenage student did so well in her holiday job on a supermarket check-out that she was promoted to supervisor. But the job ended in tears for Neely when £500 disappeared from a locked cash cupboard. The security manager immediately accused her of theft and called the police. She says she was frogmarched from the store in Bristol, and locked in a police cell for several hours. But a week later – after another £250 vanished from the cupboard and detectives discovered that the keys were left on a hook next to it – police dropped the case. Neely, who is 21 today, is now suing the Supermarket for £5,000 for the distress and the damage to her reputation… (*Daily Mail*, 1996e).

"I still don't understand why people commit these frauds. What drives someone to do this?", Bill enquired, whilst sipping a Red Stripe beer. He and Ruth had decided to take a few minutes off from the pool table before resuming the talks.

"Good question. I've thought about the types of people who commit fraud and I can't find any common denominator. I know that if the organisation does not care about sleaze, then the justification I mentioned earlier is more likely to be found. If everyone's up to something, then why not me? – may be one favourite motto. It can come back to the corporate culture more than anything else. This is particularly the case where a whole group of workers are involved in what can only be described as regular scams. A 'concern for people' manager (remember Blake and Moulton's grid?) can lead to this 'looking the other way'. Where we cannot give pay rises or where promotion is not possible, due to the economic climate – perks, (authorised and unauthorised) may be seen as a way of life. This does not excuse anyone or provide for the hardened criminal who joins a company with the sole objective of defrauding it. It does, though, give us a clue as to why some companies are seen as easy pickings. I believe if you allow yourself to be vulnerable, someone will penetrate your controls – or more accurately exploit gaps in these controls. If you pay invoices willy-nilly, say with no supporting orders, it is only a matter of time before unauthorised payments get through."

"In terms of sleaze let me give you a suitable observation from Mark McCormack:"

All things being equal, people will buy from a friend. All things being not quite so equal, people will still buy from a friend (Exley, 1993, p. 4).

"Let's move on to detection."

4 Detection

"Relying on allegations is one thing and I still argue that this is an important source of information. A further approach is to actively look for fraud and irregularity. Again, each member of staff should be aware of this possibility and be vigilant. It's a bit like the neighbourhood watch scheme. We all need to keep our eyes open and take responsibility for finding fraud. That is not to say we encourage

an organisation of people spying on each other – it is more a view that things can go wrong and we need to be aware of this."

"I give you an example of one fraud I've seen:"

"A junior administrative person had been processing petty cash claims for many years. This ran into hundreds sometimes thousands of pounds a week. When a claim had been made he would include £100 after any claims of less that £100 and insert a couple of lines to account for this disbursement. He even made up what appeared to be receipts from local shops to support the claims. So a typical claim might start out as (Figure 23):"

Figure 23
Original claim

PETTY CASH

| OFFICER..................... SECTION............ DATE...... |
| EXPENDITURE CODE........... |

	£	£
Supplies for mailshot	34	
Travel from a to b	16	
	- - -	50
		- - -
TOTAL		50
		- - -

Signed. *A. Brown*.......... Authorised *H. Rules*...

"After being doctored by our friend it was turned into (Figure 24):"

Figure 24
Amended claim

PETTY CASH

| OFFICER..................... SECTION............ DATE...... |
| EXPENDITURE CODE........... |

	£	£
Supplies for mailshot	34	
Travel from a to b	16	
	- - -	50
mailshot folders		100
		- - -
TOTAL		150
		- - -

Signed. *A. Brown*.......... Authorised *H. Rules*...

"The extra £100 would be pocketed and the claim with supporting vouchers for the additional lines would be filed for later review by the auditors."

"The administrative officer's line manager reviewed a selection of such filed claims and felt there was a pattern – something was wrong. After an investigation going back over two years' worth of claims, the suspect was interviewed and eventually admitted he did it, mainly out of boredom."

"The records were sound and supported by vouchers but there was something wrong. As Sir Arthur Conan Doyle's Sherlock Holmes once said;"

My instincts go one way – the facts go the other.

"It is notoriously difficult to work out detection routines. There are times when you have to sit down and think about the way systems can be penetrated and abuse occurs. Before going over something I found several years ago, let me give you some fine words from Robert Pirsig:"

Getting stuck is the commonest trouble of all. Usually, I say your mind gets stuck when you're trying to do too many things at once. What you have to do is try not to force words to come. That just gets you more stuck. What you have to do now is separate out the things and do them one at a time (Pirsig, 1974, p. 281).

"I went through this process when considering fraud detection and ended up with a project whereby we ran the pensioners on our pensions database against the names and references on a national database. We found that we were paying pensions to dead people – annual declarations had been fabricated to suggest that the persons in question were still alive."

"Another of my projects involved running employee details against another national register to reveal that we had over one hundred people working for us who were claiming state benefits on the basis that they were unemployed."

"One word of warning – check with the data protection officer and legal people before embarking on this type of fishing expedition. Also – it tends to be corrupt and/or incompetent organisations that end up in this position – i.e. employing an army of fraudsters. So asking yourself how you got into this mess in the first place, is as important as doing the detecting. An organisation that needs to employ a fraud detection unit who generate a police-like state with vast sweeps and surveillance exercises, is indicative of an organisation run by a bunch of incompetents. This is a pretty standard equation."

"For the local manager and his/her staff, it's simply a question of understanding the risks, keeping in mind signs that not all is well and being able to take action and seek

advice where needs be. Assuming responsibility for fraud is the start place – again which is why I don't always like the idea of a dedicated frauds unit. We simply need an internalised control facilitation unit."

Bill looked up from his cue stick at these familiar words.

"Patience, my friend, patience." Jack was forced to add. "Before we leave the question of detection let me give you a word of warning…I had one fraud where income was being systematically diverted and informed the manager. His response was to show me the statistical analysis of this income which implied that all was present and correct – what they thought they should receive was being received at least in round figures. What he had not realised was that the fraud had been going on for so long that his figures had always been artificially deflated. The investigation eventually lead to arrests and criminal convictions as well as the dismissal of the people concerned."

5 Carrying out investigations

"I could go on and on about investigations and investigative techniques such as analytical review and surveillance. This would be a little over the top since the average employee need not get involved in this level of detail. Having said this, anyone may be roped onto an investigations panel or team, and my view is that the manager for the areas where the fraud is alleged to have occurred should have a role in the investigation – to reinforce his or her ongoing responsibilities. It is not good practice to simply refer a problem to investigators and leave it up to them. The manager must ask – what do we do about this problem, do we have enough evidence to conclude it and where do we go from here? If the investigations team disappear with the file and leave the manager out of it then the manager must complain. This is only acceptable where the manager may also be implicated, or cannot be ruled out at this stage. The fact that the manager is friendly with the suspect does not matter – there is a professional duty to discharge nonetheless."

"Don't let the investigators disappear with the case. They work for you and you must demand action and you must make the executive decisions. This may relate to immediate suspension or bringing disciplinary charges. Suspension is done to aid the progress of the investigation and should in no way indicate guilt. You do not suspend someone so that you can investigate before bringing disciplinary charges – you suspend them so that you can investigate properly and then make a decision on whether or not to bring these charges. This

is an important point that is sometimes missed. It also applies to interviews – if you are going to charge someone then do it – if you wish to interview them it is only to enable you to decide whether or not to pursue the investigation and not to catch them out, once you have already decided to charge them. Some employees simply allow an organisation to make these mistakes then sue them or take them to industrial tribunal after the investigation is botched up. It is only because companies settle out of tribunal or court that it is hushed up and everyone goes away thinking they've won. These payments are in my view hush money to cover up mistakes by the organisation – part of the sleaze we've talked about. An organisation which spends its time making such payments is basically corrupt. So is one that suspends people out of hand, sometimes for years and them pays them off in the end – because it cannot find a case to put against them. The stewardship role has failed and management has let down its primary stakeholders."

"For an organisation, the purpose of an investigation into employee fraud is twofold – it is to assist the police in their efforts to tackle crime and make society a better place for all. It is also to ensure that people who cannot meet the required standards of conduct are removed from the organisation as soon as possible. These two points are obviously linked, but we must deal with the fraud in the context of dismissal if the circumstances and evidence warrant it. The key is to dismiss for breach of procedure and not a criminal offence – you can only prove a crime in a court of law. We will deal with this later in the discussion on internal discipline."

"For our purpose it is enough to go through a brief model of an investigative process – bearing in mind that each one will be different in practice. My first such outline model is shown in Figure 25:"

Figure 25
The fraud process
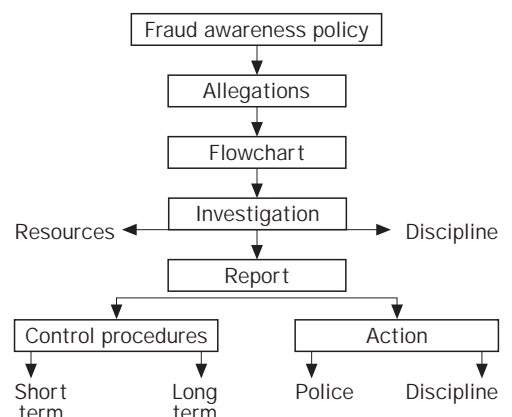
"Here we work within a policy of fraud awareness so that if and when a problem of this nature arises – people know how to deal with it. At least they know about organisational policies and contact names."

"We then have a three-stage mechanism – where we have a defined resource to advise on fraud, there is an investigations procedure and we have a clear link into the staff disciplinary procedure."

"We turn then to a policy on allegations – the type of things we have already discussed."

"The next point I've called 'flowchart' – this term is used to describe the task of documenting the process at risk and who does what. So as to gain an understanding of how the work and information flows operate and how the fraud has happened."

"We then go on to the investigation proper which we will deal with in a minute."

"The diagram suggests a two-way split – one dealing with the implications for the system of control involving immediate action, then longer-term improvements. The other side is the criminal prosecution and the internal discipline."

"The second diagram gets down to some more detail and deals with the investigation proper (Figure 26):"

Figure 26
Fraud investigations
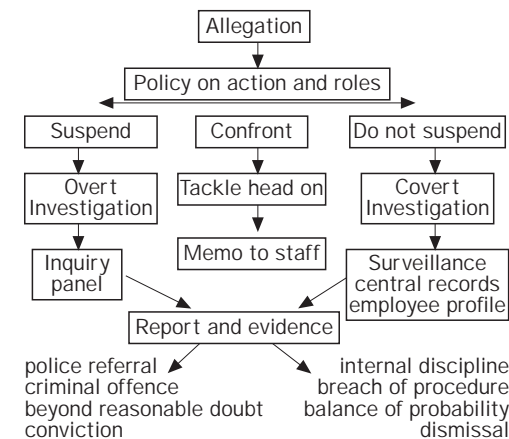
"Most of the above is self-explanatory – but we could go through them in outline:"

"Allegations and the adopted policy have been discussed."

"We can suspend the employee/s – this will bring the thing out in the open. An inquiry panel may be used to investigate, with the line manager playing a key role. If the police have arrested Mr X for forging company cheques, we may suspend him pending

further information on the case. One can only suspend without full pay where this is built into the contract of employment. Otherwise the salary will continue to be paid – which reinforces the view of innocent until proven guilty."

"We can confront the culprit – say for an obvious problem or minor offence. If someone tells us that a cashier, Mr Y, was convicted of shoplifting in a magistrates court last week, we may simply call him in to clarify this point."

"We can keep the problem secret and carry out background work. This may entail accessing central records that relate to the offence or the employee. An employee profile may be put together giving us all the information we want on the suspect, Mr Z. Moreover, we may carry out a surveillance exercise and seek evidence to support the allegations. If someone tells us that a stores clerk is selling our stock at a local Sunday market, we may care to make a visit to this market as well as retrieving all the stores records that may support our case."

"A police referral puts the case into the hands of the authorities and seeks a conviction for a criminal offence that must be proved beyond all reasonable doubt."

"The parallel route means we must try not to wait on the outcome of a court case that may collapse, take a year to conclude, or be won (and then lost on appeal). We will seek charges for breach of procedure, say unauthorised disposal of company stock at a Sunday market rather than theft (which is what the police will be looking into). The strength of evidence is not as demanding as a court of law as we will seek to prove our case on the balance of probabilities."

"In one sense the investigation should seek to prove there is no case to answer – this is just as important as proving guilt. It all depends on the available evidence and what this suggests. Good cases depend on good evidence. This may take the form of:
- witness statements;
- prime documents;
- analysis of figures;
- computerised audit logs;
- records prepared by the suspect."

"It should not depend on extracting a confession – since this approach has been shown to be flawed. Using threats and psychological pressure to extract a confession has no place in proper investigating methods. We investigate then seek explanations."

Ruth decided to add her thoughts on the subject:

"You're going on about evidence of the crime? Let me tell you this – a relative of a

friend of mine was involved in a car accident. He ran over a small child one evening in Manchester – who died on the spot. It wasn't his fault, the boy just ran out in the road. Anyway, this relative was not insured to drive and he didn't have a licence. When the car stopped further down the road, his cousin got into the driving seat and rubbed his hands all over the steering wheel. The cousin had the right papers. Well the men left the car and were questioned by the police. Witnesses described the driver but the police were convinced that it was the cousin who was driving – after they examined the finger prints on the driving wheel."

She let out a contented sigh and added; "I think you had better be careful when using evidence – it does not always lead to the truth."

Jack looked thoughtful at this suggestion and then continued; "Point taken. But there is no point discussing masses of material on investigations and procedures. I would not ask that internalised control is about getting employees to be experts in investigating fraud. This is not necessary. I would, though, recall one case I was involved in that required weeks of surveillance, five main suspects, the use of video recordings, a team of 15 auditors, and extensive analysis of documents and witness statements. It was carefully planned and monitored after which we passed huge files of evidence and formal witness statements over to the police. This case led to internal disciplines and dismissals for the five employees along with criminal proceedings. I would not expect a manager to be able to handle such a case – rather the line manager would support this investigation and help make decisions along the way."

"What I would say is that an important part of the investigation is based around interviewing people. They might be informants, people who have background information, key witnesses, senior managers on policy issues (such as rules on accessing computer systems or taking home equipment that belongs to the company) and finally the suspect or suspects."

"You may think that policy matters have no place in a court of law – but I know of at least one case where a workman was found not guilty of stealing work tools as we had no clear policy on temporarily storing such items at home."

"Interviews are an important stage of an investigation. They can be done well or end up as disasters. The vast majority of employees dislike fraudsters and frown on their activity. They wish to see problems dealt with quickly and efficiently by managers. However – they also like to see fair play rule. The

way people are interviewed and the kinds of explanations that are sought and provided, can have a great impact on the perceived value of the investigation. This is particularly the case for inquiry panels, where people present themselves to a formal hearing and give evidence. It must be done sympathetically, but with the best interests of the organisation at hand. A firm but fair approach is best – using listening rather than interrogation skills. We need to encourage people to come forward with information."

"In fact we can use a model devised by Paul Hague (Hague, 1993, p. 13) to consider this form of communication (Figure 27):"

Figure 27
Interview styles
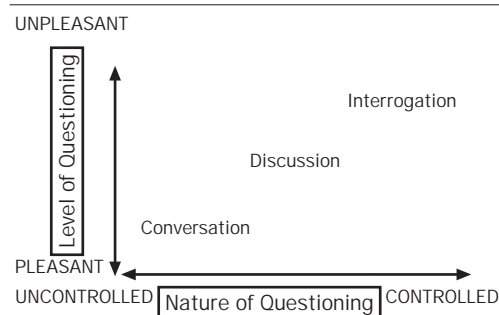
"I would be tempted to add a fourth line at the bottom right hand corner – for pleasant but controlled interviews. This is done mainly through clear explanations and addressing the witnesses concerns throughout the interview. Control, in this context, means getting to the facts (but remaining pleasant), no matter how hard one has to work. In contrast, an interview with a suspect cannot really be pleasant, as such, but it can still be fair and not intimidating."

"We must get to the bottom of things in an interview and the use of body language in assessing a response helps. We must try to see through lies, inconsistencies and red herrings. As Algernon Sidney said before his assassination for his alleged part in the Rye House Plot in 1683:"

Liars ought to have good memories
(Partington, 1992, p. 646).

"Body language in this context is about using signs of discomfort to probe areas where the person is experiencing some tensions. We need to get these out in the open, not in an aggressive manner but simply in pursuit of the truth. Remember witnesses may be friends of the accused. Where someone looks away, uses gestures, shortens their answers, pauses, turns to negative phrases, taps their feet, changes position, blinks a lot – when

facing certain questions – there may be a problem (although not necessarily) that needs to be probed."

Lunch consisted of stew peas, eaten on the veranda, just a few metres from the Caribbean sea. Bill watched the surf drift in and out and felt a tingle through his spine. Drinking rum punch topped up with ice, and hearing the rhythmic beat of reggae music audible from a bar across the road, he felt so relaxed. This is the life – nothing to worry about, no sense of time.

Meanwhile the words of a Bob Marley song being played in the bar drifted past them – it suggested;

Don't worry about a thing;
Because every little thing is gonna be alright.

"You guys have a wonderful life here don't you?", Bill asked his new-found friend, Ruth, who had a few minutes to spare before her shift started.

"This island is a complete paradise," agreed Ruth – "but it's quite a struggle to survive. Salaries are low and the cost of living is really high. It's one thing being on vacation and quite another when you have to live and work here. It's not easy. In the words of Freddy McGregor, one of our most famous singers in Jamaica – 'to be poor is a crime'."

Bill closed his eyes and thought about nothing. This is the first time in a long while I've been able to do this. Just thinking of nothing.

"Right" said Jack – "What do you feel like doing – pool or pool. That is the hotel pool or another game of pool."

"I feel like a swim. Have you got your swim gear Jack?"

"That's OK – I'll relax by the pool and you have your swim."

The rain had stopped and the swimming pool was inviting and cool. After Bill had done a few laps Jack resumed the topic of the day.

6 Internal discipline

"Right – we've got to item six, internal discipline. I think this is so important when employee fraud is on the agenda. To be honest, and I know this is sacrilege, but the organisation should leave fraud investigations to the police and concentrate on the disciplinary side. The police will not really encourage you to carry out your own inquiry and put an internal case together. They normally feel that this will interfere with their criminal case. I don't agree – we need to retain our own set of documentation and create a file of evidence. As a rule, give the police copies of evidence and retain the originals. Only give these up if absolutely necessary say, for the crown prosecutor or if requested by the court."

"Internal discipline is a prime example of the Jekyll and Hyde dilemma. This Robert Lewis Stevenson story involves Dr Jekyll and Mr Hyde. It describes what happens if we release the bad side of our personality which is the hidden moral deviance existing within us, although the story suggests that we have problems controlling this side once released. I use this concept in a different way to describe the dual nature of management. To help assist and develop staff – to their full potential. But also to monitor, review and take action if they fail, despite all your efforts. And to deal with unacceptable behaviour – at one extreme, to action summary dismissal after the case has been heard by a disciplinary panel. It is sad, and unfortunate, that this must happen and it is so difficult to rebuild relationships after the process starts. This is why, if we are sure a member of staff is involved in fraud, we really must not allow them to remain with us. A knee-jerk response may be to sack him regardless. Be careful – if the police reckon he has committed an offence and should be locked up, that is their view. The temptation to suspend the person and wait to sack him when the court case is heard causes many difficulties. You need to install a disciplinary procedure and ensure this is adhered to throughout."

"Furthermore, the problem is that once we start disciplinary action relationships tend to break down. We adopt a win-lose stance and start to view the employee in question as the enemy. As Cornelius Tacitus said back in ad 56;"

It is part of human nature to hate the man you have hurt (Partington, 1992, p. 677).

"Let's take some general points related to fraud:"

"1 Make sure you make breach of procedure a dismissible offence. Normally a first breach should result in a warning. But, if this is related to fraud then it should be sackable. Unfortunately we play a subtle game whereby we don't suggest that the charges relate to fraud, but we deal with them as serious breaches because they do involve crime. This is a moot point – all correspondence relating to the charges should state breach of procedure – say unauthorised removal of xyz. But make it clear to the panel that this is a serious incident (i.e. a theft)."

"2 Put together a disciplinary file as well as a file to hand over to the police for prosecution. For example, in the case involving our petty cash fraudster we put

together a file of forged claims and interviewed our friend on these unauthorised claims. We then convened a disciplinary panel who heard about these breaches. Meanwhile, the police cautioned and interviewed him and started prosecution, via the CPS. Our internal case was removed and not dependent on the court case. We pressed for dismissal because of the seriousness of the matter and the panel found the charges proven and dismissed him. If the police case was dropped or was unsuccessful – it wouldn't matter. Our work was done and we got rid of a bad apple. Following this line, you must convene an inquiry into what your purchasing manager has been getting up to. You must put together evidence of any breach of procedure and deal with it as such. There is no point sitting back and waiting for the police to take action – even if this is what they have asked you to do."

"3 The line manager should present the charges to the panel based on a report and file of evidence prepared by the investigating officers, (i.e. the persons who were assigned to investigate the case). The investigators would be called as witnesses to answer questions about the evidence."

"4 Make sure there is someone who represents the organisation in terms of a judicial position. The role is to agree suspension based on the circumstances; commission an investigation into the matter; decide whether this should form the basis of an internal disciplinary; hear recommendations from the panel on dismissal or other action resulting from the hearing and agree or not this recommendation. It is important that the person, (say the CE or director for the area in question), is senior enough and has at heart fair play for all concerned – the interests of the organisation, and the rights of the employee. The mistake that is normally made is for the person to make ill-advised comments such as 'I want the xxx sacked now'; or 'let's get an investigation done and get rid of this xxx'; or 'suspend him now and sack him when we can'; or 'I want a panel set up that has the guts to dismiss'. This is not what we mean by assuming a judicial position."

"5 Interview the employee and give him/her the chance to explain. When fraud is involved and the person is taking part in police enquiries, they will probably have engaged a lawyer. The lawyer will recommend that the employee does not attend a disciplinary interview to discuss matters that are now subject to a criminal investigation. The lawyer will argue that talking about matters that may go before a court of law is sub judice. The response to this, is to simply point out that we are dealing with the person's role as an employee facing allegations of breach of procedure – the criminal case is irrelevant. If the employee refuses to attend such an interview then you will assume there is no explanation that can be offered and proceed to the formal disciplinary stage. Make sure you request the interview as a means of seeking explanation before a decision on discipline is made. Get this right – the interview is not to seek further evidence once you have decided to pursue charges. This would be an abuse of the rights of the employee. Furthermore – I believe formal cautions under the Police and Criminal Evidence Act should be issued by the police or specialist investigating officers. Not all and sundry. When we interview an employee, it is as the manager to deal with organisational issues and procedures."

"6 Make sure the panel is there to get to the truth and is not constrained by formal rules and regulations. The panel can ask questions, show concern where the employee is not being represented properly or has not had a chance to state their case. I sat on an appeals panel where the employee had not attended a pre-disciplinary interview. He also refused to attend a subsequent formal disciplinary hearing which was held in his absence. He appealed against dismissal on the basis he had not been able to state his case. The appeals panel chair wanted to turn down his appeal on the basis that he had refused to attend his hearing. I felt the employee was simply preparing an industrial tribunal case and asked him to state his case now in front of the appeals panel. We could not let him go away without ever having his side of the story heard. It turned out that he had no real defence – but we could safely say that he had been given the opportunity to present it."

"7 The rules of evidence applied at disciplinary are far more flexible than a court of law. This is why many people who get lawyers to represent them at an internal disciplinary find they fail. They look for technicalities, such as the rules on hearsay, and upset the panel during the process. The panel can look and listen to anything, so long as it helps them come to a fair decision. What I'm really saying is that members of disciplinary panels

have a big responsibility and should be trained before being allowed to sit on the panel."

"8 Set the tone for the entire disciplinary as a constructive search for the truth and pursuit of ethical standards of conduct. We will not accept fraud and corruption but we will defend employees' rights at all times. Line managers, senior managers, witnesses, investigating teams, panel members, personnel advisors and all others should adhere to these basic principles."

"9 Give personnel a key role in staff discipline. They should correspond with the employee and advise all parties about the proper operation of the disciplinary procedure. Better still, employ our internalised control concept and get personnel to put on training workshops on internal discipline."

"10 Make sure your file of evidence is sound. This is given to the panel and employee in advance and it may be difficult to introduce new evidence during the hearing. There are basic rules on filing, presentation and ensuring completeness that are well known by investigating officers. Also, place the investigator's report on top as this helps the panel understand the case, since some frauds can be quite complicated. Frame the charges carefully. Make them specific but not too detailed. If they are too tight they could be thrown out if at all inaccurate – say if they are badly worded. If there are several rather than one main charge, then the fact that some may be dropped or not proven is unimportant. Never provide one general charge as this forces the panel into a one-issue debate. I remember one case where a senior manager was implicated in a fraud that was being investigated by the local police. For several years he had not bothered to provide a corporate service to the seven directors who were his main clients. I attended a meeting to review the case against him and discovered that his director had employed a consultant who was covering the work that was not being done since the manager was by this stage on suspension. The consultant was going to prepare a short statement suggesting that the manager was not performing and should be dismissed. This would form the basis of a disciplinary hearing. I objected and said that a proper case should be prepared against him – keeping away from matters that related to the fraud investigation. Opening my big mouth unfortunately meant that I got the

job. I filed the manager's job description and strategic plans for the service in question. I obtained statements from his staff about the work they had been assigned. I obtained statements from each of his internal clients – i.e. the seven directors on what they expected and what they received in terms of service delivery. I put together a comprehensive file of evidence along with a covering report supporting the various charges that had been devised to put to the disciplinary panel. This is the least that needs to happen to avoid losing an appeal or industrial tribunal case."

"Let's move on to the topic of interviews. Just to set the scene Alan Fowler has suggested a number of pitfalls in conducting disciplinary interviews:"

• Failure to keep an open mind about the employee's offence until you have heard all the evidence.
• Losing control of the interview and allowing it to degenerate into a bad tempered argument.
• Reacting defensively to any criticisms the employee may make about you or the organisation.
• Treating the interview simply as a quasi-judicial matter of establishing guilt or innocence, and overlooking its potential contribution to improvements in conduct, attitude, or performance.
• Failing to distinguish between misconduct, for which disciplinary sanctions may be appropriate, and poor performance, which may be the result of inadequate training or poor supervisory guidance.
• Failing to give the employee an adequate opportunity to put his or her case, or forgetting to consider mitigating factors.
• Being inconsistent in the standards or decisions you apply to similar cases.
• Failing to keep an adequate record of the interview, thus causing problems at an appeal stage or if the case goes to an industrial tribunal (Fowler, 1996, pp. 1-2).

"The key point to tackle is resolving the Jekyll and Hyde dilemma. The manager is perceived by some as turning into a monster, harassing a poor victimised employee. In reality, the manager sets a standard where fraud will not be tolerated and the strongest action will be taken. No one can criticise a manager who lives up to that responsibility but delivers it humanely and with humility."

"The manager who takes action against his or her staff is not at fault, it is the employee who tries to defraud the company who is in the wrong. As George Bernard Shaw said:"

The more things a man is ashamed of, the more respectable he his (Partington, 1992, p. 637).

"My view is that a person who feels no shame for committing crimes against his employer deserves no such respect."

Bill was at this stage floating on his back. The experience of swimming and trying to make conversation was proving very difficult. Which meant he was happy to leave it up to Jack to do the talking – pretty much as he had been doing since he met him.

A short break for further drinks at the bar provided a refreshing diversion. Watching a couple of blackbirds chipping at a bird feeder hanging from a nearby mango tree proved very relaxing. Bill put down his drink and returned to floating on his back, which appeared to signify a continuation of the main conversation by Jack.

7 The ethical dimension

"We've arrived at the topic of ethics. This is part of the controls that ensure the risk of fraud is properly managed. I've seen many frauds in my time and as I've said before, although there is no common denominator that I can find, there are general features. Where, from the top, an organisation sends out signals that it does not care – then this view spreads throughout the organisation. The employee frauds that I have seen involve intelligent people who take part in careful planning and execution, exploiting all the systems' weaknesses. One fraudster paid in £100 refund at a cash office and then submitted a forged document for £5,000. Because they had paid in the £100 on an official form – they were not asked for ID as the cashier assumed they worked for the company. They spent £100 to gain £5,000. Their energies are directed towards this task of defrauding the company and they take great pride in beating the system. I've sometimes tried to ascertain why they do it. I've also wondered if they do not feel that it is morally wrong to defraud, lie, cover-up and generally involve themselves in what can only be described as deceit. Some of them seem to take their cue from their managers and senior management. They complain that top people do worse and only care about themselves. This position can be reinforced where executives earn what seems to be huge pay rises, even when the company is obviously tightening its budgets. What I'm saying is that the moral climate is a key aspect of the systems of internal control. In fact, in a hierarchy of controls over fraud – it comes at the very top."

"This view is not accepted by everyone. If we suggest that an organisation with a bad track record for fraud and irregularity probably has its top management to blame for this – we will not get much support from them. However, this does not detract from the truth of the matter. A corrupt company will attract corrupt staff who will take part in corrupt activities either for the company or simply for themselves. A firm of financial consultants who sell investment schemes regardless whether they suit their clients or not, will end up employing an army of wolfish predators; it is not easy to tell wolves which victims to attack – they work mainly on predatory animal instincts."

"This is the downside where there are no rules or standards. To get a grip on the position we need to refer to work done on business ethics. Before we start, let's join with the school teachers and give the business community a stern telling-off. I have made a note of the views of Dr Nick Tate, chief executive of the Schools Curriculum and Assessment Authority, who said:"

> There are many things in our society which are legal, but wrong. It is wrong to advertise products in ways that encourage the selfishness, irresponsibility and rampant hedonism that parents and schools are trying to combat. It is wrong to try to turn children into premature adults, especially premature sexual adults, for the sake of a synthetic youth culture geared to adult profit. It was equally wrong for businesses to have a cavalier attitude towards the environment or to treat their employees badly even if there is no infringement of employment law. Business leaders also needed to tackle the perception that the qualities they really valued were aggression, ruthlessness and deception rather than honesty and consideration (*Daily Mail,* 1996f).

"I hope that makes business people sit up and listen – maybe they'll get detention if they don't improve."

Bill looked up at Jack and wondered how many rum punches he had drunk. Stopping for a sip of his drink – luckily the bar was built inside the swimming pool – he hoped that the conversation would not get progressively silly. He hadn't seen this side of Jack yet.

"Anyway," Jack continued, "Some wise words from Laura L. Nash on why business ethics is now seen as important:"

> No manager can afford, from an economic or moral standpoint, to keep his or her moral notions in a separate compartment, reserved for the narrowest and most obvious cases (Drummond and Bain, 1994).

"She goes on to describe ethical business conduct as:"

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…honesty, fairness, respect for others, service, promise keeping, prudence and trustworthiness (Drummond and Bain, 1994, p. 10).

"We also get a comment on the role of compliance – which you may care to consider in the context of your new compliance team."
…The chief issue for business ethics and the manager intent on sustaining high corporate standards of behaviour is not the detection of all the business people who are unethical. Compliance oversight is needed, but it is not the whole answer to ensuring ethical business conduct. The task at hand for every corporate leader is to concentrate not just on what should not be done, but also on what the ethical manager should be thinking from moral and economic standpoints. Here is where the real moral leadership will occur in corporations (Drummond and Bain, 1994, p. 20).

At the words, 'compliance teams', Bill butted in and said; "Hey – are you going to say anything positive about my compliance team?" before choking on a mouthful of water.
"Oh, of course, there is a lot to commend in your efforts to resource compliance – it's just that we need to give responsibility back to people not take it away from them. Anyway, back to ethics; we need a system of ethical standards that can be used to form a framework for our anti-fraud stance. It's not just about getting people to smile and be nice to each other. It's a real system that seeks to manage and control this aspect of business life. In fact, one thing that deters people from abusing an organisation's systems is a feeling of letting their colleagues down. If employees have an allegiance to the company and feel part of a team – they are less likely to sit in a corner and plan how to defraud it. We can return to Laura L. Nash's work and refer to her words in the file:"
Convenantal thinking's foundation is the belief that all individuals are worthy of respect and service, rather than being of worth only in terms of what they might cost or gain you (Drummond and Bain, 1994, p. 23).

"The point being – if we treat people as important they therefore feel important and are likely to respond in a positive manner. Some might still defraud us, but returning to our previous argument, it may be harder for them to justify it to themselves."
"An entire company can behave in an immoral way. An example provided by Albert Z. Carr suggests that:"
more and more companies…find it cheaper to penetrate the secrets of competitors with concealed cameras and microphones or by bribing employees than to set up costly research and design departments of their own (Drummond and Bain, 1994, p. 31).

"Again what kind of standards do we expect from our staff where we run our affairs in this manner?"
"One concern I have is not so much the corrupt company, but the one that simply does not care. People know something is wrong but no action is taken. Any allegations are covered up or just ignored. A form of stalemate is reached whereby corrupt employees are left alone – whilst at the same time they do not blow the whistle on their managers who may also be involved in sleaze, cover-ups, or be so incompetent that they would be blamed for allowing such a situation. The Peter principle, devised by Dr Laurence J. Peter, comes to our aid in understanding this concept in that:"
In a hierarchy every employee tends to rise to his level of incompetence (Exley, 1993, p. 37).

"Managers who are responsible for controlling activities under their purview and who ignore problems are vulnerable. Any dishonest member of staff can use against them, their failure to install controls – if the fraud (or scam) becomes public the manager is likely to be embarrassed or even dismissed. So a truce is entered into whereby no questions are asked and the scam is kept within limits. Excessive overtime claims tend to happen in this manner. The manager does not know, or care, what hours staff have worked and signs the claims on this basis. So long as the manager does not falsify his or her own claim – he or she feels justified. The organisation and the manager has set no moral code that can help staff. The self-control concept depends on this moral code so that people can work within it, and go on to develop their own controls. Without this – there is no starting place."
"This moral muteness has been described by Federick B. Bird and James A. Waters:"
The short-term benefits of moral muteness as perceived by managers (i.e. preservation of harmony, efficiency and image of self-sufficiency) produce significant long-term costs for organisations. These costly consequences include:
• creation of moral amnesia;
• inappropriate narrowness in conceptions of morality;
• moral stress for individual managers;
• neglect of moral abuses;
• decreased authority of moral standards (Drummond and Bain, 1994, p. 97).

"Having inadequate systems of internal control that fail to protect the organisation from abuse is morally unacceptable. The organisation's assets are therefore at risk. An organisation that does not address this problem is suffering from moral muteness."

"I remember the first job I took as a bought-ledger accounts clerk in a large manufacturing company. I spent many hours listening to my boss on the phone relaying lie after lie to irate suppliers who were pressing for their invoices to be paid. I found this somewhat amusing. In fact, I compiled a list of 50 excuses ranging from the finance director being away and unable to sign the cheques, through to the invoice being lost and a replacement required before we could release the cheque. I'm not sure what kind of moral code I was learning as my reference frame for working in a business – but my manager certainly did not help set good standards. In fact one evening when I had decided to work some overtime – he came over to me just before he went home for the day and handed me a pile of 'men's magazines', suggesting that I would be bored by myself and these would keep me company. What a way to start out in the corporate world!"

"We need to manage the ethical dilemma or we will be in trouble as it affects the level of perception of fraud and sleaze and its justification. It impacts on the way we interpret legal requirements and sets the culture of the organisation. A 'look-the-other-way' view is difficult to defend, since we allow breach of procedure and sanction the wrong behaviour. The 'catch-them-out' route is also difficult as many feel that ethics should be integrated within the organisation and are based on respecting oneself and others. We can install an ethics committee and controls such as exception reports, rules on accepting gifts, hospitality registers, punishment of offenders, enquiry panels into say the effects of Freemasonry – but it is more about deciding where the company stands and then spreading this message through all systems – there are no short cuts."

"I recall one very senior manager who took it upon himself to coach other managers in the best way of securing retirement on the grounds of permanent ill health – and so receive an early pension for life. Top managers took it in turn to take this lucrative route. Moreover, the less efficient your performance, the greater the chances that you were let go as being obsolete. Imagine whole groups of directors and top managers waiting for their turn, and knowing that if they performed well it would lessen their chances. The fact that the organisation had extraordinary levels of high stress did not help. It meant that people were desperate to leave and they could argue a strong stress-related case. One such highly paid individual, who got her lucrative retirement deal when she threatened to blow the whistle on what was happening, retired on the grounds of permanent ill

health, i.e. severe depression. Two months after she left she was being employed in a similar organisation as an independent consultant. The coaching involved telling managers how to make a medical panel feel sorry for you by expressing how you cannot remember things, you don't sleep and you can't face people. If the panel does not make an early decision – you claim this is increasing stress levels and you will sue them if they continue to stall. Since the panel members are also waiting their turn to retire, cases are usually approved. One director using this route managed to stay home for weeks suffering from depression, locked in his room, refusing to see anyone until he got his retirement pension, after which he miraculously recovered."

"Early retirement was seen as a reward for the corporate stress that was caused over the years – as a tit-for-tat move. This culture leads to deep-seated problems in the long term. To compound this problem – top managers implicated in sleaze allegations tended to get the medical retirement they wanted as a way of getting rid of them. They would be suspended for many months (even years), suffer stress as result, and instead of disciplining them and allowing them to blow the whistle (which they always threatened), they were retired with a lucrative package. All sides ending up happy."

"An even more sinister development occurred when people were being promoted to more senior grades before they were medically retired. The point being that their annual pension was based on their last salary level. A virtual merry-go-round of corruption."

"This is public sector sleaze of the worst kind. Control suffers because of the implications of the model below (Figure 28)."

"We cannot escape this cycle that starts and stops with our ethical stance that drives and pushes our systems and controls. Where people are found out by controls – this is hypocritical, where they are actually working

Figure 28
The ethical dimension

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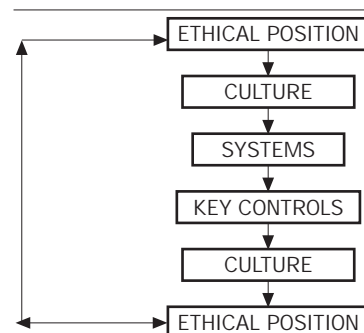
within an impoverished ethical code. People being paid off under threat of disciplinary action happens more as the norm than an exception these days in companies where investigations are botched and systems of controls are lacking anyway."

"You can ask this one question – do you really care about your company apart from meeting the performance indicators? Do you really care – are you pursuing your own goals with all your energies or do you just seek fun and relaxation at work? What about your employer, does he care about you at all – are you a post or a person? There will always be problems in a wholly unsatisfactory ethical framework – with high turnover, bottom-line blinkers and emotional sparring matches, compensating for a lack of good systems of internalised controls."

"I see that training in ethics management is a key part of the internalised control facilitation initiative. Having said this, we cannot teach everything and it is a wise organisation that seeks to employ people who have verified references and work experience. We should also look for the right attitudes in new employees before they pass their induction period. A word of warning in the book, *The Prime of Miss Jean Brodie*."

> To me education is a leading out of what is already there in the pupil's soul. To Miss Mackay it is a putting in of something that is not there, and that is not what I call education, I call it intrusion (Partington, 1992, p. 658).

"Right now let's turn to the topic of whistle-blowing."

8 Whistleblowing

Now lounging back in a pool-side chair, Bill relayed his view;

"Whistleblowing is part of the frauds hot-line that you have already mentioned, isn't it?"

"Well not really – a fraud hotline is a formal part of the organisational systems that support anti-fraud moves. Whistleblowing is more to do with unauthorised disclosure where all else has failed – including internal systems."

"Let's look at some of the work done in this area; Gene G. James has said on whistleblowing;"

> …the attempt by an employee or former employee of an organisation to disclose what he/she believes to be wrongdoings in or by the organisation…something illegal or immoral (Drummond and Bain, 1994).

"Professor Gerald Vinten argues that whistle-blowing is:"

informing on illegal and unethical practices in the workplace (Vinten, 1994, p. 1).

"Unfortunately the concept of whistleblowing has many negative connotations. At school, you were told not to tell tales. While keeping mum – not informing on your friends, has always been a feature of popular culture. This is ingrained into our childhood and throughout our teens. When starting work, it is difficult to adopt a new mindset and see it as okay. The history of whistleblowers is fraught with unhappy endings. Dismissal, resignation, persecution and stress at work and at home are all possible results from going public."

"The first thing an organisation should consider is the state of its internal procedures for dealing with people who need to talk. The main problem is that it tends to undermine the line management relationship where we encourage staff to go to a third party. There may still be situations where people go outside and disclose information that they are not authorised to. Whistleblowing proper occurs when all internal procedures have been exhausted. It breaches the organisation's contract of employment and the employee's duty to keep company affairs confidential. It will also tend to breach the company's disciplinary procedures – which may lead to serious charges including summary dismissal."

"There are those that feel whistleblowing can be justified but only in certain circumstances. One such criterion devised by Norman Bowie follows:"

- That the act of whistleblowing stem from appropriate moral motives of preventing unnecessary harm to others;
- That the whistleblower use all available internal procedures before public disclosure, although special circumstances may preclude this;
- That the whistleblower has evidence that would persuade a reasonable person;
- That the whistleblower perceive serious danger that can result from the violation;
- That the whistleblower act in accordance with his or her responsibilities for avoiding and/or exposing moral violations;
- That the whistleblower's action have some reasonable chance of success (Vinten, 1994).

"This is a really tight model that means going public only makes sense if it will really achieve something that the organisation refuses to deal with, and is based on a legitimate motive. There are many problems here for the prospective whistleblower. I use the following model to help clarify this problem (Figure 29):"

Figure 29
Whistleblowing options
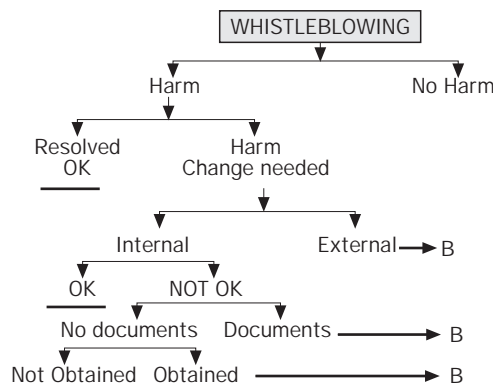
"Point B equates to breaking the company's internal disciplinary rules – which could lead to dismissal."

"We start at the top and ask not whether we agree or disagree with what the company is doing. We need to establish whether there is any harm being done. Is anyone being defrauded; any law being broken; or are the best interests of society being jeopardised? If the answer to any of these questions is yes – then we need our case to be heard. A decision to go public at this stage will lead to a disciplinary. Using the internal procedures is the right approach, although the person may be seen by some as a troublemaker. However, if our motives are sound this should not be a problem. Resolution stops the process and all is well. If not, we move into dangerous grounds. The main problem is that releasing or obtaining the necessary documentation to support the case (so as to secure reasonable grounds for successful resolution – point B) means we will again be breaking our internal disciplinary code. The reality then, is that we risk dismissal – which is normally enough to put most people off. It is very important that a diary of events is maintained in these circumstances. But imagine employing an army of people who spend their time spying on each other and keeping secret records of this – not a very healthy environment for good performance."

"Having said this, there is still the argument put by Marlene Winfield who suggests:"
Our best hope of regulating what goes on inside private and public sector enterprises is through the vigilance of individual employees (Vinten, 1994).

"The book goes on to give some of the ways that an employer can cope with whistleblowing – including:"
- Make sure employees understand company's codes of ethics;
- Use risk assessment to tackle key areas;
- Ensure employees do not face retaliation for speaking out;
- Discuss audit reports with staff;
- Insert confidentiality clauses in contacts of employment;
- Document retention standards;
- Review system when employees reprimanded;
- Deal with employees who speak out of malice (Vinten, 1994).

"At some stage we must move away from the arguments that justify whistleblowing, if the person feels this is the right thing to do. Maybe we should be moving towards this as more of a moral obligation to speak out. History records the many times that the excuse of 'just following orders' has been used. On one level, the employee must decide the ethical position and how the organisation deals with this. On the other hand, top management must have procedures to promote a clear ethical framework."

"The final model I'd like to use sets out those things that I think are important in dealing with this topic based on four different interpretations of the whistleblower (Figure 30):"

Figure 30
Whistleblowing stances
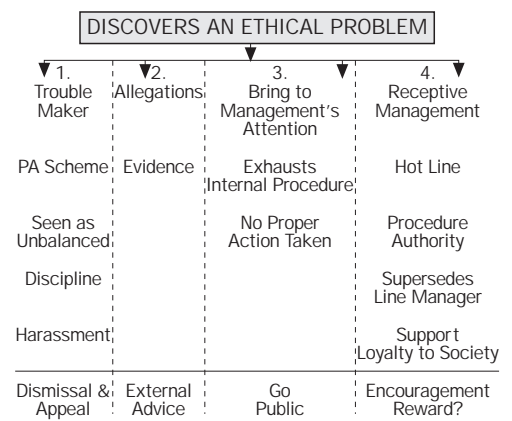
"1 *Troublemaker* – here the whistleblower is seen as a troublemaker who complains all the time. Using veiled threats to blow the whistle, mainly about the way he or she is being treated. This all feeds into the performance appraisal scheme, as the person is seen as an unbalanced individual who spreads disorder throughout the organisation."

"2 *Allegations* – this person is seen as having a clear allegation that he or she secretly investigates and takes whatever is found to an outsider. This may be a reporter, a special interest group, a group of friends or a representative of the state authorities. Apart from them, no one knows about this

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and it therefore becomes an undercover operation."

"**3** *Brings to management's attention* – here the person takes the problem to management and goes through the entire internal referral process. After which the person goes public feeling that all internal routes have been exhausted."

"**4** *Receptive management* – here we encourage people to come forward as part of an emphasis on personal initiative and a move away from the sacred line management relationship. So hotlines, counselling, independent review teams and others are used to get people to talk to them about perceived problems. The performance management scheme has scope to perceive this activity as a sign of good initiative. It averts the need for whistle-blowing but if not managed properly – this arrangement will turn into an extensive grievance procedure where staff complain about their managers and work conditions generally."

"This model can be used to decide on the most appropriate way of dealing with the issue – and assessing where a case fits in terms of its validity."

At this stage the heavens opened up again and it rained and rained and rained. Buckets – no, bathtubs full of water plunged down on Montego Bay. A quick decision was made to convene to the games room and resume the pool tournament.

9 Special cases such as cheque fraud

"I'd like to give you a flavour of what fraud can look like." Jack resumed the conversation and eyed the pool cues looking for one that would help him win a few games and reverse the current state of play. "I've dealt with many cases in my time, some involving extensive investigations and joint enquiries with the local police, and a specialist police fraud squad. There was one case in particular that really gave me a hard time. Let me give you the details."

"Every month or so a cheque raised by my organisation fell into the wrong hands and attempts were made to fraudulently divert them into specially-opened bank accounts. Internal audit employed a part-time person who would investigate such incidents and liaise with the local police. These duties were carried out whenever such a fraud or attempted fraud occurred. The auditor also had additional duties in supporting senior auditors in their work. The annual round of budget cuts meant that this post was deleted

and we reported that audit would no longer be able to investigate fraudulent encashment. This would, in future have to be done by the accounts clerk who did the bank reconciliation. This report was accepted – the post deleted and the responsibility transferred to the accounts clerk, who was supervised by a more senior accountant. Several months later a spate of attempted frauds occurred where cheques were being intercepted and bank accounts specially opened up to receive the cheques. The accounts clerk simply could not cope and internal audit were asked to investigate. If we became aware of an attempted fraudulent encashment – we were able to take immediate action. Our bank would contact us if they thought the transaction was strange. Suppliers would ring us if they had not received their cheque. Also the bank reconciliation system would throw out cheques where the amount had been altered. If one acts quickly, we can trace the funds to the receiving bank and ask the bank to freeze them – on production of a statement that indemnifies them for any loss resulting from this action. Otherwise they would have to release the funds on advice from their customer. We would liaise with the police and managed to get some of the culprits arrested – as they tried to get to the funds. The more clever fraudsters would check whether funds were free by making a small withdrawal from a remote automated teller machine. They would then turn up at the bank to collect the bulk of the funds. Or write a cheque to a front company as part of a money laundering exercise. The norm was that the fraudster would use a non-traceable address – say a communal letter box and even if arrested they claimed they had taken the cheque from a man in a bar as payment for goods. They tended to be small-time villains with a minor role only."

"We did get one breakthrough whereby instead of arresting the person making a withdrawal at the bank – he was followed to a waiting car containing a whole gang of criminals who were then arrested. The person fronting the operation i.e. who made up false ID in the name of the cheque payee and banked and then tried to withdraw the funds, was simply paid for this small part of the operation. There was a major gang at work – who were most violent and dangerous."

"Meanwhile we applied the golden rule in fraud investigations – that is to check the systems and make sure they protect us from abuse. Cheques were going missing sometime between the time they came out of the huge printer at the computer centre and when they were eventually collected by staff from the post office. The system should ensure that cheques could not be intercepted between

these times. We found several weaknesses; staff were requesting cheques and then picking them up from cashiers; a cashier would walk a mile with the cheques from the computer centre and take them to cashiers; they were enveloped at cashiers by a person working alone; some were stored overnight in unlocked drawers; many ended up being left in post bags for later collection by post office personnel…it goes on and on."

"We made urgent recommendations regarding each of these issues."

"The second rule of fraud investigations is to launch an investigation – find out what is going on and put a file of evidence together. This we did. We put profiles together of all persons who had contact with cheques, including the internal post couriers, at each stage of the process. We found out who they were, what car they drove, who they called on the internal phone system, what systems they accessed and why and so on…We followed some of the couriers and found, at times, they made diversions and disappeared into private houses. We had the police run checks on them and worked on deducing who may be our prime suspects. This investigation was not helped by the widely-held view that post goes missing and can be interfered with in the national postal system. Our employees may not be to blame – it may be people completely outside the organisation."

"The third rule of investigations is to minimise the loss to the organisation. We employed a temp to deal with fraudulent encashment. We met with our banker's security staff and worked out a procedure to deal with these problems, when they came to light. I had a member of staff examine all cheques that had been paid and returned to us for evidence of alteration (an ultraviolet light can be used here). We made sure our accounts clerk was on the ball where inconsistencies were thrown out by the bank reconciliation. We worked out that fraudsters would pay in cheques near to bank holidays when staff were on leave and the procedure less efficient. We met with the British Banker Association and expressed our concerns that people could open accounts with false ID (typically a forged driving licence) and addresses that could not be traced. Also unusual transactions were not always being picked up – one such cheque for £55,000 was fraudulently paid in and cashed (once the funds cleared) after which the bank account holder disappeared from the face of the earth. We also contacted suppliers due large amounts, to confirm that they had received their cheques."

"We spent many hours with a firm of printers improving our cheque design so that they had many in-built security features that made tampering much more difficult."

"Meanwhile we prepared a detailed procedures guide for dealing with this type of fraud – role responsibilities, contact numbers and so on…"

"Our enquiries took us to a specialist cheque fraud squad in London where they ran fingerprint checks on each of the cheques in question."

"We also established a computerised database of each fraud and looked for patterns. The paid cheques were examined carefully and we could see which ones followed the same pattern. Some names were altered by adding extra letters before and after the name of the amount payee. Some names were erased and new names inserted over the top. We pursued claims against banks who had accepted cheques that were obviously altered. The most effective fraud happens where the cheque is not altered at all, but paid in intact."

"In one case of attempted fraud involving a cheque of some £200,000, I managed to track down the address of the bank account holder – i.e. the fraudster. He had obviously disappeared. However we got a list of phone numbers of people this person was in touch with during the time of the fraud. This information was passed over to the police – who were starting to close in on the gang in question."

"I wanted to place concealed surveillance cameras in areas where cheques in our organisation were handled but this was not approved by top management. I also wanted to use specially prepared cheques as bait, so that we could establish where they were going missing. Again, top management did not wish to act."

"We managed to stop the flow of fraudulent cheques but we never really got to the bottom of this case. Management then made a crucial mistake; they stopped all enquiries and decided to wait for the police to finish their work – despite us receiving information implicating at least one member of staff. I had to withdraw and investigations eventually trailed out – with no arrests. The key lesson to learn from all of this is that the organisation must take action against staff involved in fraud and not leave matters to the police – they are far too busy chasing murderers and violent criminals. We are concerned with breach of procedure by members of staff and this is what we should have been investigating. It also means top management must be committed to taking action – this cannot happen without an investigation and all the difficulty that this entails. I spent many bitter hours trying to argue this point to no avail."

"If an organisation does not take a stand it can easily become the target of criminal gangs. This happened here and got so bad that we started to receive high-value cheques (for say a quarter-of-a-million pounds) from abroad that had been completely forged. They were easy to spot and we did not pay out on any of them. The gang started to play a game with us and lowered the amounts payable on the cheques – but they were still referred to me before funds were released and I made sure they were cancelled. These bad cheques eventually stopped turning up at our bankers."

"The main concern was that we were seen as an easy target. An organisation has tremendous responsibilities to get it right and deal with fraud head on – there is no other way. This is not just for the record but it shows the values that it adheres to, and will set the tone for the rest of the organisation. The easy option is to not bother to act and top management may escape blame by failing to report the circumstances of the investigation properly. This principle is most times hidden from view as the great Irish playwright, George Bernard Shaw has said in *The Devil's Disciple*:"

> Swindon: What will history say?
> Burgoyne: History, sir, will tell lies as usual (Partington, 1992, p. 636).

"The final point to note in all of this is the vulnerability of cheques. They are non-negotiable instruments, but so much can be done with them if they get into the wrong hands. I supported a major drive by the organisation to get suppliers and others onto the automated payments system (BACS) and move away from using cheques."

10 Prevention

"We've spoken about the concept of fraud in general and the importance of detection. We have considered how to deal with allegations. We have also suggested a procedure for investigating frauds as and when they come to light and the implications for internal discipline. Moreover, we provided a specific example to breathe some life into this topic. We finished by looking at ethics in business and the topic of whistleblowing. An organisation that has installed comprehensive procedures for all these things still has a problem. A focus on investigations is backwards looking. An abundance of resources applied to sorting out these messes is also inappropriate. What is needed is a culture where we do not encourage fraud, sleaze and all that goes with it. A positive environment that gives people responsibility should also support them in

such a way that they feel committed to organisational goals. And not the pursuit of self-interest and greed. To this end, we now turn to the most important component of internal control as regards fraud – that of prevention."

"Let's set the scene and refer to a view from a very experienced fraud investigator, former Metropolitan Police Detective Inspector, Peter Connor, who has argued that:"

> Corporate restructurings have massively increased the incidence of fraud…radical changes to organisational structures had resulted in a deterioration of supervision and control. Downsizing and outsourcing had, in particular, resulted in a loss of employee loyalty and commitment…Systems of control have been put in place, but they are not revised or monitored properly… (*Accountancy Age*, 1996b).

"There are great pressures on organisations that means systems may not necessarily restrain frauds."

"In one sense, our discussions on fraud prevention need not take very long. Prevention consists of everything that we have already spoken of throughout this journey through controls. That is the need for basic procedures and good organisational climate and ethics management. The managerial control system that we've referred to several times already is also important. Many argue that good detection and investigative procedures provide a deterrent for would-be offenders – although we have criticised an excessive focus on these measures. What we need to do is discuss some of the key issues that set the scene for this fraud prevention."

"A lot of prevention is implicit in security procedures – stopping people from unauthorised access to valuable items. I recall one external audit I carried out many years ago. The managing director of a small film production company insisted on leaving large sums of cash on his desk at work. We pointed out the risk in this to which he replied – 'If I can't trust my staff; who can I trust?'. We stuck to our view that it is not fair to place unnecessary temptation in front of people."

"Going back to our motive, means and opportunity criteria:"
- "motive – give people a reason to want to contribute at work and spend their energies on organisation goals – not devising ways of beating the system;"
- "means – I guess this is based on the need-to-know principle. People do not need to understand the access profiles of systems they do not need to work with. They do not need to be told about detailed security arrangements. Employees need not discuss their systems with other staff who do not need to use them. Having the means is

about understanding the systems and how they can be beaten;"

- "opportunity – if we allow people the chance to abuse systems then there is always the risk that they will. If they pass up these opportunities today, this does not mean they won't succumb tomorrow. Their circumstances may have altered."

"Society expects standards that govern what we do at work in both the private and public sectors. As far as the public sector goes, the Nolan Committee on Standards in Public Life (1995) argued that;"

> We take propriety to encompass not only financial rectitude, but a sense of the values and behaviour appropriate to the public sector (HM Treasury, 1996).

"Society wants to be able to govern almost everything we do. This is not always easy. Take the example of people who move freely around with metal detectors – looking for valuables including buried treasure. I would have thought it would be impossible to set rules to cover this finders-keepers situation. Not so.

Someone was able to dream up a complete set of rules covering the eventuality that people would find buried treasure; Draft Code of Conduct on Treasure Hunters (1996): (in law treasure trove belongs to the Crown) argues:"

- treasure – gold or silver hidden in soil or buildings;
- original owners cannot be traced;
- finder cannot keep it;
- owner of land cannot keep it;
- person who reports his find and hands it over to district coroner receives a reward based on market value – if retained by a museum (*Daily Mail*, 1996g).

"Let's move away from background issues and try to develop a seven-point model of fraud prevention. One version is as follows (Figure 31):"

Figure 31
Fraud prevention
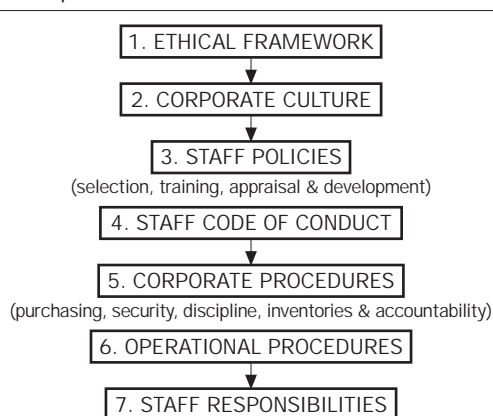
"Let's take a quick look at each of these:"

"1 *Ethical framework.* We have already dealt with the implications of a strong ethical framework. This model simply re-emphasises the view that fraud prevention starts with the management of ethical issues."

"2 *Corporate culture.* The type of culture an organisation promotes is derived in part from the ethical framework. A turn-a-blind-eye policy encourages a don't care ethical stance. A scratch-my-back approach again stems from an ethical view that fair play doesn't matter. We could go on."

"3 *Staffing policies.* This covers selection, training, appraisal and staff development. If we employ people who cannot do the required job, they will eventually become disillusioned when they cannot meet set standards. If we employ people who are over-qualified and seek promotions that are not forthcoming, again they will become disillusioned. If we don't bother to train staff or set standards and assess performance base around a development programme, they may become disillusioned. Disillusioned staff concentrate their energies in ways that the employer may not have anticipated – normally not directed at organisational goals. One avenue is to research and probe key systems for weaknesses and then abuse these loopholes for personal gain. If we employ people who have falsified their work experiences and qualifications we cannot expect them to live up to our standards of conduct. If they have no work permit or have an undisclosed criminal record, we must ensure our systems can pick up these matters. Employee fraud prevention is based mainly around ensuring staff are competent, know what is expected of them and are motivated to contribute to organisational goals. Where this is not happening, we may find a number of people will turn to defrauding the organisation."

"4 *Staff code of conduct.* It is one thing to get the right staff and develop them in a positive and team-building manner. Superimposed over this is the need to establish a clear code of conduct. This sets out our expectations of all employees whatever their grade – a moral reference frame that emphasises the key attributes of honesty, fairness, diligence and other such items. The Civil Service Code (1996) provides key principles of public life such as: Selflessness; Integrity; Objectivity; Accountability; Openness; Honesty and Leadership. Their view of proper behaviour is that it:"

- follows the rules;
- puts in place and follows clear procedures;
- is even handed;

[155]

- avoids any conflict of interest;
- does not use public money for private benefit;
- is documented if needs be;
- is transparent – it can accept scrutiny (HM Treasury, 1996).

"5 *Corporate procedures.* Having dealt with personal standards (that is a staff code of conduct) we need to set standards for corporate systems that affect most staff. This includes purchasing, security, internal discipline, inventories and general staff accountability. Most frauds stem from breach of procedure. If the organisation has not bothered to set these standards, it will find it difficult to decide what is proper activity and what is unacceptable. Setting these standards implies formal guidance, responsibilities, resources and good information flows. These all need to be in place to combat the threat of fraud."

"6 *Operational procedures.* We dealt with this subject yesterday. Procedures are important as they help define authorised and unauthorised activities. Remember though, procedures are tempered by custom and practice. And as Charles D'Avenant has said:"

> Custom, that unwritten law,
> By which the people keep even kings in awe (Partington, 1992, p. 231).

"7 *Staff responsibilities.* The final aspect of the model relates to giving people responsibility for their actions. It goes hand-in-hand with the delayering and empowerment initiatives that are happening in most organisations. The word, responsibility, goes with the concept of accountability. You have much more power but you must account for what you do, how you do it and the results of these actions/decisions. One way of catering for this is to develop Accountability Boxes. These can be used to record those key decisions where there is some sensitivity. It may be used to deal with matters such as staff secondments, risk ratings, supplier selection, assignment of resources and so on. In this way everything can be kept above board. An example may appear as:"

Record of decision
Subject ....
Background ....
Decision made ....
Reason ....
Impact ....
Signed .... Dated ....

"We need to fight fraud as one would a battle that needs to be won; install controls that protect assets and information; get rid of bad apples; make positive statements and stick to them and above all set a good example from the top of the organisation. It is something that affects us all in an organisation. We all have responsibility to fight this battle. It is all part of our systems of internalised control. To win this battle we would do well to follow the works of the poet, John Davidson;"

> In anguish we uplift
> A new hallowed song:
> The race is to the swift
> The battle to the strong
> (Partington, 1992, p. 231).

"Some argue that fraud is a concept – something that happens to other companies not theirs. It is not a difficult moral issue or a set of principles. It is a real living thing where bored, disillusioned or dishonest people toy with the thrill of danger and getting caught. It needs to be dealt with as such. Clear and firm controls need to be in place to combat the real risk of fraud. A story from Boswell (*Life of Samuel Johnson*) will help consolidate this view:"

> After we came out of the Church, we stood talking for some time together of Bishop Berkeley's ingenious sophistry to prove the non-existence of matter, and that everything in the universe is merely ideal. I observed that though we are satisfied his doctrine is not true, it is impossible to refute it. I shall never forget the alacrity with which Johnson answered, striking his foot with mighty force against a large stone, "I refute it thus" (Schiller, 1994, p. 322).

"The internalised control concept is simple. It's about people taking responsibility for what goes on around them. Going back to the example of the cashiers who could not account for one cash bag. The staff should be ready to insist that all movement of cash is properly recorded and accounted for. During our review, we saw staff wandering around the office, some of whom did not work in the cashiering section. We saw guards from the security firm sitting around on desks before taking away the bagged cash for banking. I remember asking the chief cashier for a specimen of a cheque to gauge the adequacy of his security features. He produced a blank, pre-signed cheque. I was amazed, and asked whether he had signed-out for this valuable item to which he simply laughed. The manager, all staff and all persons who use and visit cashiers should want to see adequate security measures. It's not something that you wait for the auditors to report. Self-control means that people insist on working with key controls that they install, review, discuss and agree, on an ongoing basis. Having

an awareness of fraud and the damage it can cause, along with knowledge of the types of controls that should be in place, is something we should train our staff in. Self-control is the way forward. Give staff the tools and knowledge they need for this to happen and you will never go wrong. Auditors, controls and audit trails along with management directive do not belong to staff and this lack of ownership makes control a foreign body – not something that people see as a key part of their everyday responsibilities."

The rain finally eased up and Jack realised he had lost almost every game of pool he had played with Bill so far. He made a mental note to avoid this game, if Bill suggested it in future.

"What happens tomorrow?" Bill's question signalled the end of the day's activities.

"I'll take you to Rose Hall and maybe a spot of fishing. We'll have time to consider some of the key support systems in the control framework", Jack added before wishing Bill goodnight and disappearing.

Chapter five – fishing, witches and support systems

Jack drove into the hotel car park and was surprised that Bill was not sitting in his usual place on the veranda. He parked the car under the shade of a large banana tree and walked into the hotel lobby. There he saw Bill leaning over the front desk engaged in conversation with Ruth. He went over to them and overheard Bill saying "See you tonight at around eight then," before they both started slightly, as they saw him approaching. Ruth looking a little embarrassed, greeted Jack and turned her back to them, to go through some filing that sat on the shelf behind her.

Jack smiled and opened the conversation; "Morning, Ruth. You ready then, Bill?"

"Absolutely."

"Right – We haven't got far to drive. There are regular tours of the Great House, Rose Hall, just a few miles outside of Mo'Bay town. We can take a slow drive up there and get some fishing done after lunch. Sounds good?"

"Can't wait to get started. Tell me Jack – I didn't quite get what you said yesterday about today's topic of conversation."

"Yes – this is a difficult one. I really want to cover my last two big subjects. These are creativity and the whole idea of a corporate internalised control facility. But before we get there I need to sort out some lesser issues that relate to the internal control arena."

"I really think that the managerial control system (MCS) addresses all important issues. Let's go back over the diagram, for convenience (Figure 32):"

Figure 32
The managerial control system

"If all staff understand and apply all relevant aspects of this system, we can truly say that we are in control. Or more rightly; we have established comprehensive systems of internal controls. This will not guarantee success, but it will put you in a good position to achieve this success. My problem is that, although the MCS comes to our aid in dealing with control – which is essentially about good management, there are still other important matters to be addressed. This is why I want to cover various additional items today. Let's get them out of the way."

Bill waved goodbye to Ruth, and the two men walked towards the car. Bill said; "When are we going to get to the corporate internalised control facility. You know this is what I really want to talk about."

"This facility will sweep up everything we need to deal with on the topic of internal control. It is right that we leave it to the last – something like the best wine – leave it to last. We will get there as the song says; don't worry about a thing, 'cause every little thing is gonna be alright…'."

Bill was now starting to recognise the road out of Montego Bay and looked for landmarks along the way. The short trip lasted less than fifteen minutes and they arrived at a large spread of land marked in stones with the words Rose Hall on the small hill below the great house. A few drinks at the bar and payment of an appropriate fee to a young lady at the bookings office who complained of being unwell – and the tour began. There was not much opportunity to discuss control issues in the group who gathered around the tour guide and listened intently to the exploits of Annie Palmer, the white witch of Rose Hall. After a brief reign of terror when she murdered three husbands and numerous slaves, Annie is said to haunt the great house and comes out to play after 6 p.m. each evening. She used to take great pleasure in having the slaves beaten, tortured, and put to death. This was not helped by her upbringing in Haiti, where she learnt the fine art of voodoo and inflicting misery and suffering on human beings, particularly her husbands. Bill became quite engrossed in these stories from the past and even bought the book on Rose Hall. It brought home the hardship that was
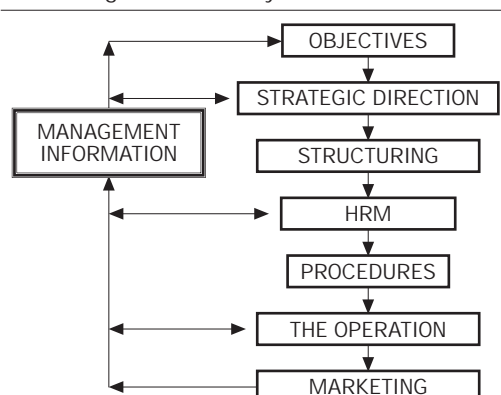
experienced in the Caribbean in those days and maybe explained why people from these lands fight so hard against their current hardships. Bill wondered whether this could be a good topic of conversation – maybe he could invite Ruth to air her views on the matter. Maybe he could just ask her tonight when they went to dinner.

"Right. That's the tour out of the way. Let's get some fishing done", Jack suggested.

This proved to be rather a mixed blessing. They arrived at the spot advertised for fishing, and were greeted by several young men who showed them around the long lake. They were disappointed to see groups of tourists flashing out fish from a small part of the lake that had been sectioned off. As soon as the line touched the water the fish took a bite and were hooked. They were being whipped out at an alarming rate. The attendants were nonetheless pleased, as apparently, you had to purchase any fish that were hooked.

"What's the objective of fishing?", asked Jack eager to start the philosophical debate.

"Er… to catch fish?" Bill was sure this was a trick question.

"For us – it's to enjoy a few pleasant hours by the lake and catch the occasional fish – if we can. Picking them out of a barrel is a little bit pointless in this context."

"Yes, I see what you mean."

Jack caused quite a stir when he insisted on fishing in the main part of the lake – despite being told he might not catch a fish, as they had more room to avoid the trap that was set for them in the form of a line and bait. Nevertheless, after finding a shaded spot under a tree beside the main lake, the two men set about the task of enjoying the scenery and catching a fish or two – in that order. Just perfect for good conversation.

"I want to deal with three key aspects of internal control. That is information systems, financial management and value for money. Do you remember we suggested that control objectives were based around compliance with procedure, protecting assets, sound information, and value for money – i.e. economy, efficiency and effectiveness. We have discussed the first two – in the guise of procedures and fraud. We can deal with the last two now. I want to include financial systems because they tend to hold a high risk rating. "

Flicking on the dictaphone Jack announced, "Let's make a start."

Information systems

"I've met many people who suggest that control is all about information. We need information to be in control and so long as we have the right information, then everything will be fine. I believe information is an important aspect of control, in fact it is featured in the managerial control system. But it is not control *per se*. I use the following diagram to support his view (Figure 33):"

Figure 33
Control information
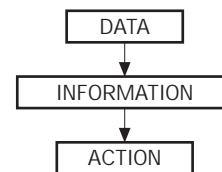
"Data are any form of raw facts that are in no particular form or order. These need to be translated into information to be of any use. Information then is data that have form and meaning. It is a representation of reality that aids understanding by assigning values (numeric, narrative or diagrammatic) to a situation. The final part of the model causes most problems. Here I feel that the end product is action. That is, a decision is made to do or not to do something based on the information for it to have any value. If I pick up a train timetable and read parts of it, it has no substantive value unless it can help me make a particular decision. So control is not based on information. It is based on action that is supported by good information. This is a key point since the vast majority of information systems bouncing around an organisation have little or no use to managers or their staff."

"Most basic control models suggest that we set standards, get staff to perform, monitor whether these standards have been achieved and then take action as a result. The monitoring being based on exception reports that indicate the extent to which standards have been achieved or not. Again, information is used as a key aspect of this control model. The control chart does much the same. It is based on setting an upper and lower limit and then measuring the actual performance and assessing (and plotting) the extent to which performance falls within the confines of these two limits. Movement towards one level inspires action to adjust and correct the performance, so that a medium is once more achieved between the two levels. Information being the way we measure performance."

"The performance management scheme is an extension of this basic principle. The line manager sets the performance targets based on a defined standard. Or better still, the staff set and then get their manager to agree their

performance targets. Actual performance is then measured and checked against this standard. Again, based on suitable information systems."

"The other side to information is related to communications. Internal control depends on communications. We set objectives, get staff to rally round them and then measure and control progress towards meeting our goals. Throughout this process, we depend on good communications to make it all happen. One-off information systems are giving way to general communications systems. So we may have e-Mail, phones, faxes, video conferencing, and electronic diaries that form our communications infrastructure. Meetings, events, gatherings and so on allow a face-to-face environment to supplement our electronic media. We can use the corporate network to dip into specific applications as and when necessary. Work is not so much based on working on these applications (that is business processes e.g. payroll, payments, customer databases etc.). We are more interested in corporate communications that are able to call upon relevant bits of the various applications as and when required."

"We are suggesting that information systems are integrated into decision systems, action mechanisms, and communications generally to form part of the control environment. I would like to see the topic of information systems (as part of the control framework) reflect this integrated approach. It comes to the fore when we are developing a new computerised system. The focus is on the IT and whether it will work or not. Energies then move towards project management on the basis that the project must succeed and all systems objectives should be met. We arrive at a great focus on project planning, data flow techniques, methodologies, time management – with reports to steering groups and quality teams. The plan is sacrosanct. There is nothing wrong with this, as it all promotes good control over the project and the project plan. But superimposed over this, needs to be a consideration of the other factors that have been mentioned. A diagram may help here (Figure 34):"

Figure 34
Effective information systems
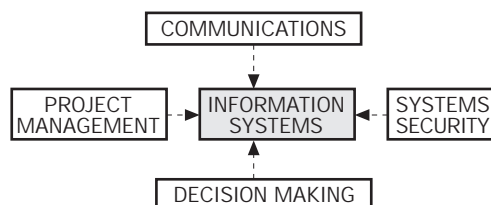
"If all these factors are taken care of, we can truly say that our information systems promote the achievement of corporate objectives – i.e. they are well managed and controlled. Let's take them in turn:"

"1 *Project management:* Most people know about good project management and all that this entails. Systems profiling, user-driven systems, rapid application developments, planning, monitoring reports, extensive testing, contract management in terms of bought-in software, staff training, steering groups, the project manager role, capacity planning and all these things are pretty standard. What is also pretty standard is the high failure rate for new computer systems. They are normally late, expensive and incomplete. In fact these three factors, timing, cost and functionality, are always in conflict – they cannot all be achieved – there must be some give. We are now developing 'get something worthwhile going' systems. Developed quickly and incremental in term of functions, so long as they are better than the old systems and deal with known snags. There is no aim for perfection – as people realise this simply causes frustrations all around. The key point is that the principles of good project management should be in place for there to be control. Not necessarily formal project management methodologies as these projects sometimes fail because there is too much paper work and reporting back – creative people get bored and the administrators and auditors take over. Moreover end-user computing is now seen as the way forward and this fits snugly into the self-control concept. People decide what information they need and then establish the underpinning systems to provide this information. The technology is a side issue. So long as the organisation has a corporate network that is driven by high specification communications and servers – we will be okay. IT is a barrier – it is there simply to enable applications to run. Our only concern is that the network should be fast and powerful enough to support the applications it serves. Control is not about technology. Control is about the organisation achieving its goals."

"There will always be problems, but these should be kept to a minimum. A press article illustrates what happens when a system goes wrong:"

The water company with the country's highest bills admitted yesterday that it had accidentally over-charged 14,000 customers almost £2.4m… A spokesman for the company said "we have apologised to customers and told them that if they incur any bank charges as a result of the error we will pay them" (*Daily Mail,* 1997a).

"2 *Systems security:* We could not discuss control in information systems without mentioning systems security. Computer-related crime has been reported in Home Office estimates (February 1996) as falling between £400 – £1.5 billion. There are numerous dangers ranging from false invoices, ghost employees, altered stock figures to hide theft of stock and so on. As such, systems need to be secure and protected against these threats."

"I see IT security as a wide concept that seeks to ensure systems are secure from unauthorised access and are only used for their intended purpose. It is also about maintaining the database, which means it is updated properly, protected and complies with procedures for holding data. I don't really want to go into great detail on this matter, since it would be covered by any good textbook on IT security. IT security is normally seen as a defined role in an organisation – someone who sets standards, checks that they are being adhered to, and looks for problems. There is nothing wrong with this but you know my view of control – it's about self-control. Giving people responsibility for IS/IT security is my preferred solution. This is about showing them how important it is and how they may discharge these responsibilities. Getting good data onto a system and ensuring these make sense, are consistent with other data and are kept up to date and valid, is in my view part of IT security. Having rules for establishing and using these data is important. Rather than forcing people into these rules, we should explain and help them use them. The organisation is bound by high-level rules in the form of legislation on data protection. We should ensure these laws are adhered to by internal procedures that reflect their requirements. We also need to ask about back-up procedures that ensure if something happens to our data we have copies that can be used to restart the system. Most networks have automatic back-up arrangements and most of our individual efforts should relate to the use of floppy diskettes and data held on PC hard drives. If, when you open your desk door, dozens of diskettes fall out, there is a problem. You need to think about maintaining them, cataloguing them, backing them up and making sure access to confidential information is restricted. We may also need to be involved in contingency planning if we have a role in high-risk databases. One control that has a main role in IT security is related to the use of passwords. Whilst this is being replaced by more dynamic ones such as retina scans – they are still important. Organisations and the people employed by these organisations should adopt a set of rules that form the cornerstone of IT security – i.e. password control. Examples of some of these rules may be listed:

1 Known only to the individual and kept secret.
2 Changed regularly – the system can prompt the user to change the password after x number of weeks.
3 Not changed to a password used during the last x number of occasions.
4 Not written down anywhere. Most people write down their password in a way that they feel would not be recognised. Some enter it in their diary with no heading or write it in an unusual place at work.
5 Not easily guessable such as first name, child's name, middle name, house name etc.
6 Linked to an ID which locates all systems movements and transactions to a known employee. The password should not work unless linked to a specific and known ID.
7 Gives defined user privileges – access to certain defined files and rights within these files and parts of the database. Make sure these rights are registered with personnel and write to the person telling them what their defined privileges are and that they are not authorised to use systems outside this framework. Make clear the implications of unauthorised access e.g. summary dismissal.
8 Withdrawn as soon as the person leaves – or better still when the employee gives notice of resignation.
9 Forms part of the disciplinary code on use of systems. That staff should not divulge their password to anyone and they should take all reasonable steps to protect them. They should also report instances where they become aware of another person's password.
10 Respected as important – for example you should not enter the password when someone is looking over your shoulder.
11 Encrypted so that it does not appear on screens and is held in an inaccessible file.
12 Not excessive – where an employee has to remember many different passwords for many different systems they will write it in their diary and spend much time telling IS support that they have forgotten it. This means new passwords bounce around the organisation in desk diaries and phone conversations.
13 Protection seen as a corporate issue. A company may issue a standard password to new employees (say their surname) and ask them to alter it at the first opportunity, to a password that only they know. This may be used in conjunction with their initials as an ID linked to the pass-

word. We need only know the name of the new employee and start date to access the system under their password, before they have changed it to an unknown one. Also if IS support accept unverified phone calls from people who claim they have forgotten their password, this could lead to problems. The committed criminal will try to form a relationship with an employee and work at getting their password from them.

14 Have rules on leaving screens unattended. Where the organisation has established a complicated procedure for getting through screens, staff will be very reluctant to log out fully. Screen savers can be used but the password protection on screen savers makes the use of PCs by anyone, say through hot-desking, difficult. We can also time staff out after the system has been unused for a defined time period.

15 Train staff in the importance of password control. I've seen staff swap passwords where they have accessed a system at one desk and have answered the phone at another desk and want to get back into the system. Good systems don't let staff access them from two locations.

16 Allow the system to report access patterns that are inconsistent. Say starting at 7 a.m. and continuing at 10 p.m. the same day (unless this is remote access from outside the office). Or accessing unusual files or repeating or cancelling many transactions.

17 Don't allow repeated attempts to access systems. Lock out all attempts over a defined number, say three. We can also commission special reports on these instances.

18 Ensure that remote access requests are subject to call-back so that the terminal address can be verified before we accept the password.

19 Be careful about establishing password patterns. Some networks do not allow the user to change passwords to one used before (or say on the last *x* occasions). The systems manager is able to view a list of the previous passwords used. There may be an established pattern that means the current one may be anticipated. Where we demand alphanumeric passwords the user may use the name of his/her son along with a numeric, say James1, then James2, James3 and so on. The systems managers, or for that matter the IT staff in general would be able to guess which one is next on the list i.e. the current one being used.

20 Make sure we can tell which terminal is being used for which transactions. We need to be able to pinpoint systems breaches and locate the offending access device."

"The above rules should be in place and integrated into the culture of the organisation, section managers and each individual member of staff. To promote the self-control concept violations should go to the user and line manager. The IT security office should be concerned that each one is dealt with by the manager in conjunction with the user. To try to report many dozens of possible irregularities to an IT security person, simply means bulky reports are left on this person's desk and ignored. Thereby resulting in no one doing anything about system breaches – which is unacceptable."

"3. *Decision making:* We have introduced a model suggesting that data become information becomes action. It is the action that is important at the end of the day. If the information system is developed without regard to the decision-making mechanisms that are in place in the organisation – it will be inefficient."

"We need to ensure that people who build information systems understand the type of decisions that are made and the environment within which these decisions happen. There is normally an inherent conflict between accuracy and speed of reporting. The more detail required – the longer it takes to get a report up and running. Different levels of management require different degrees of detail. This is why the trend is for systems users to design, develop and install their own information systems based around the corporate IS/IT strategy. Figure 35 fits in here:"

"The managers will want to know about the performance of business applications, such as payroll and the performance of their staff. They will want standard reports on items

Figure 35
Decision making information
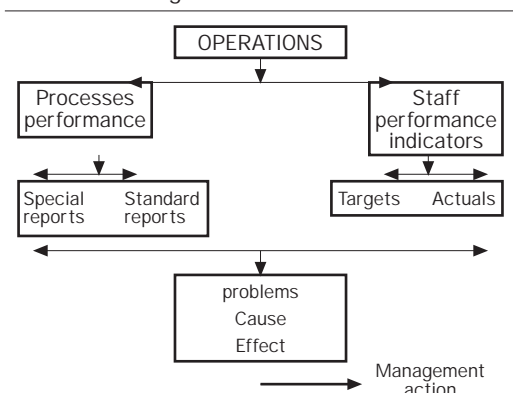
such as the number of people paid in the last run, total paid, income tax and so on. Meanwhile, managers may want special reports on say the total overtime pa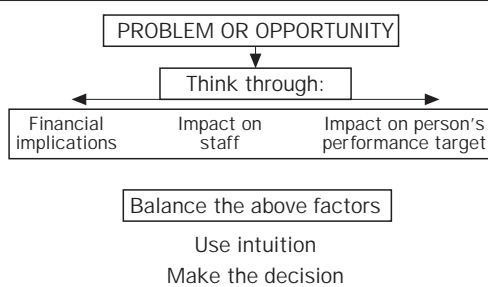id in section X by grade of staff for the last three months. They will likewise need information on aspects of the process carried out by individual staff to support an employee performance management system – to measure performance per targets that have been set."

"The intention will in part be for accountability and reconciliation but also to identify potential problems (or opportunities), diagnose them and then take effective action. It is the action that is important. This means that the information system needs to be based around the need to take action and form the basis for logical decisions."

"Most systems engineers design and build systems, then tell users what information they can get from it. What is starting to happen, and what is needed for information to constitute part of the system of internal controls, is for managers and staff to work out what information they need to support decisions they have to make and then design systems around this consideration. There are many information systems around today that do not meet this criterion."

"Also the way we feed information into the decision-making process is important. A diagram will provide an example of this (Figure 36):"

Figure 36
Corporate information systems

"This model suggests that we need general information that is held in corporate databases. It includes policy documents, strategic intentions, performance targets, company trends and so on. If we have to make 20 per cent budget cuts in our department we need general information on this issue. Our decision is made having reference to financial data, the staffing implications and how it will reflect on us personally, i.e. our performance targets. The decision on where and how to make these cuts is then made mainly by balancing these factors along with what many

managers describe as a gut feeling (or intuition). We then look for detailed information that supports (or does not rule out) this decision. Control here is about having the right information to hand but also recognising how it fits into the overall decision-making scenario."

"One further point to note on this matter is that information is not action. Information alone, even if relevant and useful, does not mean people take effective action. Giving staff responsibility for effecting the managerial control system is one way of ensuring that there is responsibility, empowerment and action. Information is part, but not all of this process."

"4. *Communications:* The last part of the information systems model, from an internal control aspect, is communications. New information adds to the overall state of communications and, in turn, is affected by the existing communications culture. The reports and screens that flow from an information system are affected by the way people view and use this information. We have already said that information is about taking action (or seeing that no action is required). This information is part of what you are told and what you tell others, i.e. communications. The way an organisation communicates, be it via e-Mail, phone, meetings, conferences, gossip, correspondence and so on affect the culture in which this information is used. One key concern is which information is accessible by which people. We can promote an open communications culture by giving all non-sensitive information to everyone. Or we can use the 'need-to-know' basis in deciding who gets what. The latter will mean that managers and specialist staff will have the power to inform others on request or otherwise. The former will tend to support an empowerment approach where people have the power to extract (e.g. download) whatever information they think is important. Communications will therefore turn more to exchanging ideas than simply passing on information."

"Let me give you a model to use here of communicating information (Figure 37):"

Figure 37
Communicating information
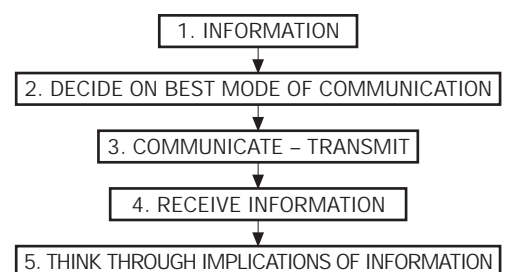
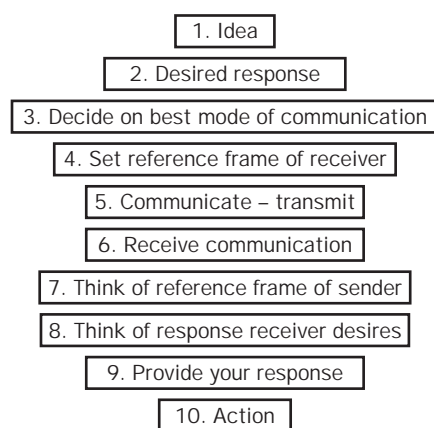"This is quite straightforward, where we simply tell people something. This may be by memo, report, staff letter, notice board, computer screen, e-Mail, open meeting, personal meeting and so on. The information speaks for itself."

"A second model deals with the act of conveying ideas and is adjusted to reflect the more involved approach required here (Figure 38):"

Figure 38
Conveying ideas

1. Idea
2. Desired response
3. Decide on best mode of communication
4. Set reference frame of receiver
5. Communicate – transmit
6. Receive communication
7. Think of reference frame of sender
8. Think of response receiver desires
9. Provide your response
10. Action

"Here we turn ideas into action, where communications is about getting some kind of response from the receiver with information that conveys ideas and which leads to action, which in turn will tend to add more value to the organisation than standard information and reports. As Sir Winston Churchill once said about a particular colleague:"

> We know that he has, more than any other man, the gift of compressing the largest amount of words into the smallest amount of thought (Cohen and Cohen, 1995, p. 79).

"Information systems that reflect this unfortunate gift will tend not to add much value to an organisation. They certainly will not assist the process of conveying ideas and making things happen as a result."

"To sum up – I view information systems as the key to internal control. But only in so much as they are effective and add value to the organisation. This is based on recognising the dependencies information systems have on four key factors: communications infrastuctures; sound project management; systems security standards; and a culture of positive decision making. The key to the successful development of new information systems is to use a project manager who recognises and understands the importance of these four concepts."

At this, Bill jumped up and flicked his line as he felt a catch tug at it. With great effort and skill he worked his line around and coaxed his catch towards the surface of the clear blue water. Unfortunately after much effort, he pulled an old bicycle tyre out of the water.

"That's a good start," Bill commented with a laugh. "I think you'd better carry on with your discourse."

"Right," Jack was saying whilst eyeing the tyre. "I'm not sure we can get this tyre into a frying pan – you'd better put it back. I want to make some brief comments relating to financial systems and their importance in internal controls."

Financial systems

"I need to talk about financial systems as a special subject when dealing with internal controls. This is because they tend to attract a high risk rating when assessing the extent to which we need to ensure they are well controlled. Compliance with procedures becomes a key issue where there is less room for personal discretion. Fraud is also high up on the agenda since if these systems can be penetrated, people will have access to transactions which involve the movement of funds. The other key point is that these systems feed into the accountability requirements of an entity – where management accounts to the owners. This will be a legal requirement where financial accounts have to be prepared, audited and filed for public record."

"Going back to risk. One version of this is the amount of assets and interests at risk, times the likelihood that they will be eroded or lost. The resulting figure will indicate whether the organisation needs to target specific controls such as internal checks, reconciliations or defined authorisation limits. These controls will seek to reduce the likelihood of loss and so provide a degree of assurance to management that finances are protected."

"We cannot simply rely on auditors to check our financial systems and provide reports back to management on them. Audit can only comment on the existing arrangements provided by management. There must be a start, in that there are systems of internal control established over financial systems. Where these are in place, they can be audited. Even here audit will look at matters that it perceives to hold high risk, and only to the extent that is allowed by the available resources. External audit looks at systems but only as a short cut to verifying transactions that are aggregated in the annual

financial statements. Internal auditors will look at systems subject to resources and within each audit; they will only comment on what they have been able to review during the assigned time. There is no short cut to management assessing its financial systems, understanding the inherent risks and establishing suitable arrangements for managing these risks."

"There are several key issues to consider when discussing financial systems:"

"1 *Ownership* – Management must accept that they and not the auditors are responsible for these systems. I remember one external audit where on arrival I was presented with a trial balance that did not balance. The debits did not equal the credits due to an unidentified error. The director of finance had happily left this problem for over six months on the basis that the auditors would sort it out when they turned up. He did not see that he was responsible for resolving this error. Such problems can and do arise as shown by one example reported in the accountancy press:"

> A large company overstated its 1995 profits by £590,000 because of an accounting error. ...it is understood that the error was a simple arithmetical mistake made by internal accountants which external auditors failed to spot. The 1996 accounts will be corrected by means of a prior year adjustment, restating profit for the year to 31 Dec 1995 at £2.9m (*Accountancy Age,* 1996c).

"2 *Corporate procedures* – The organisation should set procedures for dealing with finances. There should be rules on receiving income, paying invoices, making payments to members of staff or people employed on temporary contracts, operating petty cash, reimbursing expenses, and lastly retaining relevant documentation in support of financial transactions. We need procedures covering systems that feed into the corporate financial system, that in turn is used to strike the annual accounts. Also there should be provision for the operation of budgets and management accounts. One set of rules would cover safeguarding assets and interests and properly accounting for liabilities. Further rules cover the way transactions are recorded for the purpose of preparing accounts for a period gone, i.e. financial accounting. Another set of principles (not rules) cover futuristic accounting (or management accounting) where we seek to address the financial implications of decisions that we need to make now and in the future. The point I'm trying to make is that each member of staff needs to ask whether they are aware of and fully understand the corporate financial procedures. If not they should take it upon themselves to put this right. If there are no

such procedures around, then the person must ask questions – the first being why."

"3 *Competence* – Building on the point just made, each member of staff needs to assess whether they have a good understanding of financial systems, financial accounting and management accounting. This cannot be left up to accounting staff and people who work for the director of finance. All staff need to understand how accounts are prepared and how they rely on feeder systems (local systems such as debtors, creditors, payroll, stores etc.) to strip off information for the accounts. They need to know about journal entries and reconciling accounts and dealing with suspense account items. They also need knowledge of the key principles of management accounting and how costs move in line with activity levels and related costs. They need to be able to prepare the financial implications of the decision model that we described earlier. The self-control model means that staff have a basic competence in all matters that create the right control environment – financial systems being an example of one of these matters. Most breaches of financial procedures derive from ignorance rather than malicious acts. Financial management should be firmly on the staff training programme. It should be part of the performance management scheme and something that is positively looked for at recruitment stage."

"4 *Budgetary control* is an important part of internal controls. The empowerment concept is based on giving people freedom to manage their responsibilities in the best way they think fit. But this will be within the confines of a given budget. A budget in this context is a plan expressed in financial terms. It provides a delegated level of freedom, where the person in question is authorised to spend to the defined levels and in line with the defined allocations of funds to functions. It acts as a control by setting actuals against budget (or standard) and seeking explanation of variances. One interesting feature of budgets is the use of flexible standards. Here the set budget is flexed or adjusted to reflect the actual rather than standard level of activity. So we may spend more or less but this is adjusted by the level of activity before we compare actuals to budgets."

"A simple illustration will help. Say we are making tables that take wood and glue (direct materials), workers (direct labour) and power (direct overheads). We also pay rent and business rates (fixed overheads). Say each table sells at £100. Our budget and actual results may appear as follows (Figure 39):"

Figure 39
Fixed budgets

	Original Budget	Actuals	Variances (B–A)
Activity levels	1,000	1,500	500
Sales	100,000	150,000	50,000
Direct material	30,000	50,000	(20,000)
Direct wages	10,000	12,000	(2,000)
Direct overheads	5,000	6,000	(1,000)
Fixed overheads	20,000	21,000	(1,000)
Total costs	£ 65,000	89,000	(24,000)
Gross profits	£ 35,000	61,000	26,000

"Our sales have increased and so have our costs. The budget shows adverse costs because we have simply done more and this has cost us more. The variances are in this way misleading as overall, we have made £26,000 more than planned."

"What we need to do is take those items of income and costs that move with the increased level of activity. The activity has increased 50 per cent more than planned (i.e. budget) and so we increase or flex the budget for all direct sales and costs. The fixed costs are left because, in the short term, they tend to stay the same regardless of the level of activity. The revised figures appear as follows (Figure 40):"

Figure 40
Flexible budgets

	Original Budget	Flexed Budget	Actuals	Variances (B–A)
Activity levels	1,000	1,500	1,500	0
Sales	100,000	150,000	150,000	0
Direct material	30,000	45,000	50,000	(5,000)
Direct wages	10,000	15,000	12,000	3,000
Direct overheads	5,000	7,500	6,000	1,500
Fixed overheads	20,000	20,000	21,000	(1,000)
Total costs	£ 65,000	87,500	89,000	(1,500)
Gross profits	£ 35,000	62,500	61,000	1,500

"An analysis of variances between the flexed budget and actual results makes more sense and we can now target materials for greater scrutiny as there is a large adverse variance. It may be that we are employing less well-trained staff, that cost less, but lead to greater levels of wastages and therefore higher material costs."

"This is a simple example but it holds many good principles that can be widely applied. If our budgets do not reflect our actual activities then they will make little sense. Instead of being a control that sets standards and motivates us to reach these standards, they become a source of conflict and frustration. They demotivate and therefore lower performance. The more we do and the more we achieve, the greater our variance on costs and therefore the greater the scrutiny and pressure to hold costs. This may stifle productivity and make comparison of variances meaningless."

"Furthermore – if the budget is a tool used by accountants and auditors to keep a check on managers and their staff, it becomes an instrument of oppression. This is useful if the main objective of an organisation is to police variances from budgets assigned to employees. It gets worse when the budget becomes a cat and mouse game where managers spend or lose – or hide spending by using vague terminology. If, on the other hand, the budget is seen as an important technique used by managers and staff to help them utilise their resources, target their efforts and make good decisions, then it becomes an important control. This fits best with an organisation whose main objective is the provision of value to its customers, through the best use of resources. The internalised control concept is obviously located with this latter interpretation of the budget and the budgetary control process."

"Financial management is important and each member of staff should ask whether they are happy with their comfort levels when dealing with this topic. That is not to say that finances should drive all decisions – it can get out of hand as reported by one hospital consultant:"

A leading cancer specialist today hit out at "accountancy gone mad in the NHS" after a

hospital produced a blacklist of 16 health authorities in London and the Home Counties whose patients cannot be admitted until spring… (*London Evening Standard*, 1996).

"Likewise a detailed analysis of a budget can address only part of the key issues facing management. It cannot answer all questions, and global figures should be further analysed before we get closer to the right answers. We would do well to recall the words of G.K. Chesterton before ignoring detailed information:"

One sees great things from the valley, only small things from the peak (Schiller, 1994, p. 152).

"Also financial management should not be used to constrain the innovators that drive an organisation forward. There are financial limits to be observed but we must be careful that they are balanced with the demands of reality. Words from Lionel Tiger make clear that sometimes we need to work with the impossible:"

It is the most formidable character of the species to routinely seek the improbable, the difficult, even the impossible, as a source of pleasure and self-justification. Who would try to write poems, or novels, or paint pictures unless he is an optimist? (*Positive Thoughts*, 1995, p. 243).

"Let's deal with the final part of today's topic after lunch", Jack said. Lunch consisted of curry goat and rice at a small restaurant nearby the fishing venue. Bill ordered a milky drink called Supligen and added two shots of white rum and three blocks of ice to ensure it hit the spot. Bill observed:

"What really is the objective of fishing? I am enjoying the view by the water and we're getting through a lot of material on control. But I need to think about hooking a few fish. To be honest Jack – I promised Ruth that I'd bring back some fish and she was going to fry them tonight. I really don't want to come back empty handed."

"Don't worry. I'm sure we will bag a few fish today", Jack said with a wry smile.

Bill took up the conversation; "I guess we can add another objective of fishing to the list you mentioned earlier. That is to impress Ruth with a fine catch and ensure that they are large enough to fry and eat tonight."

"Yes," Jack said. "We can start to develop this list of objectives; it may be to discuss control, to view the scenery, to catch a few fish and throw them back, to have something to eat tonight, to find out what type of fish live in these waters – it goes on and on. That is why we sometimes have difficulty in establishing systems objectives, since each person will have a different interpretation of these.

Controls are in place to make sure that objectives are achieved (as best we can). Where these objectives are unclear, it is hard to define the types of controls that we should establish. This point is often overlooked. Mission statements and clear policies and strategies are some ways that we can envision our goals and ensure staff understand them. You recall that the managerial control system starts with objectives. This is important to get right in the first place."

Value for money and quality

After lunch they returned to the task of catching fish. Bill started the discussions; "Why do you want to deal with value for money as part of controls?"

"You remember the key aspects of control we discussed a few days ago. This is what they consist of:
- sound information systems;
- compliance with procedures;
- protection of assets and interests whilst minimising losses; and
- economy, efficiency and effectiveness."

"If these things are properly in place we can be said to be in control. As such systems of internal control must deal with each of the above. We have already dealt with all but the last of these items. Economy, efficiency and effectiveness equate to value for money, which is where we are now."

"Unfortunately, I am a bit lost when it comes to this concept of value for money or VFM. Value can mean benefit, desirability, help, importance, merit, profit, use, worth or even advantage. It's all these things for the least outlay i.e. least cost. Quality is seen as a parallel concept and can mean aspect, attribute, condition, feature, mark, property or trait. That is what the thing is or looks like or feels like."

"Robert Pirsig spent much time considering the concept of quality and suggests that:"
Quality – you know what it is, yet you don't know what it is. But that's self-contradictory. But some things are better than others, that is, they have more quality. But when you try to say what quality is, apart from the things that has it, it all goes poof… (Pirsig, 1974, p. 187).

"Quality as a process is about doing things well, getting good results, delivering the right thing and achieving success. More than anything else, it is about setting high standards and a culture where these standards are the norm. Quality in action in terms of accreditation is about having the type of procedures that promote quality products and services. The problem is that accreditation is about

proving we have these procedures and if we are not careful it can become simply a paper exercise."

"Going back to the concept of value for money – this consists of three main components (Figure 41):"

Figure 41
Value for money

"It is based around a simple system of inputs, a transformation process and resulting outputs. Economy means getting inputs that can do the job at the best price – i.e. shopping around and negotiating well. Efficiency means getting the best results from these inputs – i.e. being productive and using resources well. It also means fine-tuning the process so that it also works well. Effectiveness means getting the right results – achieving systems objectives whatever they are. We have already seen the difficulty in setting clear objectives for fishing. Let's say then that our inputs to fishing are the rod, line, bait, our time and the fee we paid to use the lake. Economy is about asking whether we have the best deal here. Efficiency is about the way we set about the task of fishing – the way we used the equipment, our position and technique and the way we land the fish. How well is this done? Effectiveness is in one sense about how many fish we landed. But we know that we have to pay for each fish so we don't want too many. But we do want some. At the end of the day have we met our objective in going fishing? That is, how effective have we been. If we wrote procedures to cover the best way to undertake the task of fishing we can call these quality procedures. A recognised fishing body could come along, approve these procedures and we could refer to the fact that we have achieved this accreditation."

"However our goal may be to have a stress-free day out fishing among the natural beauty of the lakes, and freeing the mind of all problems and worries. Negotiating a low fee, observing all documented fishing procedures, and documenting the catches for the record may induce much stress and paper work. This may, in effect, mean that the original goals are not achieved at all. In this way fishing will have become a major hassle."

"Having completed numerous VFM audits my view on this topic is that VFM is nothing more than employing good managers and using good staff. If they establish good procedures you will have quality systems. It's as simple as that."

"I recall the days before organisations felt uncomfortable about making their people redundant. They used to rely on VFM initiatives to make savings and audit carried out many high level projects in this respect. I carried out such an audit of two major transport functions. My recommendations included merging the two functions and getting rid of excess stocks of vehicles, as well as using the vehicles in a more flexible way. This led to over a million pounds worth of savings. At the end of the day, any sensible transport manager could have achieved these savings i.e. efficiencies through basic good transport management. It is wrong to have auditors doing this job for them. All my VFM reviews have had the same flavour. In contrast, basic good management and talented and motivated staff provide VFM in its purest sense. It also goes hand in hand with the self-control concept. There may be some facilitation required to get staff to use their skills and show them how to get projects through the organisation's review and approval process. But again, we can address these issues through the corporate internalised control facility."

"We can see instances where things have been done badly. Management decisions having led to poor VFM as the following example graphically illustrates:"

It could be one of the greatest railway management disasters of all time and it happened something like this…Make 71 train drivers redundant in a restructuring exercise and then discover there are not enough drivers to drive the trains. Services are cancelled. Irate commuters appear on television. As a goodwill gesture, the company lays on free trains at a cost of £1.2…The company has now embarked on a programme of increased training and making special arrangements for working leave. One rail personnel expert… said the situation had been caused by a failure of planning and implementation… (*People Management,* 1997a).

"VFM is about seeking improvement and making progress as well as sorting out problems – which again I see as basic good management."

"Auditors use the process of reviewing systems and selecting suppositions that certain areas need improving. This may be through comparison with norms, national standards or similar operations. We look for evidence that supports our original suppositions and then go through the process of identifying these problems, underlying causes and
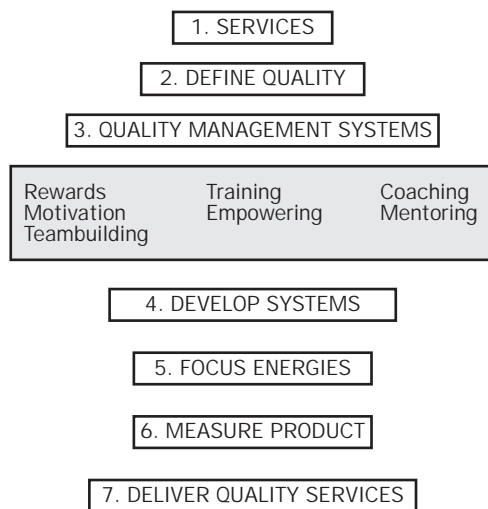
recommended solutions. An action plan then takes the solutions to management for their attention and action. Formal presentations and close working with management are hallmarks of a good VFM project. I still argue that the alternative and more effective approach is to ensure management have the skills and techniques to review and secure good VFM as part of their everyday responsibilities. Ensuring that they have established the managerial control system is one way of doing this. The old-fashioned external review should give way to facilitation and advice where required."

"Operational managers are best placed to assess the situation and seek improvement – an external review body could simply go round in circles. Returning to Robert Pirsig's work – he has said:"

The number of rational hypotheses that can explain any given phenomenon is infinite… instead of selecting one truth from a multitude you are increasing the multitude… in the high country of the mind one has to become adjusted to the thinner air of uncertainty and to the enormous magnitude of questions asked and the answers proposed to these questions (Pirsig, 1974, pp. 118-9).

"As usual I have been able to think up a basic model for our work on VFM and quality (Figure 42):"

Figure 42
VFM and quality

1. SERVICES
2. DEFINE QUALITY
3. QUALITY MANAGEMENT SYSTEMS

Rewards   Training   Coaching
Motivation   Empowering   Mentoring
Teambuilding

4. DEVELOP SYSTEMS
5. FOCUS ENERGIES
6. MEASURE PRODUCT
7. DELIVER QUALITY SERVICES

"Let's make brief mention of each of the above. Remember, I use these diagrams to represent systems in the sense that each component feeds and is dependent on the other components. They together form a system whereby each needs to be in place for the system to work. Okay – back to the components:"

"1 *Services:* We need to work out at the outset what we are responsible for. This sets the parameters within which we seek efficiencies and service delivery. It may be contained within a mission statement or charter that spells out this role. It's important because we cannot be responsible for efficiencies that are located elsewhere. In this scenario, we would need to work as a team to deal with cross-section problems."

"2 *Define quality:* Setting out exactly what you want in terms of defined standards is also an important aspect of VFM and quality. We need to define quality standards. This says what we expect to see in terms of the final product, and creates a reference frame for staff to rally round. It is a bit like the control chart we have used before – a model of parameters within which our activities should fall. Some will be subjective and relate to the impression customers receive when they use the service, what they experience, how they are treated and whether they feel happy with this. A simple matter such as handling phone calls can be quite an important aspect of quality standards as the following press report illustrates:"

Time, as the old saying goes, is money. And UK companies are losing millions of pounds because of the poor telephone service they offer to customers. A BT survey shows that the reaction of 9 out of 10 customers who experience unanswered or badly handled calls is to stop dealing with the offending organisation… (*Daily Mail*, 1997h).

"This also applies to the dreaded voice mail:"
Voice-mail is the most hated form of new technology in business throughout the country, according to a new survey. The results will come as little surprise to anyone who has been desperate to speak to a human being, only to come up against the dreaded voice mail… (*Daily Mail*, 1996h).

"If you walk into Burger King, McDonald's, KFC and Pizza Hut – you will find a different atmosphere and staff culture. The questions to ask are – is this what we want and how do customers feel about this?"

"3 *Quality management systems:* I see this as all those systems and processes that contribute to the delivery of products and services. If these work then the service will work. The managerial control system is one way of viewing these underpinning processes. Another way is to view those systems that relate to managing, training and developing staff as key to quality and value for money. The list we have covers:
• rewards;
• training;
• coaching;
• motivation;

- empowerment;
- mentoring;
- teambuilding."

"If we can get these right at the outset – we are well on the way to an excellent organisation. Excellent in this context means VFM is implicit in the way the organisation works."

"Take an example of the staff performance management scheme. We need to set standards and ensure that staff have the competencies to meet these standards. A version of the control chart can be used to define high and low performance levels. Good performers are further developed as having great potential. While poor performance means staff may fall into the area where counselling may have to be considered (Figure 43):"

Figure 43
Performance chart
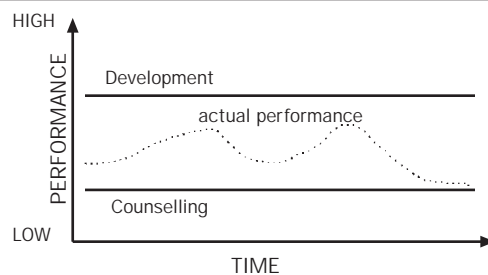
"4 *Develop systems:* This stage is about ensuring the systems are in place and that they are reviewed, assessed and kept up to date. There is also the important concept of change management that needs to be addressed. Here, we ensure that change is built into these systems and we are able to deal with the implications of asking staff to rally round change after change as the norm and not something unusual. Change management is about communicating with staff and getting them fully involved in the change process. Bottom-up communication and empowerment are the initiatives that will drive successful change strategies. Change only works where all employees are pulling in the same direction – commitment, motivation and enthusiasm are all fundamental prerequisites."

"5 *Focus energies:* Building on the above mentioned points, we need to drive the systems with the people working for the organisation. Organisation charts, documented strategies, a room full of consultants and speeches from the chief executive are all very well. What is more important is the release of energies to make things happen. VFM is about a constant search for better ways of performing and delivering services. Constant probing only happens where there is an energy to support this force. Where this

energy is focused, we will achieve VFM – no doubt about it. The need to balance accountability with creativity is foremost in releasing this energy. Accountability is important and relates to what was done in the past. Creativity focuses on what we intend to do in the future. To achieve this balance – to be creative but accountable for one's actions is a goal that should be aimed at. Figure 44 shows how accountability features as important for past periods where we justify what we have done. Whilst creativity has a high profile for activities that are happening now and in the future (Figure 44):"

Figure 44
Accountability and creativity
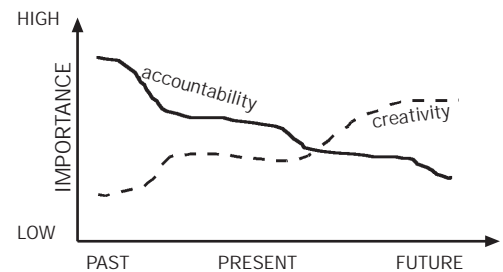
"6 *Measure product:* We have said that we defined quality and efficiency at the outset. This is fine as it sets the right environment within which staff work. What we also need to do is measure the extent to which these standards have been achieved. We must be able to tell whether we have been successful or not and the degree of any shortfall. One useful way of doing this is to establish feedback mechanisms so that we can tell what impact the service product has had on our customers. A complaints procedure also helps. More formal measuring devices can be used where the outputs are physical in nature, like the tables we used in our example of flexible budgets. Do the tables pass our quality standards in terms of appearance, measurement and being fit for purpose. If our inspections show there is a problem, this must be fed back into a review of underlying processes and the causes diagnosed. Most people accept that quality and VFM are not about inspection but about good processes. Effort concentrated on these processes reduces the resource we need to dedicate to inspection. This argument also applies to compliance – instead of sending in armies of checkers we may wish to establish processes through which compliance happens by training people in the best way of adopting their section's procedures."

"7 *Deliver quality services:* The final result of the above processes is the provision of

quality services. There is nothing more than this to say although, this does not always work out as implied by the following press release:"

> Families are being put at risk by some supermarkets and butchers selling frozen meat as 'fresh'… (*Daily Mail,* 1996i).

"Having said this, there are companies who want to know when things are not quite working out. They are even prepared to spread this information to their customers:"

> …Britain's biggest tour operator has decided to abandon the euphemisms normally used to sell the delights of resorts for a more honest approach…This move is a more positive step forward in our campaign for more realistic information in holiday brochures…e.g. Costa Blanca – Benidorm is no more a fishing village than London's Docklands are a dock… (*Daily Mail,* 1996j).

"We have discussed information systems, financial systems and the importance of quality and value for money. They are all key aspects of the system of internal control."

"I want to close this part of our discussions by referring to a number of quotes that express important issues much better than I could. Let's start with a warning from Daniel Meacham who asks that we do not get obsessed with the worries and problems of life but maintain a sense of perspective in all things:"

> Maintain a sense of perspective and proportion in all your endeavours…Don't let problems and setbacks block out the light of reason. The human mind is like a magnifying glass: It exaggerates. A simple rule of thumb: Whatever you're looking at is not as big a deal as you think it is (*Positive Thoughts,* 1995, p. 121).

"Where we are looking for the perfect business process and will accept nothing less – we will always be disappointed. There is no perfection, only what is best at this point in time and as compared with alternative options. I derive this from the words of Sir Winston Churchill even though they were not meant to be used in this context:"

> No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time (Cohen and Cohen, 1995, p. 80).

"The final point relates to the other obsession that grips control freaks. The need for everything to be planned and organised. This cannot always be so and the natural flow of life often times takes precedent. Words from Epictetus bring home this point:"

> Do not seek to have everything that happens happen as you wish, but wish for everything to happen as it actually does happen, and your life will be serene (*Positive Thoughts,* 1995, p. 96).

Bill sensing that today's work had been completed looked deeply into the waters of the lake.

"Jack – I promised Ruth some fish and I'm starting to get desperate. I think I'll try over there, " said Bill pointing to the sectioned-off part of the lake where dozens of fish were crammed into this small area. After dipping his rod into this pond three times and coming out after a few seconds, each time with a large fish, Bill looked more relaxed.

"This may be cheating but so be it. I want fish and now I've got them." suggested Bill, looking at Jack in a way that meant he expected him to join this conspiracy. Jack thought that Bill need not have felt so guilty since he had just worked out that there were no fish at all in the large lake.

"Bill, we have really finished our work on internal control. We have discussed definitions, procedures, fraud, information systems, financial systems, quality and value for money. That is really all there is. Managing these issues means we achieve corporate control. But before I conclude we must deal with two issues. I want to explain how all these matters can be put together in a corporate internalised control facility – this will be the final subject – the conclusion so to speak. Before we get there I need to go over one final subject – that of creativity. My main preoccupation is about reconciling the need for control with the need to promote creativity within organisations. This dilemma has perplexed me for some time now. Talking it through with you may help and I would like to do this tomorrow. How about I pick you up and take you to my house for the day and we can discuss this matter of creativity?"

"Would you mind very much if I brought Ruth with me – it's her day off tomorrow?", enquired Bill.

"As we say in Jamaica – No problem!"

Chapter six – controlled creativity and chaos

"Good morning, Bill", Jack said as he got out of his car.

"What a wonderful day," came the reply.

Jack looked at Bill and smiled. He thought that Bill had changed quite a lot over the days he had been here. Some argue that clothes reflect one's personality. If this was the case, Bill's clothes consisting of shorts, a loose T-shirt and a baseball cap worn at a slight angle – reflected a very casual and comfortable personality. This contrasted with his first few days, where trousers and tailored shirts were the norm. Interesting…

"Right," announced Jack. "A day at my place. Is Ruth ready?" This question required no answer as Ruth appeared, dressed in a most attractive floral dress.

"Good morning, Ruth." Again Jack smiled as he thought how good these two looked together.

The drive to Jack's house did not take more than 15 minutes. They went past Mo'Bay Town proper, and took the road heading towards Ocho Rios. A right-hand turn up into the hills took them into Ironshore and a very pretty residential area called Coral Gardens. They drove further up into the hills through more winding roads and eventually stopped at a beautiful house set right in the middle of an acre of land. A large mango tree stood at the left – bearing seven different types of mango. Many bread fruit trees were scattered around at the back of the house standing out from the landscaped lawns. Foliage consisted of red, blue and other colourful plants spread around the sides and front of the house. A kidney-shaped swimming pool gleamed with sparkling blue water and five children swam and splashed around with an occasional shriek of laughter.

"Meet my wife, Sharon", said Jack as his wife approached from the house and took part in the introductions. She actually knew Ruth as they both shopped at the local supermarket at the Blue Diamond shopping centre. This was quite useful as the two women disappeared into the house enjoying a heated debate on the best way to cook steak.

After a few minutes spent introducing Bill to Jack's two children, a boy and a girl, and the other youngsters who were with them, the two men sat on a huge veranda overlooking the swimming pool. The breeze that blew across the veranda kept everything in its wake cool and comfortable.

"I'll show you around the house later", Jack said as he sank back into a reclining chair watching his son mix a large bowl of iced fruit punch and then offer Bill a glassful.

"This is wonderful", Bill observed looking around the grounds; "and so cool up here on the hill."

"Yes – We designed the house ourselves and we don't really need to use the air-conditioning, it's so breezy here. By the way, I think you've lost Ruth for the day", Jack continued as he heard the two women in the kitchen talking and laughing loudly. "Shall we get into today's topic?"

"Yes – you wanted to deal with controls and creativity."

Jack turned on the dictaphone, looked towards the sky and sighed; "I'm really not sure what to do about this subject. I need to ensure controls take on board and recognise the importance of creativity. This is so important, but I'm not sure where to start."

Bill came to the rescue "I have thought about this matter. In fact, throughout the last few days I've constantly thought about where this fits into some of the things you've been saying. I'm quite happy to talk about this if you like?"

"Absolutely." Jack crossed his legs and sank further into his chair as if show that he was ready to listen.

"Right." Bill rubbed his hands together, leant forward and started; "I'll give you my views on creativity and control. You use the work of Edward DeBono to illustrate the way control frameworks confine activity. There is the problem of not recognising that there are different routes and avenues. Let's repeat this diagram (Figure 45):"

Figure 45
Problem of no problem

lost opportunities
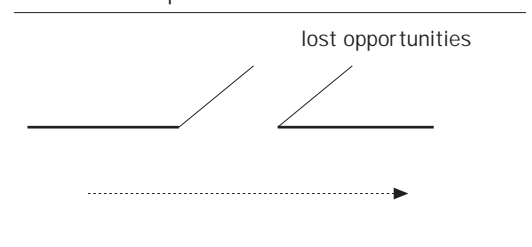
"We contain activity within the upper and lower limits so that staff stick to the right route and say don't go over a cliff, or bump into something nasty. But having them march blindfold along this route means they will miss opportunities. At some stage, we need to reconcile these forces and resolve this dilemma."

"But before we get there, I would like to consider some of the issues surrounding the concept of creativity. Jane Henry has said in her work, *Making Sense of Creativity:*"

The suggestion is that creative ideas flow where new ideas and challenges are welcomed and where people are encouraged to play, rather than controlled and threatened (Henry, 1991, p. 9).

"So we start with the view that control may inhibit creativity."

Jack put up his hand in a stop sign saying; "Bill – this is where I get stuck. We need controls and the auditor in me sees that this is fundamental. There are no short cuts. Creative people, however, need the freedom to operate in a higher reality. As I say – this is where I get stuck."

"Okay." Bill took up the challenge. "We are not suggesting that there is no control. We need controls that recognise the importance of innovation and change – it's as simple as that. We need to start thinking more in terms of the art of control rather than the science of control. Art is subjective, organic, and free floating. It's something that appears in the mind and means different things to different people. We have already referred to Robert Pirsig, who explained the difference between romantic and classical approaches with the words:"

- Romantic – inspirational, creative, intuitive, feelings rather than fact – feminine
- Classical – reason and law, unemotional, economical – masculine (Pirsig, 1974, p. 76).

"This conflict between art and science is also seen in business in the form of quality versus costs. Once again we seek inspiration from a quote attributed to George Bernard Shaw:"

The trouble, Mr Goldwyn, is that you are only interested in art and I am only interested in money (Partington, 1992, p. 638).

"Returning to Robert Pirsig, he goes on to describe the difference between the art of motorcycling and the science of the motorbike (Figure 46)."

"The art of control recognises the need for controls to attach to people, move with changes and inspire energies and emotions. Moreover they should encourage creativity in areas where this is important. In contrast to areas where we must be firmer and clearer –

Figure 46
Art/science of motorcycling

ART	SCIENCE
Motorcycling	Motorcycle maintenance Pieces, parts & components Controlled, measured and checked Dull & Awkward

for example there is no way we can suggest that a health and safety procedure not to try to fix personal computers by removing their backs and playing with wires, is optional."

"This principle is even reinforced by writers on creativity. Winston Flether in his book; *Creative People,* notes that:"

There is, however, one area of cost control where the rules must never be broken: the control of rip-offs. There are no data to prove the point, and there probably never will be, but it seems certain that rip-offs – particularly bribery and expense account fiddles – are more prevalent in certain of the creative industries than in any other fields… (Flether, p. 103)

"Having said this, we still need to ensure we cater for the creative freedom required to promote freedom of thought. On the same theme of creative people Sir Ralph Halpern argues that:"

To enable the free flow of creative thought, it is essential that the manager provide a working environment that is not restrictive or stifling, and allows creatives to discuss ideas freely without fear of being ridiculed (Flether, p. 74).

"Stephen Bayley builds on this and goes further suggesting that:"

Creative people need to have a sort of vision and a strong moral commitment to changing things for the better. They have to be unafraid of breaking rules, although it is axiomatic they have to know the rules in the first place. So they have to be disciplined people (Flether, p. 32).

"Reason and order are the cornerstones of control. But do they, at the same time support progress? We can consider George Bernard Shaw's play, *Man and Superman,* for help here:"

The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man (Partington, 1992, p. 637).

"This view is also found in the world of management theory. Charles Handy argued:"

In that sense we are entering an Age of Unreason, when the future, in so many areas, is there to be shaped, by us and for us;… a time therefore, for bold imaginings

in private life as well as public, for thinking the unlikely and doing the unreasonable (Henry, 1991, p. 270).

"Creating unreasonable controls – now that's an idea."

Jack came into the conversation; "This is it. Order and reason must be paramount. How else can we prove that controls are in place, they are sound and they work? I cannot condone a form of anarchy where people move around the organisation, dreaming up ideas and going ahead with them. Financial management, good structures with clear reporting lines, project management, information systems and performance targets are all required. We must set parameters within which our people should work. This is where I get stuck reconciling art and economics."

Bill looked at Jack's children and wondered if he would ever be blessed with offspring. What a lifestyle – building your own house, a wonderful family, working as and when you wish and most of all being your own boss. Bill took up where Jack had left off:

"People want to perform and achieve. Ask anyone what they want in life and they will have a thousand ideas. Ask them whether they can achieve these at work and they will tell you about the obstacles. Working for someone is not easy. We have large organisations that employ excellent people that fail. They fail to have ideas, they fail to stay ahead of the opposition and they fail to survive. Managing is about setting up systems such as your managerial control system and ensuring it works. But it is then about solving the people problems caused by these systems. If these people problems are not dealt with the company will fail. Where these people problems are dealt with and employees feel committed and competent, then we have a much better chance of success. Getting people to release their creative energies is not easy. At first sight it seems that controls work in conflict with these creative energies; they pin people down and lead to excessive paper work. Rigid rules on accountability may mean people refuse to make decisions for fear of censure/reprimand. Where these decisions are confined to a narrow path, for example DeBono's road, in line with a fixed set of procedures, we lose accountability. The procedures make decisions and not people paid to take the occasional gamble and manage corporate risk properly. At the end we lose this accountability by seeking it too rigidly. We take no gambles but make no progress. All new computer developments involve gambles to get better performance (i.e. better information). To do nothing means its no gamble, we simply rely on our old legacy information

systems. But we make no progress, do not keep up with competitors and so fail. If our controls, say in this case project approval procedures – mean people will not come up with and drive through ideas on new systems, then this will happen."

"To be honest, Bill," said Jack looking excited and ignoring his wife's calls to cut down a bread fruit to roast. "I've carried out many investigations into why various computer development projects failed and they all end up as witch hunts. At the end of the day, I've felt sorry for the project manager and team members who take on the tasks within this blame culture. They are always hard working and committed but lack the skills and most importantly the support to make the projects work. I really cannot understand why anyone would take on these types of projects."

"Okay," Bill acknowledged Jack's view. "Let's get back to the issue in hand. Getting people to release their creative talents is fundamental to organisational success. Take your comments over these last few days. Creativity is about freedom to act, to make decisions, a freedom to think. Control is about restraining activities within a defined set of parameters. We have said that control is about achieving objectives; if we refuse to empower people and allow them to think, they will operate within our confines and nothing more. Objectives for any organisation in the current climate, must involve creating change, innovating, improving and energising. There is no way around this point. So we restrict creativity, we make no progress and we do not achieve our objectives. If this is the case, controls have failed. What I'm saying is that controls are an important aspect of creativity; they must cater for this and promote new ideas, not hinder them. This is not to say I'm encouraging anarchy. It's just that we need to start thinking about creative controls – or perhaps controlled creativity."

"Maintaining the status quo can be dangerous. Building tensions that challenge it, so that resolving these tensions addresses key problems creates improvement. We will have to address the role of creative destruction at some stage. For the time being we can use the striking words of the civil rights leader, Martin Luther King, to illustrate the importance of tensions:"

The Negro's great stumbling block in the stride toward freedom is not the White Citizens Councillor or the Klu Klux Klanner but the white moderate who is more devoted to order than to justice; who prefers a negative peace which is the absence of tension to a

positive peace which is the presence of jus-tice (Partington, 1992, p. 396).

Jack went about the task of coaxing down a couple of ripe breadfruit working on the premise that, if your wife is happy, so will be your life. Bill managed to bend over the side of the pool and splash the children without falling in. In fact, the way Bill had felt since he arrived on the island, he would not have minded falling in and getting wet.

Bill continued talking; "Let's go back to this concept of creativity before we work out how it can be managed. Creativity is a disturbance of order – it means going off track from time to time. David Boham and F. David Peat say that there can be blocks to creativity:"

> The key point here is not therefore to search for a method that is somehow supposed to prevent scientists from being caught up in playing false. Rather it is to face the fact that this whole problem arises because the mind does not wish to become unduly disturbed. It cannot, in such circumstances, act cre-atively but is impelled to play false in order to defend the ideas to which it has become so attached… (Henry, 1991, p. 32).

"It is linked into change management. Not the change management where the organisa-tion is required to install new procedures resulting from government legislation, new automation standards or basic adjustments. It is the kind of change that the organisation creates simply because it wants to stay ahead. This latter change is so important to success that we should adopt procedures that pro-mote it. That is, we can control the use of creativity. Taking a positive approach to cre-ativity is not new. Many years ago Robert Blake and Jane Moulton suggested:"

> Only when the culture of a corporation stimulates experimentation and promotes a truly constructive attitude toward discovery and innovation is the full potential from creative efforts available as a source of cor-porate thrust (Blake and Mouton, 1969).

"You must agree that dynamic change is important to organisational survival. This must be done in a controlled environment – we all agree; but controls must not lead the process, they must be organic and follow what the organisation requires. Your defini-tion of controls means that they are part of the change drive. It all fits together. Since you like using diagrams, let me sketch out a chart for starters (Figure 47)."

"Some explanations:"

Inertia – no change, no controls, no one cares, managers assume a waiting-to-retire stance, incapable staff are employed.

Bureaucracy – over-control, control and command, 40 forms to fill out for every deci-sion made.

Figure 47
Control/change model
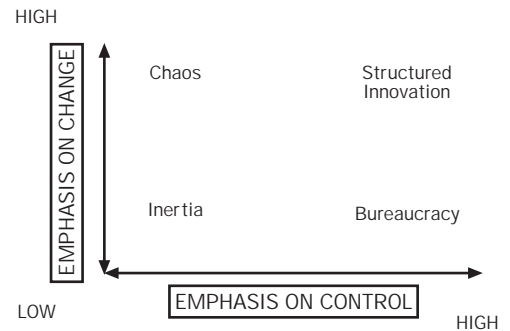
Chaos – change for change sake, no rules, no direction, no measurement, free-floating environment where we lose any sense of objectives.

Structured creativity – controls keep pace with change, driven by change, set direction, there is measurement and review.

"We want to get to the top right-hand cor-ner, that is structured innovation. It is here that we have change, but also stay in control. Things happen as they are meant to happen. In this way, controls are not forgotten and we are still asking: are objectives clear and com-municated? Do staff know what they are doing? Are they equipped? Can we measure performance? Can we adjust as we go along?"

"Yes", Jack came in. "My self-control for-mat can still fit well with this idea. The tradi-tional compliance model is linked to poor performance by attacking people's insecuri-ties and fears. A better version uses self-con-trol to inspire performance and self-actualisa-tion (Figure 48)."

"But", Bill came in; "We can pursue the view that we need to promote a self-control framework based on a positive view of the organisation. But at the same time we need to

Figure 48
Self-control and performance
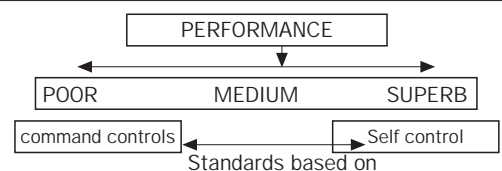
adopt a three circle approach, where we cater for change, creativity and chaos."

Creativity – innovation, ideas, fresh thoughts and lateral thinking.

Control – process through which lateral and random change can be focused towards organisational goals.

Chaos – conflicts and struggle where systems adapt to changing environments in a random manner.

"What do you mean by chaos?", Jack asked.

"Ah", Bill rubbed his chin. "I still say that your discussion of controls must be complete. You have spoken about systems and how they are established and maintained. These are controlled so that they achieve their goals – that is what they were meant to achieve. But we need to deal with the concept of chaos. This is just as important to successful companies. And I'm afraid that it flies in the face of your steady-state 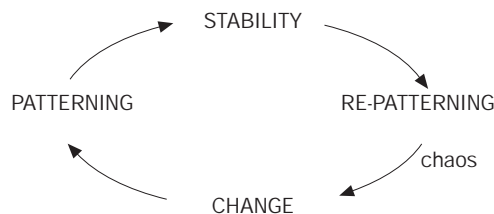view of controls. Your managerial control system argues that a set of parameters comprising all the key processes underpinning the management function should be in place. However, I have to tell you that these systems must be allowed to break down and regroup to be of any use. Chaos looks like this (Figure 49):"

Figure 49
Systems patterning

"It leads to changes, which lead to dynamic creativity which in turn leads to betterment. The old systems become volatile, break down and energise into systems that better respond to the needs of the environment. The stage where these systems have deteriorated and have not yet been replaced is dangerous. If left too late, or not managed, we move into anarchy. As we approach chaos, we anticipate new successes – but must have the nerve to allow this to happen. A performance appraisal scheme might start to break down or re-pattern because it does not work – it does not reflect the new ways that staff work. Managers start to use creative methods to compensate for this lack of proper performance appraisal. These organic systems should then be integrated into a new and improved corporate standard that replaces the old system. There is no point in auditors reporting non-compliance with a system that

is breaking down. There is no point reporting we have chaos – i.e. no real system. We must manage this chaos as a natural search for a more realistic and usable system for establishing standards and assessing performance. Allow it to happen and allow a re-patterning so that the new one grows naturally from the ashes of the old. Forcing the old system onto staff has no use. Inventing a new one is also dangerous. Allowing the growth of better arrangements and then consolidating them is much more sensible. Or setting a standard that simply says – 'all managers must establish suitable means of setting targets, and measuring performance' – is another alternative."

"The reason you find the topic of creativity difficult is because it requires an element of judgement and balance. There is no finite answer. You used to tell me this at the start of these discussions that the control freak needs pat answers to all problems. There are degrees, balance and dependencies behind this reasoning. A balance of freedom to act and direction from above. McGregor has said:"

These emotional concomitants of dependence and independence stem from a series of universal human experiences. Each of us is born into a relationship of relatively complete dependence…Growing up and learning to live in this complex of interdependent relationships is not without its emotional conflicts…The desirable end of the growth process is an ability to strike a balance – to tolerate certain forms of dependence without being unduly frustrated, and at the same time to stand alone in some respects without undue anxiety (McGregor, 1960, pp. 26-7).

"It comes down to contingency. Some aspects of work, some people, some situations and sometimes, we need to set clear guidance and tell people what to do. We need to write formal memos and sign and date them. Internal discipline requires these attributes. Other times we can simply give people freedom to act – they will decide when they might seek advice and they will decide what controls should be in place. You used to be an auditor – can you accept this point?"

Jack took time to think before answering;

"I need some kind of standard. There must be a format that is defined by the organisation and agreed and accepted. We anticipate adherence with these standards. I cannot accept an 'if I feel like it' attitude when dealing with specific control routines…"

"Okay." Bill agreed "But we must explore the fact of creativity. Let's go back to your comments on motivation. What makes people tick? You made reference to Maslow and his

hierarchy of needs. Can control help one reach the top of this hierarchy? – i.e. self-actualisation on which Maslow comments:"

Self-actualisation – This term, first coined by Kurt Goldstein, is being used in this paper in a much more specific and limited fashion. It refers to the desire for self-fulfilment, namely, to the tendency for one to be actualised in what one is potentially. This tendency might be phrased as the desire to become more and more what one is, to become everything that one is capable of becoming (Vroom and Deci, 1973, p. 33).

"I do not accept that controls should necessarily stop one reaching this so-called state of self-actualisation. They should encourage it. When I considered the material on motivation I felt that the available research supports the view that people search for real value from work. A blame/command environment means they revert to protecting the lower needs of safety and security and they have not the time or inclination to think about the higher needs, where innovation and motivation sits. We may see good productivity where autocratic control is used, but over the years this will decline where mistrust and resentment take over to lower communication and performance. In fact, working within the rules means that little achievement will be made as people generally stick to the rules and the norm, which will always be below best performance. So long as they obey the rules this is accepted; we cannot ask for higher performance unless we move away from the rulebook and talk about spontaneous advancement and individuality. Expectancy means people will behave in a way that increases the chances of their perceived rewards linked to this behaviour – sticking to the rules may be the best strategy to preserve basic needs but the organisation of tomorrow needs people who will take it from now to then, and this depends on innovation and commitment and not threat of discipline."

The morning's debate came to a natural conclusion as Jack announced that he would have to set about preparing lunch. This gave Bill the chance to spend some time with Ruth who came out after talking with Jack's wife, Sharon. Bill and Ruth spent a happy hour playing with the children who were still in the pool. This was quite a task when one was also trying to keep dry – not too successfully. No matter, any water would dry off after a few minutes in the sun.

Lunch was a lavish affair. It consisted of curried lobster, avocado pear, rice, green bananas, and a full salad side-dish. The conversation was pleasant and dealt with Jack and Sharon's move to Jamaica. Realising that

Jack and Bill had planned a close debate over what must be one of the most boring subjects ever, the two women went on a tour of the grounds; leaving the men to restart their verbal sparring match. This started slowly as the effects of the meal left them lethargic for a while. After a few attempts they gave up and both fell asleep about the same time. The silence and deep snores went on for nearly an hour as they drifted in the deep wells of dreams and wishes. Jack's dream swept him into the world of internal controls. He drove through these controls that were represented as roads winding through a mountain – with precipices at one side that represented great danger. Trying to maintain control of the car in the face of this danger was both exciting and frightening. Bill's dream was different – he was lying on an air bag on the sea with a Red Stripe beer in one hand, and a radio playing reggae music resting on his stomach.

When this impromptu siesta came to an end, they both felt more lively. Jack gave Bill a tour of the house which added to the short, but much needed break from their discussions. After settling back down on the veranda the conversation continued with Bill saying:

"Let's get back to the matter of creativity. Being creative is about new ideas, new thoughts – it's about being one jump ahead of the opposition. I've seen this at first hand; a board meeting became the venue for a little piece of inspiration. It suddenly occurred to one particular director that the individual computer applications for payroll, pensions, personnel and performance management were all based around what could be one employee database. He asked why these systems were not integrated and based on one database. When no one was able to answer this question, a project feasibility team was established that led to the take-up and implementation of what started out as a basic idea. Scaled-down versions of this sort of thing happen every day at work. I've seen one administrative clerk ask why she had to go through a weekly routine of typing data into her system from detailed returns from a particular section. If this section were computerised then she could simply strip off relevant parts of the database into her system on a regular basis. That is – an automated solution could give much better results. Again after assessing feasibility – this idea was adopted. One final example relates to a main supplier that was proving unreliable. The official control procedures required a lengthy re-tendering process to find a better supplier for the contract on offer. One bright spark suggested we buy out the supplier, improve their operations and then retain the subsidiary as

a reliable source, delivering raw material directly into the production process."

"Controls should be about assisting this process of generating new ideas. If procedures only allow project feasibility studies to be initiated by defined persons and then require a complicated routine that ends up with most new ideas being shelved – there will be little or no progress. However, the procedure may simply say that all new ideas should be welcomed and assessed in broad outline. It may go on to encourage these ideas by suggesting mechanisms that can assist the search for creativity. This can include:

• brainstorming;
• buzz groups;
• envisioning;
• seeing process associations;
• focusing on motivators;
• reviewing decision drivers;
• empathising with the client."

"The conflict between art and science come back into the frame where we seek to work within these two spheres. In our discussion, this translates into intuition and formal analysis. Robert L. Kuhn and Louis Kuhn have observed that:"

> Intuition and analysis must be tested against each other repetitively in a recursive process. (Henry, 1991, p. 6)

"We need controls that recognise the importance of creativity. There are hard systems and soft systems. Hard systems (or hard minds) involve budgets, accounts, productivity statements, variance reports and so on. Soft systems involve judgement, motivation, energies, team spirit (warm heart issues). We have a good track record of establishing controls over these hard systems but little understanding of soft systems controls. We audit hard systems in the form of the financial statements – but spend little effort auditing the value-based systems i.e. the soft systems. This is the basic dilemma facing managers; they want to push ahead, make progress, succeed and get into the future. The auditors however want us to issue statements about internal controls for periods gone. Audit and management speak entirely different languages – you look to the past under the accountability banner, while we seek a future in the guise of better profitability. Hard systems fall under the science of management where we measure success via the balance sheet and profit and loss account. Soft systems is a value-based art where we consider the worth of a company via the perceived value it has to investors – i.e. the share price. This is why it is so hard to comment on internal control outside the financial arena. Society has more or less given up on this idea of

mandatory control reporting and you can see why."

"The problem is that we should be able to issue reports on what we have done and how we have established arrangements to ensure we are doing things properly. I predict that, in the future, people – including customers, will judge companies on their track record and their reputation. Sleaze-free, ethical companies will publicise their achievements, while scandal-hit ones will have to work hard to retain their client base. Eventually the public will be able to work out which companies provide which products, from the often complicated maze of subsidiary and associated companies. Reports on internal controls can address these arguments. The directors should establish suitable systems of control to ensure policy frameworks are adhered to, and assets are protected from fraud, information systems work, and quality products are delivered. This should not be a matter of compliance with a vaguely worded external regulation that no one really understands or supports. It is more about the board of directors and audit committee wanting to make this report as it fits with their value base."

"We agree that creative management is about the future whilst accountability is about looking at the past. There are different attributes that fit with these different perspectives. David K. Hurst *et al.* (Henry, 1991, p. 235) have looked at top management teams and organisational reward, and have devised a model that appears (Figure 50):"

Figure 50
Creative management model
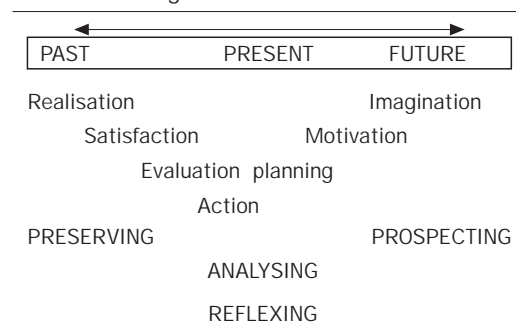
"Can we be happy with the past and excited about the future? In this way can we reconcile the auditor and manager's mindsets?"

"Developing this point, we need to recognise the dual nature of mankind. You have said this yourself in your Jekyll and Hyde dilemma, the carrot and stick, the art and science argument and the hard and soft approaches. Maybe even the left side versus the right side of the brain. There is no one

answer but it can be summed up in some wise words from an ancient Chinese proverb:"
> When you have only two pennies left in the world, buy a loaf of bread with one, and a lily with the other (*Positive Thoughts,* 1995, p. 344).

"This dual nature of managing is also found in the idea of hard minds and soft hearts used by Richard Tanner Pascale who argues;"
> Hard minds pertains to a bottom line orientation. Most frequently this boils down to financial performance, the lifeblood of private enterprise…A hard minded emphasis all too often spawns a short-term focus, and fosters organisations that treat their employees like robots…In contrast "soft hearted" values pertain to intangibles that are tied to higher-order ideals affecting employees (e.g. treating them with dignity), customers (e.g. fairness) and society (e.g. making a social contribution)…they act as a counter balance to tangible financial goals (Pascale, 1990, pp. 76-7).

"The hard minds/soft hearts dichotomy challenges companies to be caring yet engenders realism."

Jack came in; "I was starting my work on controls from the individual perspective. You have taken this as a society-wide concept. We need to bridge this gap at some stage, don't you agree?"

"Yes." Bill nodded; "But did you know that we can also deal with the personal position. I have read arguments that suggest some people are internals and others are externals. Eugene F. Mckenna has considered the use of psychology in business and has written that:"
> Certain people (externals) feel that the outcome of their efforts is controlled by forces and events external to themselves, such as chance, fate, and powerful figures in authority; while others (internals) are convinced that control is an internal matter related to their own efforts and talents…The most fundamental difference between internals and externals lies in the way they seek knowledge about their environment. The internals, unlike the externals, realise they are in control of the reinforcement or reward that follows their behaviour, and put greater effort into obtaining information about their environment (McKenna, 1987, pp. 49-50).

"I guess we need to train people to become internals and view control as a dynamic manageable force. The worrying factors relate to stress. Externals may feel stressed, where they do not like being subject to forces that they have no control over. If they do not care, then this is okay. If they would like better control over their lives and cannot achieve it, then there may be an imbalance which leads to stress. Where, on the other hand, people

are internals then they may still suffer. This happens when they cannot accept that parts of their environment cannot be controlled or that mistakes can occur where they make bad decisions. Again stress is about not being able to reconcile these issues."

"We can be internals and feel in control, but we must accept that there are natural forces of life that cause random influences that we must live with. Rain, sun, wind and other weather conditions fall under this latter category. A farmer may work the fields but keep one eye on the sky. Here he seeks inspiration as a way of putting his life into perspective against a view of the universe. He is concerned about the earth (hard systems) and seeks inspiration from the sky (soft systems). The sky can give clues as to the weather conditions but is there mainly to prove the natural beauty of the universe – a reason to work and live."

"Control is about responding to weather conditions as best we can by changing farming methods, type of crops and produce, the way land is used and whether we sell the business or not. Over and above this, we have to accept matters that fall outside our control. We must turn to poetry to bring this concept to light, using the words of D.T. Suzuki:"
> The rocks are where they are – this is their will. The river flows – this is their will. The birds fly – this is their will. Human beings talk – this is their will. The seasons change, heaven sends down rain or snow, the earth occasionally shakes, the waves roll, the stars shine – each of them follows its own will. To be is to will and so is to become (Schiller, 1994, p. 203).

"Jack – you reckon that control is like a gravitational pull that retains order and consistency. This contrasts with your satellite model where control is information that shines on parts of the world as an external force. Now I want to ask how space travel fits with your gravitational model, where it fails to keep people on planet earth?"

"Right – you pose a difficult question." Jack replied. "I use these metaphors not as perfect examples but just to illustrate basic points. If you force me, I can say that gravity (or control) seeks this order but allows exceptions that work with the gravitational pull, allows free space travel and then brings back the astronauts or probes with information that helps us here on earth. So controls set parameters, say to keep your feet firmly on the ground. But we allow and encourage creative exceptions to get people to fly away and bring back vital information – i.e. to breach controls and experiment. I can adjust my control model to retain the gravitational pull but keep the satellite. I'll simply point it

towards the universe (and not pointing downwards) to shine out and seek new information as an additional aspect of control. So gravitational control pulls us together and promotes order – satellite controls seek new experiences and inspirations based on creativity and exception. We probe new opportunities, we look for disorder and new patterns that we can use to add to our existing patterns as follows (Figure 51):"

Figure 51
Combined control model
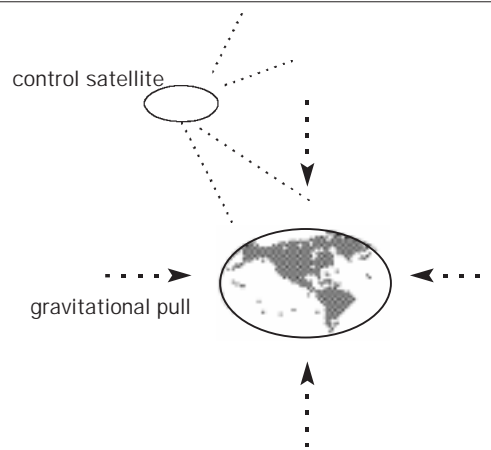
Bill took up this argument: "There is a call for conflict to be introduced into organisations to assist this search for newness. Creativity is based on change. Change appears in three main guises (Figure 52):"

Figure 52
Organisational change

FORCED THROUGH EXTERNAL FACTORS	DEVELOPED THROUGH CREATIVE THINKING	RANDOM ASPECTS OF CHAOS
EXAMPLES:		
(new legislation	new MIS	CE resigns)

"Where the chief executive resigns, the organisation may spin out of control and old polices are thrown away as political in-fighting occurs. Through this conflict a new order is established and hopefully we are better able to deal with change. Each of these three forces drives the change process. We need then, to establish controls over these three processes and ensure that they lead to an organisation that is better able to cope with change. We must ensure we cope with external forces, encourage creativity and use conflict to develop managed chaos. Some argue that where we take chaos to the edge – we

re-pattern and create new systems. Where it falls over the edge – we end up with anarchy and systems disintegrate and fail."

"The other side of the coin argues that without conflicts – complacencies and full stomachs lead to disaster. Auditors need order, consistency, and good conflict management mechanisms to feel comfortable – if not they publish adverse reports. Good managers want conflicts to challenge norms and keep the organisation moving ahead. Employing people merely to administer procedures will not work. They must be creative, challenging and demanding so that disagreements tend to lead to better decisions. Agreeing to agree, as a form of gentleman's agreement, leads to stagnation and failure. We need to turn the control concept on its head and look for creative controls, creative accounting and creative auditing. If you cannot build this concept into your definition of systems of internal control, the manager and the auditor will never be able to communicate in a meaningful manner. Complacency is the enemy of success. Ralph Waldo Emerson has said:"

Men are conservatives when they are least vigorous, or when they are most luxurious. They are conservatives after dinner (Partington, 1992).

"We try to move away from stability towards instability, but before we get to the edge of chaos and systems disintegration (Figure 53). Remember, stability is taken as sameness. Doing the same things the same way does not lead to progress and development. It repeats past mistakes and keeps one in one's comfort zones while the competition is surging ahead. What we are looking for, is systems replaced to better cope with the strains and stresses of the changing environment."

"Meanwhile we install controls so we know what we are doing at all times. We can employ a new director who asks 'why do we do that, why aren't we doing this and what the hell is going on?' In this way we can inject conflict but not pure chaos. Some see order within chaos and seek quantum leaps of inspiration. Neil McAleen has considered the roots of inspiration and argues that:"

Figure 53
Systems adaptability
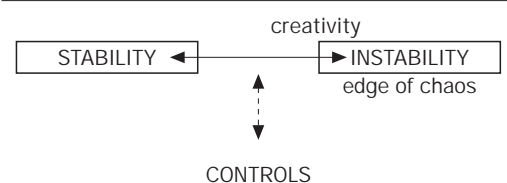
Perkin's model consists of six related but distinct psychological traits of the creative person…The first among the six is:
- the drive to wrest order, simplicity, meaning, richness, or powerful expression from what is seemingly "chaos" (Henry, 1991, p. 13).

"One warning though – there are still people around who adhere to the old views and see change as a threat. They embark on a drastic search for stability. Charles Handy warns of this reason amongst unreason:"

> For those in charge continuity is comfort, and predictability ensures that they can continue in control. Instinctively, therefore, they prefer to believe that things will go on as they have before (Henry, 1991, p. 272).

"Control here is more about maintaining one's position in the face of adversity. This is personal control but destroys real control because it means the organisation is not allowed to go with the flow, and meet its objectives."

"One bottom line on this topic of creative destruction is the view that order or best-fit, while looking good on paper, may in the long run, stop an organisation from progressing. This is a dilemma for the control merchant as it suggests that too much control is not good for you. Richard Tanner Pascale suggests on the topic of conflict:"

> Corporations with a high degree of fit among parts had a lot of focus – but concomitantly, they were often threatened with stagnation. Companies for whom the organisational parts meshed together less well were plagued with contradictions and tensions; while their performance was less than outstanding, their deviant strains made them somewhat more adaptive (Pascale, 1990, p. 51).

"But Jack, don't worry about my ramblings – let's get back to the tried and trusted world of those quotations that fit well here; H. Ross Perot (business executive and politician) has said:"

> Most people give up just when they're about to achieve success. They quit on the one yard line. They give up at the last minute of the game one foot from a winning touch (Exley, 1993, p. 19).

"While John Sculley suggested:"
> I believe that crisis really tends to help develop the character of an organisation (Exley, 1993, p. 38).

"I realise now that this is where the control freak goes wrong. He tries to dominate his environment and fails to recognise the things he cannot control. This leads to stress and a feeling that he is out of control which leads to further stress. The sheer magic of living breathes life back into things, and an ability to relax when things go well and see

opportunity when confronted by problems, makes excessive stress a thing of the past. We must have some stress or we would not get out of bed in the morning. But where we feel out of control, excess stress provides health problems, sick leave and a way of opting out of the situation."

"The body says 'I don't like this;' or 'I'm going to complain,' and the mind starts to go into a loop of unreconcilable problems (what I want versus what I've got) and it short-circuits. I'm able to diagnose myself and see where I've gone wrong. The power of positive thinking is a control in its own right. Charles Darwin has commented over a century ago that:"

> The highest possible stage in moral culture is when we recognise that we ought to control our thoughts (Partington, 1992, p. 231).

"Look, Bill" Jack came in, "the self-control concept has to work. It is the only way of making control happen – to give people responsibility and train them in techniques to account for this responsibility. I said that control starts from the soul. We can take the control chart as a comparison that suggests control is a journey through upper and lower bounds – the road to success."

Bill continued, "This model can be replaced by an organic one where control is seen as a series of concentric circles that start with you, your soul and continues outwards (Figure 54):"

Figure 54
Concentric self-control
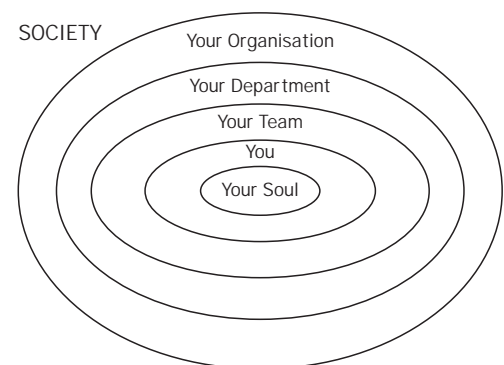
"This must be kept in balance and work at all times. The task then is to maintain this equilibrium – to ensure we integrate the needs and concerns of each of the parts of the circles as each fits into the other, communicates and is interdependent. The journey becomes one of maintaining balance and reconciling competing forces. The task is not to arrive at these goals but to experience the journey."

"As John Lennon said:"
Life is what happens to you while you're busy making other plans (Schiller, 1994, p. 276).

"What I speak of is not a mystery. It's to do with energies, motivations and searching for success and happiness. It's the opposite to being sad, withdrawn and uncommitted. Mel Brooks has taken up this theme and argues:"
Look, I really don't want to wax philosophic, but I will say that if you're alive, you got to flap your arms and legs, you got to jump around a lot, you got to make a lot of noise, because life is the very opposite of death. And, therefore, as I see it, if you're quiet, you're not living…you've got to be noisy, or at least your thoughts should be noisy and colourful and lively (*Positive Thoughts,* 1995, p. 109).

"Everything starts with you Jack. Whether you perceive yourself as in control and act accordingly. Self-talk is a powerful weapon here – where you tell yourself that you are in control, your team works, your department is successful and this makes the customer happy. Self-talk translates reality into words that impact on your being. It's really talking to your soul. The best managers spend a little time with their feet up on the desk, their eyes closed just thinking. They are saying to themselves – how are we doing? Have I got the right people on board? What's my vision for the future? How far away are we from this vision? How do we get there? Do I feel energy from staff? Am I giving them enough of my energy? Do our processes work? Can I get them better placed to deliver? What about our procedures? Am I happy with them?…"

"We can empower ourselves and feel that we will succeed. Control must start with the individual and how that person feels about himself and the organisation. As the great boxer, Muhammed Ali, once said:"
To be a great champion you must believe you are the best. If you're not, pretend you are (*Positive Thoughts,* 1995, p. 144).

"This feeling must come from you and not some formal control procedure that dictates how you must feel. This can be dangerous as indicated in the following abstract from an article on the point:"
Requiring staff to appear happy and enthusiastic at work amounts to nothing more than emotional exploitation by employers, psychologists claim. Managerial emphasis on positive, people driven organisations is causing staff to suppress anger, frustration or disappointment, fearing that the display of such "bad" thoughts will jeopardise their jobs. The resulting "emotional labour" causes depression, alienation and lack of identity, according to researchers in the UK and the US… (*People Management,* 1997b).

"We can encourage play as a way of experimenting and use the ideas of David Boham and F. David Peat:"
The essential activity of science consists of thought, which arises in creative perception and is expressed through play. This gives rise to a process in which thought unfolds into provisional knowledge which then moves outwards into action and returns as fresh perception and knowledge. This process leads to a continuous adaptation of knowledge which undergoes constant growth, transformation and extension. Knowledge is therefore not something rigid or fixed that accumulates indefinitely in a steady way but is in a continual process of change. Its growth is closer to that of an organism than a data bank (Henry, 1991, p. 31).

"By the same token you cannot allow a country's president to sing and dance and joke his way through office. Or could you?":
The president of Ecuador has been dismissed by congressmen exasperated by a six months' stint in office in which he sang and pulled political stunts while the country fell into economic crisis…Last year, he took to the stage to promote his compact disc, "A Crazy Man in Love", dancing with scantily clad women as he belted out Jailhouse Rock in Spanish… (*London Evening Standard,* 1997).

Jack leant forward, cupped his hands under his chin and said; "Your idea of change means that systems start to disintegrate and are replaced by newer more dynamic ones. I can see this. In fact there is no such thing as no system or no method – its just that these systems are organic and go through phases. It puts a new slant on the auditor's work. Many auditors view compliance as a key issue and report that procedures are not being adhered to and controls have broken down. What is more apt is for us to consider how a system has changed and what has fallen into place to compensate for these changes. There is always a system in place – but it may not meet official standards or for that matter it may not be well controlled. I remember one audit of payroll that I carried out in my past life as an auditor. The payroll manager held together an old inefficient computerised system that was always breaking down, and in no way gave the type of information that they needed to manage the service. You had to go back to the software supplier to get any sort of useful report, which they had to specially prepare. On the first day of the audit I asked him how many people were on the various payrolls. There were no aggregate figures available and the manager spent an hour listing from memory the total number of employees on the seven or eight different

payrolls. The section was in a state of constant crisis with staff rushing around trying to sort out problems as and when they arose. The official system and procedures had been replaced by a 'sticking plaster' job where staff papered over the holes in the system. A great part of the system was dependent on the payroll manager and his detailed knowledge of the way processing worked. It was truly chaotic. At the same time – there was still a system in place that had developed over the years, based on memory, tight communications between staff, high levels of teamworking and a fire-fighting approach to each new crisis. Staff had developed the response-based skills to compensate for the deficiencies in the process."

Bill took up this point;

"Interesting. We can build elements of freedom into controls so long as we recognise where and when this is a good idea. There is no blanket answer but some analysis can help. Work done by Meredith Belbin, Barrie Watson and Cindy West used colour codes to categorise tasks and boundaries placed over them, in one case as follows:"

Blue – task carried out in prescribed way to an approved standard.
Yellow – individual responsibility for meeting objectives. How the work is done does not matter too much as long as the goal is achieved.
Green – task can vary according to reactions and needs of others.
Orange – involves shared, rather than individual responsibility for achieving the objective.
Grey – work incidental to the job.
White – new or creative undertaking leading to improvements.
Pink – demands presence of job holder but leads to no useful results.

This was then used to determine:
1 work suitable for teams.
2 managers and job holder perception of jobs.
3 managers and job holders review and redefine roles.
4 test new diagnostic tools.
5 evaluate outcomes of the new approaches (Belbin, *et al.,* 1997).

"We can consider adapting this approach to determine the extent of personal freedom and discretion allowed. The creativity area is similar as there are parts of the organisation such as marketing, design or R&D where people need to free-float and think on ideas undisturbed by rigid procedures and supervision. However, this wine, talk and music environment does not need to happen everywhere in the organisation."

"We can also set frames around workgroups to reflect the degree of creative freedom required. One example is to have three groups A, B and C (Figure 55):"

"We separate ideas people from those that take the ideas and make them happen, from those who simply implement these procedures based on the new ideas. It all depends on what's required and who we employ. But we must be careful about breaking the first rule of creativity – that is not making assumptions. Where we form too tight a classification we may restrict a whole group of people who we may wrongly feel, do not need to be creative."

Figure 55
Creative freedom

GROUP	WORK ROLE	CULTURE	PROCEDURE
A	20% Super achievement	Innovate	Design
B	40% Day to day	Consolidate	Implement
C	40% Work to JD	Operate	Adhere to

A	FREEFLOAT – Creative ideas
B	POLICY – Ideas developed into procedures
C	FORMAL CODE – Operate the new procedure

The discussions were interrupted by a visit from Sharon's relatives who joined the group and conversation turned to local matters. Politics and the state of the nation became the topics under review. In fact, it provided some relief from the journey through controls. Like any long journey it can become tiring and at times somewhat repetitive. You meet dead ends, you go down familiar roads and you may go too fast or too slowly. After the visitors left Bill suggested:

"You say that I don't deal with creativity and control from an individualistic stance. We can say something on this; creativity can be a personal thing – whereas most specific controls deal with general situations. We accept that creativity must be encouraged for proactive change to happen. But, we can establish a criterion within which new ideas can be assessed and moved forward. Initiators can pass ideas over to people who will take a level headed view on value, return and feasibility. This suggested separation of ideas and projects is not new. Geir Kaufmann dealt with problem solving and creativity, arguing that:"

Osborn (1963) argues for a strategy of "brainstorming" in problem solving where creativity is a major requirement. The basic idea of brainstorming is to separate idea generation from idea evaluation (Henry, 1991, p. 119).

"We can further divide these roles and make reference to Michael J. Kirton's work on adaptors and innovators:"

Adaptors: characterised by precision, reliability efficiency, methodicalness, prudence, discipline, conformity – concerned with resolving problems rather than finding them. Innovators: seen as undisciplined, thinking, tangentially. Approaching task from unsuspected angles – could be said to discover problems and discover avenues of solutions (Henry, 1991, p. 210).

"This can get deeper. Creativity can become a spiritual-like process that alters and adapts models of reality. Vaune Ainsworth-Land comments on this facet:"

Forth order creativity – …It is necessary to "let go", to disintegrate, to open oneself up to the spontaneous flow of arising thoughts and images. Limits and boundaries between consciousness and unconsciousness explode. One becomes a cosmic receiver, perceiving self as part of a larger reality. This reality is experienced often as "image-less" awareness, "metaconsciousness" (Henry, 1991, p. 204).

"Controlling a person's thoughts, views and ambitions has repercussions. Getting them to create, setting firm criteria for this to happen and assessing what they provide is praiseworthy, but – are we moving into the realms of manipulation? Should organisations be thinking about controlling the employee's subconscious? This word control can have these negative connotations such as to dominate, manipulate or rule over. A view from the psychologists, in this case, Eugene F. McKenna, describes the dubious act of brainwashing:"

In brainwashing there is an attempt to undermine people's stability of mind and self-image by not permitting them to relate to friends or identify with their normal group. This is achieved by measures such as segregating members of the group, prohibiting group formation, fomenting mutual distrust, manipulating the news so only the bad news gets through, and finally exposing the individual to the desired message in a state of social isolation (McKenna, 1987, p. 296).

"We must be very careful not to get closer to this type of model when getting people to become creative in a controlled manner. Another problem with controlling creativity is that at times we have no start place. Problem solving can be quite precise where the problem is isolated, analysed, options considered and innovation used to develop a way forward. We can set procedures for this and so control the process but creativity can be about throwing all previous thought away and starting afresh. Our procedures start with the defined problem. But what if the

problem we want solved is not the one that is dealt with by the creative process? Jane Henry suggests that:"

Creative problem solving often involves reframing the problem…..about 70 per cent of people opt to explore a question that is different from the one with which they started (Henry, 1991, p. 8).

"So we give the creative person or team a problem and leave them to sort it out. Our procedures may state that a week on, we should request the results only to get back an opinion on a completely different problem."

Jack entered the debate; "To be honest; in all my days as an auditor and in the vast majority of investigations that I have done on top management's behalf, there is one common denominator; the problems under review are normally caused by failings in the same managers who referred them to me in the first place. Not a popular conclusion when these top managers have set the auditor on what is little more than a witch hunt. To receive a problem for review but redefine it as a management failing, or to develop a new idea that implies top management have been working in inefficient ways for many years, can be politically unsettling. People are wary of creativity because it tends to upset the status quo – they use controls to keep a lid on too many new ideas. This is the worst abuse of the internal control process possible; to establish controls that contain performance for political reasons."

"Okay." Bill returned to his reasoning; "Back to the individual. One problem we have is where the people in an organisation have developed unique profiles and views that cannot be properly reconciled. Some refer to these as mindsets others call them mind-maps. While still others sum up the global position as one of organisational cultures. Creativity can be about getting the right mind-map to address an old problem from a new perspective. Michael B. McCaskey has a number of views on this theory of mind-mapping:"

A map is an interconnected set of understandings, formed by frequently implicit views of what one's interest and concerns are, what is important, and what demands action and what does not (Henry, 1991, p. 137).

"We move then towards controls over the mind-mapping processes and how different people relate to reality in different ways. One great problem faced by most organisations is to get some form of consistency in these visions of reality. Creative solutions have little use where they fall outside the common sense of reality. Control here, is about keeping people within the bounds of reasonableness. Pure chaos reigns outside these bounds – but,

as we have said before, allow them to go as close as possible to the edge without falling over. Not an easy task. Mind-maps mean people feel comfortable with their definition of reality. If this vision is shared by others then we don't have to ask a person to go it alone to make progress. Sometimes a team approach to creativity helps as different people who share these mind-maps explore new possibilities. Being in a group causes one to devise a reference frame that all members can relate to in some way or other. Being alone averts this issue. Classic words from Francis Kilvert can be used to bring home this point:"
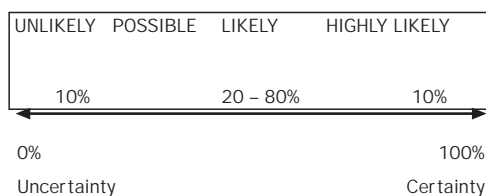
It is a fine thing to be out on the hills alone. A man can hardly be a beast or a fool alone on a great mountain (Partington, 1992, p. 396).

"The use of networking to promote creativity is a new challenge. Many companies have established social clubs to assist this function. Robert K. Mueller writes on this subject of corporate networking and observes:"

Networking is vital to the introduction of novel products and processes, and to the acceptance of culture, attitude, and mind-set changes of an organisation…The management challenge is to open up the system to networking and unconventional thinking while still maintaining adequate control. This is a management balancing act and no rigid guide-lines exist for the process… (Henry, 1991, pp. 156-7).

"One question we may ask, is where do we concentrate our creative energies? We can devise a diagnostic tool to help address this question based on risk. Risk is about assessing the likelihood of something bad occurring. It is subjective in nature but at the end of the day we need to set a usable scale. One useful model appears as (Figure 56):"

Figure 56
Risk index


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UNLIKELY   POSSIBLE   LIKELY        HIGHLY LIKELY


   10%                20 – 80%          10%
```

0%   100%

Uncertainty   Certainty

"That something is unlikely means there is ten per cent or less chance that it will occur. The challenge as in most management techniques is to assign values to ideas. Where we use this in conjunction with an assessment of relative importance (i.e. macro or micro issues) we have a dynamic way of assigning resources (Figure 57)."

"We need to deal with important issues that have a high level of uncertainty attached to

Figure 57
Risk squares
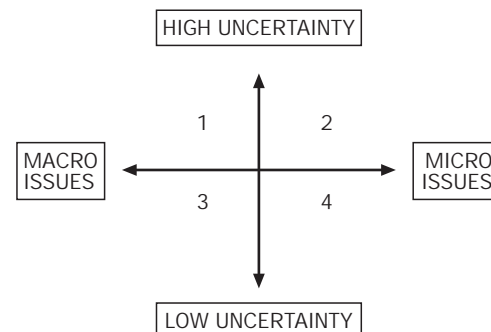
them. So, we aim at point 1 on the model while points 2 and 3 may compete for attention. Point 3 relates to important issues that we have sound information on, or are not so hard to deal with. Again, whilst point 2 issues are in doubt they are not key to organisational success i.e. they are micro issues. Point 4 matters pose no real problem and may be dealt with by standard procedures. Organic change, though, causes these points to swivel and re-focus at rapid rates. The challenge is to keep up with these changes and keep the model and point ratings up to date. If creativity is not targeted at the right issues, there is little point in developing mechanisms that promote it. We use risk to assess the degree of attention that is given to each area but there is no finite solution. The human condition means that once again we must speak about the art of risk assessment. Refuge is sought in the words of Robert Pirsig:"

Some things you miss because they are so tiny you overlook them. But some things you don't see because they are so huge. We were both looking at the same thing, seeing the same thing, talking about the same thing, thinking about the same thing, except he was looking, seeing, talking and thinking from a completely different dimension (Pirsig, 1974, p. 62).

Looking at the view towards the coast it was clear that the sun was starting to settle into its plunge into the sea and the vivid purple sunset that this brings about. This would happen in around an hour or so. Jack instinctively brought out the carefully prepared cocktail of rum punch and ice cubes. The refreshing aroma set the scene for a winding down of the day's events. The two couples sat around the veranda and let the perfumes from the surrounding gardens float across them. Jack waved towards Bill and said:

"Bill – do you want to sum up some of the things we've said today?"

"Yes, why not. I know that you tend to work to a structure when you have spoken in the past Jack. But it's different for me – I'm not writing a book and my conversation must float around as new ideas come to me. Summing up is a good idea and maybe I can firm up some of the material we have been through. We can return to the work of Jane Henry and make it a clear requirement that creativity must be catered for. She said:"

> The task of managing a climate conducive to creative endeavours is not trivial, for the manager has to reconcile the need to provide direction with allowing employees enough freedom of expression to feel in control of their destiny so that they are prepared to be active, participate fully, be focused, flexible and fast moving (Henry, 1991, p. 10).

"The basis of creativity would appear at first sight to contradict the underlying principles of promoting control as a concept. Since organisations must now be creative to survive, then we have a dilemma. This is solved by incorporating the spirit of creativity into the control process as an accepted managerial function. How do we do this? Well, is there a creative process that we can study, understand and allow for. The emphasis being on allowing freedom to fail, experiment, change the terms of reference, and all that appears to mean we become out-of-control (OoC). But can we control the OoC climate. Such control then becomes essentially-in-control (EiC). EiC relates to wider organisational outcomes – we need to develop a model for dealing with this. We also need to discuss the barriers to creativity that narrow-based control systems constitute with their emphasis on classical hierarchies and authorities. We can fit this in with the managerial control system, so long as we can make it adaptive (and allow for innovators at the same time). Maybe we need to talk of the managerial control framework in contrast to a more rigid interpretation. The one remaining problem to solve is the paradigm shift where we work to different mindsets and so lose the all important reference frame or formal objective that binds most managerial processes. Unfortunately, we cannot sacrifice the EiC format for satisfying certain strong personalities, since accountability and fair play must always be preserved."

"We have to think about a number of key issues when developing controls. Can we turn externals who feel they have no control over their environment into internals? It is not simply a question of providing the information as it depends on the mindsets we are dealing with. Also, if we manipulate people and in effect seek to brainwash them, is this really good control? Can we change people without brainwashing them – give them more confidence, allowing them more control to encourage them to see links between processes and macro pictures? Control over others must involve allowing them to control themselves within the frame set by the organisation."

"We must also think about the influence of groups which can affect behaviour greatly. Is there a right position or does it lead to more externals? Ownership of ideas means a lot, as coercion will lead to fear which leads to group affiliation and maybe hostility towards management."

"Turning to the science of complexity – non-linear feedback mechanisms fit with adaptive networks which operate in a learning mode as an organisation learns its way into the future. Organisations use economic, societal and political systems that follow certain rules. But complexity theory means that systems can evolve order out of chaos with some arguing that random chaos is fundamental to the process. Here, creative new outcomes can result although it is hard to control the journey or know the final destination – it is more a journey of discovery."

"But the more you seek to control this journey the more you remove the inherent creativity. We cannot see the outcomes until they happen – which is a little worrying for top management. Instead of asking the standard control question – 'how do we design organisations to yield successful outcomes?' we are turning more towards a view that we make sense of our experience of life in organisations and develop a new reference frame based on complex adaptive organisations. This is based around soft systems consisting of emotions, intelligence and a passion for efficiency throughout the organisation – not just isolated pockets of excellence."

"I view creativity as deriving from three different directions. One is organic where ideas grow in directions that respond naturally to the changing environment. Or, it can consist of incremental growth where we develop ideas as building blocks – each taking matters one step further. The final model involves a quantum leap from one condition to an unrelated one, through an insight into new associations that were not seen before. We can set controls over these three models to encourage them as follows:"

"• *Organic* – nurture, encourage, fertilise, coax, allow change in direction and work out what feeds this growth. Use climbing rods to assist direction but more than anything allow freedom to explore.

- *Incremental* – set a foundation, provide tools and building blocks to help design and manage structures as they emerge.
- *Quantum* – encourage new insights, don't worry about looking ridiculous and take on people who have a level of genius. They see associations that others are unable to. Capture these new ideas and give them to sensible people to develop."

"Let's revisit the control chart and the possibility of lost opportunities. The standard control frame appears thus (Figure 58):"

Figure 58
Standard control frame
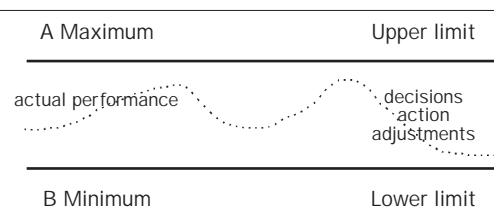
"The standard formula of comparing the set standard to actual performance and working out a variance is meant to instil control. The problem here is that the search for opportunities falls outside this control frame (Figure 59):"

Figure 59
Opportunities
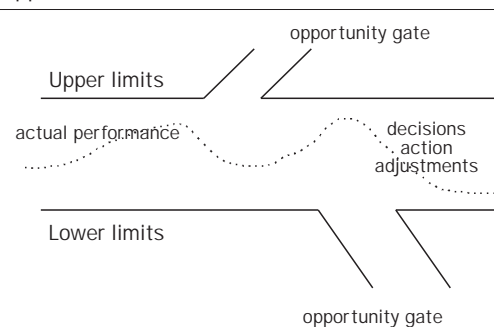
"The control dimension appears as limits on performance A and B which contains activity to predetermined standards. The search for opportunities is likewise contained within the artificial boundaries in the search for control. How do we adjust the control frame to enable this new dimension (opportunity) to be discovered?"

"There is no right answer, although one approach would be to allow creative probes to test limits A and B when it is felt right to do so (Figure 60)."

"We still contain the main activities within A and B but allow an extended deviation based on creativity at levels Ax and Bx. At first sight this will appear to be encouraging

**Figure 60**
Controlled creativity
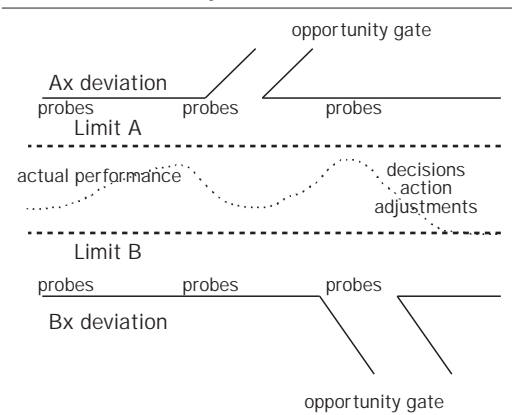
chaos but it is still set within a frame (albeit extended). The three problems posed by this model are:"
"1 who is allowed to deviate.
 2 how do we feed lessons learnt from these probes into the main AB model?
 3 how can we tell whether an opportunity is worth pursuing or not?"

"These three questions become three challenges where the only real answer is to develop control criteria that cater for this environment."

"You know that I'm a control freak, Jack. I like conclusions and answers and formal criteria that I can use to assess problems. As such I suggest that the search for creativity and control may be developed using the following principles:"

"1 *Build onto existing control frameworks* – make controls a composite whole. They consist of drivers that ensure the right things happen and constraints that ensure problems are kept to a minimum. Creativity requires a focus on the driving controls that allow people to experiment, to an extent. The idea being to promote success (drivers) and avoid failure (restrainers) – wherever possible (Figure 61)."

"Where we take an holistic view of controls we ensure they fit together and work in harmony. We need to adapt the managerial control system to ensure it does not restrict people unnecessarily. Turn the strategic approach into an opportunistic one along the lines suggested by Richard Tanner Pascale (Pascale, 1990, p. 53):"

Contending opposites

	strategy v. opportunistic	
Strategy	planned	opportunistic
Structure	élitist	pluristic
Systems	mandatory	discretionary
Style	managerial	transformational
Staff	collegiality	individuality
Shared values	hard minds	soft hearts
Skills	maximise	"meta-mix"

Figure 61
Push-pull strategy

```
                CONTROLS

RESTRAINING          DRIVING
FORCES               FORCES

MODEL A              MODEL B
       ←——————————→
AVOID PROBLEMS       PROMOTE NOVELTY

errors               achievements
inefficiency         efficiency
problems             solutions
failure              success

PUSH STRATEGY        PULL STRATEGY
compliance           lead by example
assessment criteria  rewards
authorisation        encourage
risk assessment      allow freedom to fail

TACKLE FAILURES      WORK TOWARDS SUCCESS
```

"In short, use the hard-mind soft-heart equation to seek the right balance between freedom and direction. New ideas and new projects are encouraged but they must in the end be financially viable and based on a defined budget."

"2 *Base deviants around the change process where we can make 'soft decisions'.* Precise process-driven operations need precise process-driven controls, and the people involved in this work area must set standards and use containment methods to keep to a straight path. Softer areas such as R&D, team-building, performance appraisal, marketing, and strategic analysis must use controls as drivers and not restrainers and so may have Ax and Bx frames. Allow greater freedom in areas where it makes sense. Don't let people use inappropriate reference frames because one section provides greater empowerment. An accountant carrying out complicated final account consolidations can't really be told to do it any way they want, so long as they are happy. Allowing deviation is based on need and not personality – it's not that it suits the person but that it suits the situation. Robert L. Kuhn and Louis Kuhn have warned that:"

Building a business takes a back seat when personal ego does the driving (Henry, 1991, p. 77).

"We can set people up in roles that have little operational responsibility and give them a 'think-tank' role. That is, time to w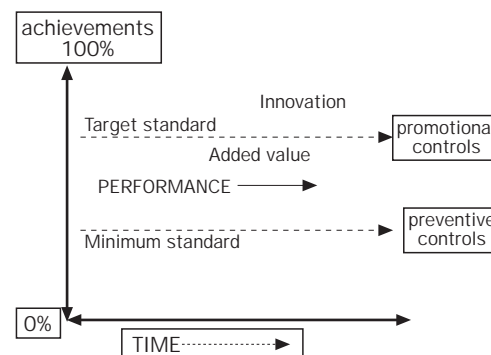ork through complicated problems free from day-to-day work pressures. Each top executive team needs a little bit of genius to work on these vexing problems, which is why the role of deputy chief executive is so important – so long as this person can relate to organisational reality."

"3 *Build performance indicators that reflect the deviant attitudes.* Use these to supplement the more traditional productivity-based ones.

So we can use a measure of ideas generated and/or developed, even where they have not yet led to increased productivity. They may be based around better communications generally, a happier workforce, less staff turnover and eventually better performance all round. We set performance standards as targets but accept innovative activity that falls above these standards. Meanwhile, we need to set minimum standards that stop someone slipping too far behind. A comprehensive performance scheme can handle all these variables and not just target one aspect of performance as the following chart suggests (Figure 62):"

Figure 62
Performance controls

```
achievements
100%
  ↑
  |          Target standard        Innovation        ┌──────────┐
  |  - - - - - - - - - - - - - - - - - - - - - - - →  │promotional│
  |                          Added value             │ controls │
  |          PERFORMANCE  ———————→                    └──────────┘
  |                                                   ┌──────────┐
  |  - - - - - - - - - - - - - - - - - - - - - - - →  │preventive│
  |          Minimum standard                        │ controls │
  |                                                   └──────────┘
 0%
  └──————————————————————————————————→
            TIME - - - - - →
```

"Performance management is a key control over the way staff deliver and this needs to reflect creative activity and not just basic norms. It's about taking things a step further and looking at things with new eyes as suggested by Albert von Szent-Gyorgyi:"

Discovery consists of seeing what everybody has seen and thinking what nobody has thought (Cohen and Cohen, 1995, p. 3).

"One hallmark of creativity is reliance on experimentation and this implies a high degree of potential risk. Mistakes can be made and what were thought to be opportunities, may turn out as blind alleys. A person situated high on the performance chart may find they plunge towards the bottom (minimum standards level), as new projects fail to get off the ground. If we simply reprimand them, this provides a disincentive to further experiment. To simply get staff to turn up for work, clock in a 9-5 day and leave, is not enough. We really want our systems to bring people closer to visions described by Martin Luther King in 1963:"

I submit to you that if a man hasn't discovered something he will die for, he isn't fit to live (Cohen and Cohen, 1995, p. 3).

"This is a bit of an extreme but you get the point. Performance management should

allow staff to excel. That is not to say that it should impose great pressures to solve major problems in a flash. Again, this position will turn into a disincentive in due course. Setting impossible targets can lead to stress (Figure 63)."

Figure 63
Setting the performance standards

TARGETS			
5. Very Hard	Breakdown	Stress	Challenge
4. Hard	Stress	Challenge	OK
3. Not Easy	Challenge	OK	Comfortable
2. Easy	OK	Comfortable	Boredom
1. Already Done	Comfortable	Boredom	Extreme boredom

STAFF ATTITUDE	Low Low	Confidence Competence	High High
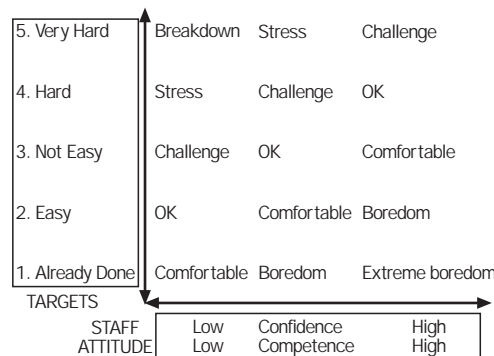
"Creativity can result from exerting pressure on people who enjoy a challenge. However where this is not the case and the person feels threatened by these pressures, it could be disastrous. This is why we cannot impose creativity on employees – it can do more harm than good in the long run. It is also an idea to get people to work in teams and build confidence and disperse pressures in this way. This is why some computer design teams rope in the highly motivated systems users and lock them into a room with an instruction to come back with a workable system."

"**4** *Make accountability paramount.* This can be done by the use of decision sheets that you have mentioned previously. People who work within the deviant frame must record their decisions for later review if required. This is not to check on them or hold them back, but as a series of records that together tell the story of the project. They can also be used for unblocking thinking, by reviewing the path taken so far we can look for new ideas and paths which is a motive for keeping such a record. Many people seek evidence that supports their case which is why it can be better to separate the search for ideas from the development of them. Geir Kaufmann has said about problem solving and creativity:"

> A number of experiments seem indeed to show that people have a natural propensity to seek confirming evidence and to avoid disconfirmation or discard dis-confirming evidence when it is present (Henry, 1991, p. 124).

"We can tell people to go away and bring back a solution, but a natural principle of organisational life says that everyone must be able to justify their actions, if required to. There is no way past this point."

"**5** *Work out what constitutes a decision* – Where resources have been assigned, reassigned, or the project has altered since it was last reported then we may feel that a decision has been made. A creative idea must lead to a decision that affects the organisation. We still need to get authorisation to commit funds, or alter a course of action and there must be some form of referral system for getting initiatives agreed. Ideas belong to someone, as do decisions that are made – papers and reports recording these matters must be signed and dated and owned. They do not appear out of thin air."

"**6** *Leave some room for risk.* The control chart that we have been using sets an upper and lower limit and this is a fundamental fact of life. The opportunity route is based on taking off the shackles of traditional corporate controls. We have re-focused our controls to allow some flexibility and movement, but it is still a control. Allowing some risk leaves things a little up in the air. We cannot have it both ways. It means we must write off errors, failures and the various go-back-to-starts. The extent of the financial risk is the budget that the person or team in question controls. Other risks consist of staff morale, customer relations and product reputation. Here we need fall-back facilities to carry out damage limitation where this happens; consisting of employee relations, press office, quality assurance, legal advice and the human resource officer – who can swing into action if anything goes badly wrong. We also need early warning devices to pick up real problems. Having said this, problems can provide energy for solutions and these solutions can be part of the way organisations advance. In this way, we use our problems to energise and recognise better futures. Things may appear to be going wrong but we must have some tolerance to risk. Ralph Waldo Emerson has said:"

> Is it so bad, then, to be misunderstood? Pythagoras was misunderstood, and Socrates, and Jesus, and Luther, and Copernicus, and Galileo, and Newton, and every pure and wise spirit that ever took flesh. To be great is to be misunderstood (Partington, 1992, p. 277).

"People need support, not when things are going well, but when it is starting to break down. Each failure gives an insight into how to avoid problems in future. This is a positive experience and should be treated as such. Assigning a project to someone gives them authority to produce the goods, but should also allow them room to fail and learn what not to do next time around – this is the essence of maturity and development."

"7 *Allow a wide assessment framework.* We cannot say that we encourage ideas from staff and project teams and then establish a tight assessment criterion that means nothing gets through. It is disheartening to create a great initiative only to be told to write a report – which when written, sits on a desk for months. Assessment is not the same as blockage. If we block ideas that people have spent time bringing out, we will never be creative. The more checks and balances – the more chance that the idea will sit in a filing tray. A broad brush assessment may be made before it is given to a project team to develop – with deadlines for delivery. If people at the top of organisations want to see these projects come to light, this facet will be on their agendas and they will happen. Detailed analysis is one thing but following the words of Herbert Spencer we can argue that:"

> Opinion is ultimately determined by the feelings not by the intellect (Partington, 1992, p. 658).

"If we employ people who know what they are doing and are committed to the organisation we can trust them. Trusting them, means we allow them to go with a decision that feels right. We would only ask them to search for evidence that supports their feeling as well as that which shows they might be wrong. We can trust them with this although there is no harm reviewing the evidence they provide."

"8 *Make sure you keep driving.* How many times have you had a good idea or seen colleagues generate great initiatives only to get bored and discard them. This early infatuation winds down when boredom sinks in. We should ensure controls drive through what could be good ideas – so that they get to fruition if they really are that good. Brief infatuation leads to so many false starts when the person in question gives up bothering, and finds it easier to stick to the main road. Where we require feedback and reports (brief papers that is) and where top management requests ongoing progress reports, then there is less chance this will happen. We don't want people to simply flirt with ideas – flitting from one to the other. We want them to fall in love with an idea that they want to see happen. This concept of infatuation is seen in the words of George Bernard Shaw:"

> Beauty is all very well at first sight; but who ever looks at it when it has been in the house three days? (Partington, 1992, p. 637).

"People are employed for their talents – not just going through procedures. When they express innovation, these ideas belong to the organisation and they must be taken to their conclusion. We don't reward people for coming up with a whizz-bang idea, we reward
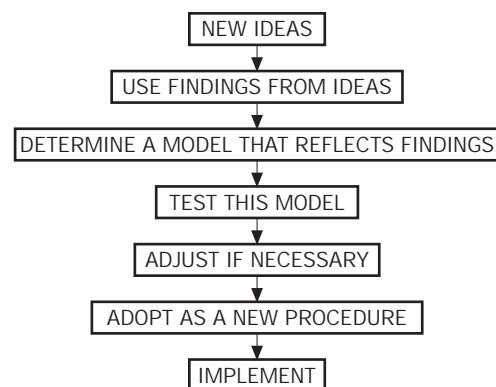
them for the hard graft in getting sense from these ideas and turning them into real projects. Prima donnas prance around the office making useful suggestions that never take off. A good control is to make the person firm up his or her ideas with a common-sense list of questions. New ideas must not only look good but they must feel good. I've seen many people sit around a table and criticise office procedures but come unstuck when they are asked to present their ideas for improving things."

"9 *Develop a success orientation.* Opportunities are only useful in as much as they add value to the organisation and its customers. The focus should be on success and progress, not just new ideas for their own sake. This is where controls come into their own. To demand that there is some direction to the innovation – that it just doesn't add to the person's CV, but that it means something to the organisation as a whole. It must pass this basic test to be of any use. Where we get this success make sure trumpets are blown and people know about it. We can return to Ralph Waldo Emerson for inspiration here:"

> If a man write a better book, preach a better sermon, or make a better mouse-trap than his neighbour, tho' he build his house in the woods, the world will make a beaten path to his door (Partington, 1992, p. 277).

"Ideas can generate results so long as they are used in a structured manner. This means taking the idea and creating a better reference frame armed with this new knowledge. It may operate as follows (Figure 64):"

Figure 64
Implementing ideas


```
         NEW IDEAS
            │
            ▼
   USE FINDINGS FROM IDEAS
            │
            ▼
DETERMINE A MODEL THAT REFLECTS FINDINGS
            │
            ▼
       TEST THIS MODEL
            │
            ▼
     ADJUST IF NECESSARY
            │
            ▼
   ADOPT AS A NEW PROCEDURE
            │
            ▼
        IMPLEMENT
```

"Where the new idea results in a new and better procedure we have an end product. Where the idea sits in the mind of the initiator, who cannot explain what it is, or what it can be used for, then we have a problem. Controls over creativity should insist that we develop a new procedure wherever possible. We need to ask people to explain why a new

idea works and how this relates to a better interpretation of reality."

"**10** *Think about compliance as an issue.* We must use compliance very carefully. The compliance process where we come down on staff and lock them into a confined set of activities does not really promote creativity. Checkers and inspectors can make life hell for people who want to push ahead and deliver. At times, the compliance drivers represent a viewpoint that simply reinforces an imposed corporate procedure. There is nothing wrong with this if it is done constructively. The problem arises where it refocuses managers' energies away from customers and product delivery, let alone any form of creative activity. Richard Tanner Pascale issues a warning on what can go wrong if we are not careful:"

> The financial managers planted within each division had far more allegiance to the head of corporate finance than the division heads who were ostensibly their "bosses". In its auditing role, Finance was the investigator, policeman, judge, and jury. Not surprisingly, a short-term, bottom-line-oriented culture prevailed, and it gradually eroded the competitive edge of each of the divisions… (Pascale, 1990, p. 61).

"This represents a stark warning to all compliance teams."

"Jack, I've given you my ten-point solution to the problem of controlling creativity – how about that?"

Jack pursed his lip; "Well done – there's a lot in what you have said. This will fit well into my models of control. I guess what you are saying is that a manager is responsible for controlling his or her staff. A constraining culture means the manager comes down on staff and forces them into set confines. They in turn suffer under this hardship, until they can find alternative employment and leave. If, on the other hand, people are left alone to do what they like they may feel more comfortable. However, the manager loses by not being in control – by being overruled by his staff and not being able to get involved with their work. What we want is a definition of controls that means all sides win. Staff have freedom to act and the manager is able to manage this concept. New ideas are encouraged by the manager (or shall we say the coach), and staff are given the freedom to think. Control is not a win-lose concept it is built on a win-win principle. We can use an adapted version of the OK Corral to develop a model of control acceptance. People are able to innovate, the manager is in control, staff are in control and everything is okay (Figure 65):"

Figure 65
Okay controls

		MANAGER	
		OK	NOT OK
STAFF	OK	YES	BOTTOM UP
	NOT OK	TOP DOWN	NO

"We have moved into the top left-hand box. Controls are not about witch hunts, excessive documentation, multi-part approval procedures or constant referrals to senior management for basic decisions. It is more about empowering people, allowing failures, supporting them, telling them the criteria for new projects and not being threatened by clever people. We want to get to energy and results. It's about seeing an art in business, a light that shines on progress and success. There is an invisible control in allowing staff to share your vision and follow the words of messengers such as Henry David Thoreau:"

> I have learnt this at least by my experiment: that if one advances confidently in the direction of his dreams, and endeavours to live the life which he has imagined, he will meet with a success unexpected in common hours (*Positive Thoughts,* 1995, p. 20).

Jack topped up Bill and Ruth's glass of rum punch and let out a sigh, which signalled an end to today's discussion. Bill sipped his drink thinking that these conversations were hard work – stretching the mind is not easy and certainly the greater the intake of rum punch, the harder it becomes. Ruth looked at Bill with a curious smile on her lips saying:

"Do you always go on and on like this, Bill?"

"Not at all. In fact I rarely have so much to say – it's just that Jack and I have decided to embark on this verbal journey and this is what we've been doing for the whole time I've been here."

Ruth appeared satisfied with this and the rest of the evening was spent in small talk about life in the Caribbean. Eventually Jack got up to drive Bill back to the hotel and agreed to drop Ruth off at her parents' house a few miles down the road.

Bill looked towards Jack and announced; "I've got to see Ruth's parents tomorrow – they want to show me a restaurant they are going to buy on the coast. Would you pick me up the day after tomorrow, Jack?"

"Of course. This would be the last day for touring. We can cover the final topic then."

"Ah hah", laughed Bill; "This is the long awaited internalised control facility. Yes I look forward to this – the final solution…"

Chapter seven – a corporate internalised control facility

"Hello – Yes…yesterday. Yes it was fine. Apparently Ruth's parents are buying a restaurant right next to the sea a few miles outside Mo'Bay. Just past Rose Hall. They wanted ideas from a tourist's point of view, which is why they asked me to come along. It needs some doing up but it doesn't look bad. Ruth's going to quit her job at the hotel and help her folks run the place. I think it'll work out fine. The site includes a bar and guest room. It's even got a garden area going right up to the sea front where they're going to put tables chairs and night lights. Ruth's so excited she can't wait to get started."

"Excellent, Bill. Sounds like a fine business venture – let's hope it's successful. Anyway, back to you. You're off home when? Tomorrow evening?"

"Yes the flight's at 7.35 p.m. and I have to check in two hours before this. I'll spend tomorrow morning packing and buying a few gifts. You know – not having a family means there are not many people back home to buy things for. Don't you miss England, Jack?"

"I make a return trip every two years and spend a couple of months each time. So I do keep in contact. To be honest I feel that this island is my home now. Right, what shall we do with you today? Have you got any special requests?"

"Not really – We need to get through the final topic and I guess we can do this anywhere. I wouldn't mind going for a drive. I might even buy a few of those reggae records you've been playing in the car. Maybe a Bob Marley album or who's that other chap I like?"

"Garnet Silk. Well Bob Marley died some time ago – but his records are still on sale. Garnet Silk is also dead – you know that they say the good die young. But don't worry there's a new chap called Luciano who's taking the music forward. Great heroes will always inspire others to follow in their footsteps. I tell you what, let's make it a day out and drive down to Kingston, the capital of the island. We can visit the Bob Marley museum and check out the record shops at Half Way Tree. It's a long trip but I think we'll have finished our discussions by the end of the day."

This said, they set out on the road to Kingston. As if to gather strength for their last great discussion they started off in silence. Bill had done most of the talking yesterday and Jack wanted to give him a chance to finish off, if needs be. This wasn't required as Bill sat back and assumed his "listening position" in the car.

"Well," announced Jack wondering where to start. "We've rambled on and on about controls. We've developed models and criteria to assess where we are…we've referred to many people who have had something to say that adds to our understanding. We've covered subjects such as:
- concepts of control;
- the importance of procedures in achieving control;
- getting round fraud and abuse;
- information systems;
- financial management;
- value for money and quality;
- creativity."

"I believe that a good understanding of all these matters makes the employee well placed to appreciate, utilise, install and maintain effective systems of internal control. Control is then something that each and every employee must get to grips with – if this happens all will be well. If not, we must impose control on people and watch them suffer as a result. The battle then ensues – we seek compliance – staff rebel and we set up our infamous compliance team to enforce controls. The war on controls becomes a war on staff – what a way to run an organisation. My approach is to get people committed to control by training and facilitation. It's simple – we establish a facilitation unit and seek to achieve internal control by internalising controls; if you get my meaning. We give people faith in themselves and faith in their controls. This is expressed much better by Ralph Waldo Emerson who said:"

> The faith that stands on authority is not faith (Partington, 1992, p. 276).

Bill snapped his fingers and in a stern voice demanded: "Jack! Let's set some rules for today. No more philosophising, no more deep and meaningful quotations and no more rambles through the winding roads of theory. Just

stick to good old-fashioned suggestions for establishing this so-called internalised control facility. You can stop preaching now – I'm converted. We need systems of control and we need executives who are big enough to say they are happy with these systems of control. Now I need to know how we can get to this position. Practical, workable structures that can be put to use in solving this problem…"

"Okay, Bill – hold your horses. I know I go on a bit but at times, what I say helps me work through the issues and find the light at the end of the tunnel. Back to controls. Let me get some sort of structure for this task. We need a list of things to cover. At the outset we are arguing that we need a Corporate Internalised Control Facility and we can call this the CICF. Right then; today I need to deal with:

1 role and objectives of the CICF;
2 the way it fits into an organisation;
3 resources and budgets;
4 training programmes;
5 procedures help-desk;.
6 trouble shooting;
7 control awareness initiatives;
8 reporting on controls;
9 launching the CICF;
10 a final word of warning."

"Kiss mi granny goat!", exclaimed Jack. "I've managed to get to a ten-point plan again. This idea is nothing new – the self-audit or control-risk self-assessment programmes that many organisations have put in place seek to get internal control on the agenda. Companies are training their managers and issue checklists that can be used to assess whether basic control mechanisms are in place. There is an entire risk industry that promotes the use of proactive risk management across organisations. All I'm doing here is to get people to view controls as an integral part of their work and not a foreign language that they dip into from time to time. I would not ask that senior managers be required to attend a half-day seminar on control risk and then work through a series of low-level control self-assessment checklists; rather, I would want all staff to have in their basic competencies – knowledge of control concepts, skills in applying internal controls and attitudes that support a controlled environment, and know when to seek help in acquiring these competencies."

"Hold up, Jack. Let me get a drink of iced jelly." Jack watched Bill walk over to the stall selling iced jellies and tip the fruit to his lips and drink heavily. He looked so at home, joking with the people at the stall, telling them he had spent so much on jelly coconuts that he would be better off planting a coconut tree

and harvesting them. Back in the car Jack resumed the current discussions:

1 Role and objectives of the CICF

"As with all good initiatives they must have a clear term of reference. A mission statement and a formally authorised charter helps in establishing the role. The precise role will vary depending on the organisation and the way the facility is installed. There is no one definition. Maybe to get an idea of what I mean, we can use examples that cover most of the key points. A mission statement may appear along the following lines:"

> To facilitate the adoption and maintenance of effective systems of internal control (that are there to expedite organisational success) and assist all employees in developing competence in control awareness and techniques; on behalf of the chief executive.

"We need then to develop a set of more detailed responsibilities that expand on the basic mission statement. Again these may cover a relatively wide range of issues but an example might be:

1 To provide training, advice and support for all levels of management and employees at whatever grade.
2 To liaise with internal audit in their reviews of systems of internal control and any special investigations they carry out.
3 To liaise with the training manager on programmes relating to the development of competencies in internal control issues.
4 To liaise with various representatives on corporate procedures that impact on the control environment – this will include the human resource manager, legal officer, information systems manager, security officer, health and safety manager, equal opportunities manager, chief finance officer, purchasing manager and others.
5 To advise the chief executive on the success of the various CICF programmes.
6 To likewise, furnish reports to the audit committee on the programme of work that has been completed by the CICF."

"In meeting these responsibilities, the CICF will need certain privileges and powers. These may include:
- right of access to all information that supports the various programmes;
- right to maintain the confidentiality of clients using the services of the CICF;
- right of independence in designing programmes and reporting progress on them."

"Getting into an even greater level of detail we may develop specific initiatives that discharge these responsibilities:

1 Arrange basic control-risk-awareness training for all employees.
2 Input into induction training for new starters.
3 Organise ongoing training needs assessments for more advanced control related topics and arrange to meet any perceived gaps in employee's competencies.
4 Provide assistance in designing, drafting and implementing operational procedures and ensuring compliance with these procedures.
5 Facilitate the development of control circles in all parts of the organisation.
6 Provide help-desk facilities for dealing with specific control problems experienced by members of the organisation."
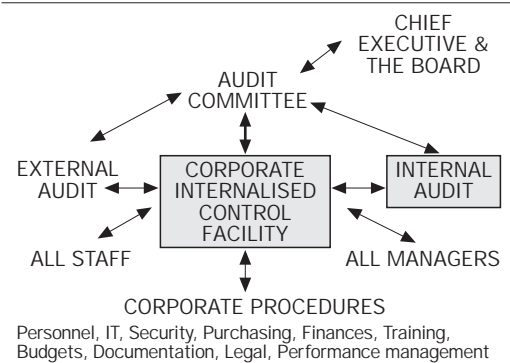
"The focus is firmly on facilitation. Responsibility for being in control rests with every person who works for, or deals with the organisation. The CICF seeks only to help them discharge this responsibility – nothing more. This is against the background of factors that are making it more and more difficult to stick to traditional control models where creativity, empowerment and autonomy are now norms in most organisations. The CIFC will simply provide a source of expertise that people can turn to for help in reconciling this equation – autonomy versus control."

2 The way it fits into an organisation

"I cannot emphasise too strongly the way I perceive the CICF as having a facilitative role. That is – it makes things easier and helps the organisation feel comfortable that it is in control. The CICF then must have a pivotal role, bringing together all those hard-working people in the organisation who play a role in assisting the control environment. The CICF does not take away any responsibility from key players. So internal audit continue to carry out independent reviews of controls and make recommendations to improve systems where necessary. Audit or review teams may look for compliance and report instances where this is not happening. External audit will review systems as they affect the financial statements and test those figures stated in the accounts. Personnel will ensure staff are trained to do their job either through external or internal courses – this is linked into the managerial role where coaching and examples are used to guide staff on how best to work. The purchasing manager will set standards about spending and how this should be done, while the security manager

will likewise set standards for physical security. These activities put together constitute the control environment where people know what they are doing, set standards in this respect and are able to deliver in line with these standards. The CICF simply provides a focal point for pulling these activities together and ensuring that there is someone to turn to for help. A simple chart may be used to illustrate the suggested position of the CICF in an organisation (Figure 66):"

Figure 66
Corporate control facility – structure

Personnel, IT, Security, Purchasing, Finances, Training, Budgets, Documentation, Legal, Performance management

"The CICF reports to the CE. It also issues reports to the audit committee if needs be – again on behalf of the CE. The audit committee in turn may care to issue reports to the main board. The CICF has links with external audit, internal audit and keeps them appraised of its activities. In fact it may well be subject to an internal audit cover as it will be seen as a key component of the control environment. Alternatively, it may be a part of internal audit so long as it can be distinguished from the existing internal audit services – i.e. planned system reviews and special investigations. The other main linkages are with management and staff where it performs this facilitation role. There is also a link with the sections who administer corporate procedures and several examples of these are given in the diagram. The idea being to get someone in the organisation (in this case the CICF) to take responsibility for controls in the sense of having an opinion, having expertise and being able to help those who need support in getting things right. The reason chief executives cannot give a view on control is that there is no one person whom he or she can turn to for comprehensive guidance in this matter."
"Another way of viewing the CICF is to argue that it is the fabric that brings together and makes control work at various levels of reality. We can turn again to our model of internalised controls that starts with the

person and ends with society at large. Repeating this model we can superimpose the CICF over it (Figure 67):"

"CICF seeks to bring control to each of these components so that the overall model makes sense."

Figure 67
Concentric control

3 Resources and budgets

"The resourcing question is difficult. In one sense the staff used to support the CIFC depends on its role and scope of activities. For example, the provision of help in drafting procedures can be quite exhaustive, if this service is in demand from many different sections. If this is not the case, then we would need less people around to support this role. I believe that the CICF should employ the least number of staff to make it successful. This may end up being one or two full-time people exercising the facilitation role. Most of the work may be done by talking to managers and their staff and advising them who best to contact to solve a particular problem. If a manager needs a review to tighten control procedures, the CICF may refer him or her to internal audit who my be able to plan such a review. Any training needs analysis may be commissioned from external resources so long as it is co-ordinated by the CICF. Again, training in corporate procedures is best done by those most involved in these procedures, be it health and safety, data protection, project management, security, staff discipline and so on. The essence of facilitation is organising resources and it does not take a whole team to do this. I would hate to think that a team of CICF officers would be established to sit around and wait for work to arrive. Resources should be brought in, seconded, borrowed, poached and generally got hold of as and when required. This is why it is

important to get the CICF under the CE's office so that we can quickly rope in temporary resources if needs be. The final point is that the head of CICF or the CICF manager needs a high degree of skill and judgement and the right personality to command respect across the organisation. The need for extra staff will become obvious if the CICF really takes off. What we don't want is so many resources that the unit starts to take on responsibility for controls which will undermine the entire principle of self-control."

"One further point on this – if we are going to develop an open learning facility we would have to think about PCs, videos, publications and other material that would be required to support this."

"The CICF would need a defined budget to get established, and defined resources. All activities that we have decided to provide would then fall under the remit of a suitable budget, held by the head of CICF. Much of the spending on say external trainers, would be made by users who would bear the costs under advice from CICF."

4 Training programmes

"We arrive now at the most important subject of training. My view is that a great deal of training that is done has little value to an organisation. Much of it consists of a few days out at an external course or attending an in-house programme. Staff may work through a few exercises and meet a few friends during the course of the event. But it is very hard to get added value into the way the person contributes to the organisation. So, much of what is covered during the course is lost soon after it has ended. Many people declare they have had instant revelations and promise to seek new and improved approaches to work – only to forget everything shortly thereafter. Many could disagree but I feel that the best type of training should relate to procedures that are used at work. That is – how best to work, an understanding of methods, approaches and a commitment to using these adopted procedures. These can be related directly to what is being done at the office, production line or with the customer. This is why we need to ensure a systematic approach to training that makes sense and is worthwhile. There are many standard models that can be used for this task and one suitable one might appear as follows (Figure 68)."

"We can use this approach to develop a range of competencies regarding control awareness, techniques, the managerial control system, fraud, procedures, retaining creativity, information systems, financial

Figure 68
A training model

management and delivery of products and services. In fact all those things that we have discussed over the last few days – that is the overall control environment."

"Systematic means it is in line with the requirements of the organisation and perceived gaps in staff competencies. Learning goals are defined and the ensuing training programmes and exercises are designed to deliver these learning goals. Meanwhile, we seek an input from employees, about their present skills and what they would like to see in the programme. Hence the line linking 'Present In Staff (Competencies)' and the 'Learning Goals'. We complete the training and assess the value from feedback received from staff, managers and others. The results help us refocus the courses in future."

"If each of the above steps is not taken, training will have less impact and may fail altogether. If, however, we can ensure that the CICF helps set this systematic approach with respect to the training in controls then we are halfway there. The worst position is to rope in a team of trainers who deliver a standard one-off course on control risk self-assessment, never to be seen again."

"The main role of the CICF is to have an input into each of the stages of the systematic approach to training and ensure the managers and their staff are able to build relevant competencies, analyse training needs and commission the relevant training. It is debatable whether the head of CICF should carry out this training, although there is nothing in principle that stops this from happening."

"An open learning approach is also useful. Here we do not set up formal training programmes but we establish facilities that are available to all staff. These consist of interactive CDs, videos, distance learning material, team or individual exercises, case studies, and handbooks that can be referred to as and when required. People drop in at their conve-

nience and use the facilities – there are many people who like to work alone or at their own pace."

"We can also say that the empowerment concept is here to stay and relies on the manager assuming a different role where he or she encourages performance by one to one input into the employee's own development and work. We still concentrate on knowledge, skills and attitudes but know that these can only be changed by the person starting from the current reality to the new vision – it is more than training, counselling or simply setting targets and monitoring. Can we maintain control by getting people to recognise the areas they need to develop and deal with this. Again, this is not the old command and control framework based on past performance but a futuristic model where we seek to get the employee to reach for his own competencies."

"We arrive now at the various courses that would fall under the training function of the CICF. There are many different set programmes that can be on offer. Remember however, the best type of training is that which has been tailor-made from the training needs analysis process. Examples of some of the basic training programmes may include the following:

a Basic control awareness;
b Induction training (controls);
c The managerial control system;
d Fraud and its implications;
e Getting to grips with corporate procedures;
f Building your own procedures;
g Maintaining creativity within a controlled environment;
h How to use the CICF;
i Security standards;
j Protecting your automated data;
k How to carry out a complete review of controls;
l Establishing your own compliance routines;
m Making yourself the key to control;
n Managing the ethical environment;
o Value for money and quality;
p Using control circles;
q The theory of risk and contingency;
r Financial controls;
s Ensuring accountability;
t Using information for control."

"It will take forever to go through each of these courses in detail. In one sense this defeats the objective as each course should be designed to reflect the business needs and the staff who are employed by the organisation. Having said this, I will give you my version of suitable courses that could be designed for

the topics listed – albeit in outline only. I'm a great believer in interactive exercises that people can work on, as a way of making the event more enjoyable and deliver learning goals with a greater impact. Now – some of the programmed courses that may be established can be set out as follows:"

(a) Course title: Basic control awareness

Objective: To provide course members with a basic awareness of the principles of control and the overall control environment so that they will be able to work efficiently within this environment.

Session
Introductions and learning goals.
1 Defining control.
2 Your responsibilities.
3 The CICF and control initiatives.
4 The role of internal and external audit.
5 Managing high-risk areas through risk assessment.
6 Working with procedures.
7 Systems objectives, control objectives and control mechanisms.
8 Accountability and fraud.
9 When systems break down.
10 Getting yourself in control.
   Course summary and review.

(b) Course title: Induction training (controls)

Objective: To ensure new employees have a good understanding of the control environment established by the organisation and that they are able to work efficiently within this environment. (Note – this will entail a few sessions set within an overall induction training event.)

Session
Introductions and learning goals.
1 What we mean by control.
2 How the organisation establishes control.
3 Your role and responsibilities.
4 The CICF.
5 Available training on control issues.
   Course summary and review.

(c) Course title: The managerial control system

Objective: To provide course members with an understanding of the managerial control system and enable them to adopt the standards implicit within this system which is reproduced as follows (Figure 69).
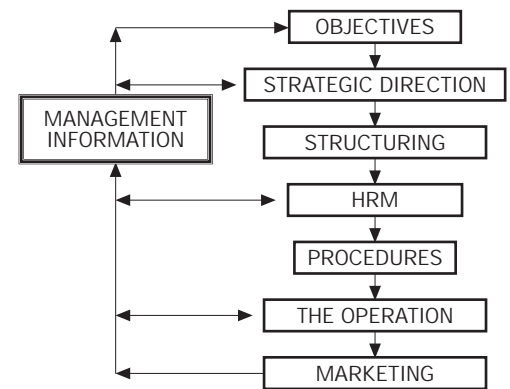
Session
Introductions and learning goals.
1 What we mean by the managerial control system.
2 Objectives and strategies.
3 Structuring your resources.
4 Human resource management.

Figure 69
The management control system

5 Procedures.
6 Controlling your operations.
7 Marketing and feedback.
8 Information systems.
9 Assessing the arrangements (see schedules – in Appendix).
10 Creativity and adaptivity within the MCS.
   Course summary and review.

(d) Course title: Fraud and its implications

Objective: To provide course members with the knowledge, skills and attitudes required to manage the risk of fraud within organisational standards.

Session
Introductions and learning goals.
1 What is fraud?
2 High risk areas.
3 Background to organisational standards.
4 Defining roles and responsibilities.
5 What to do about allegations.
6 Your role in investigations.
7 Background to police action.
8 Background to internal discipline.
9 Interviewing skills.
10 Prevention.
   Course summary and review.

(e) Course title: Getting to grips with corporate procedures

Objective: To provide course members with a good understanding of corporate procedures so that they may appreciate the importance of compliance.

Session
Introductions and learning goals.
1 Your duty to comply with corporate procedures.
2 What falls under this heading.
3 Human resource policies and procedures.
4 Financial regulation and procedure.
5 Physical security standards.
6 IT security.

7 Project management standards.
8 Purchasing codes and practices.
9 Equal opportunities.
10 Health and safety.
11 Inventory control.
12 Business ethics.
13 Cash handling.
14 What to do about non-compliance.
   Course summary and review.

(f) Course title: Building your own procedures

Objective: To provide course members with the techniques required to enable them to assist in the process of reviewing, preparing and maintaining adequate operational procedures.

Session
Introductions and learning goals.
 1 The role of procedures.
 2 Reviewing procedures by reviewing processes.
 3 When to start from scratch.
 4 Establishing and flowcharting underlying processes.
 5 Seeking improved work flows.
 6 Drafting the document.
 7 Getting people committed – avoiding the paperchase.
 8 Assessing usability and value.
 9 Reviewing and updating procedures.
10 Ensuring compliance.
   Course summary and review.

(g) Course title: Maintaining creativity within a controlled environment

Objective: To provide course members with the ability to innovate within a structured environment and release their creative energies whilst maintaining control.

Session
Introductions and learning goals.
 1 What is creativity and why is it important?
 2 Over-control and the dangers of stagnation.
 3 Using conflicts to the edge of chaos.
 4 What happens when things get out of control.
 5 Adaptable and flexible controls.
 6 Creativity and accountability.
 7 Project control techniques.
 8 Ideas and how to use them.
 9 Using teams and personalities.
10 A final word – reconciling control and creativity.
   Course summary and review.

(h) Course title: How to use the CICF

Objective: To provide course members with an understanding of the role of the corporate internalised control facility and how it can help them do their job.

Session
Introductions and learning goals.
 1 Start with self-control.
 2 The concept of the CICF.
 3 Services on offer.
 4 When and where to use the CICF.
 5 Ending with self-control.
   Course summary and review.

(i) Course title: Security standards

Objective: To provide course members with the knowledge, skills and attitudes required to implement the organisation's security standards.

Session
Introductions and learning goals.
 1 The importance of physical security.
 2 Protecting your organisation.
 3 The role of the security officer.
 4 Your responsibilities.
 5 Physical access restrictions.
 6 How to spot breaches of security.
 7 Assessing your current arrangements.
 8 Using resources off-site.
 9 The organisation's assets register.
10 What to do about fraud.
   Course summary and review.

(j) Course title: Protecting your automated data

Objective: To provide course members with an understanding of IS/IT security standards and enable them to work efficiently within this environment.

Session
Introductions and learning goals.
 1 Information and why it must be protected.
 2 Background to corporate IT security standards.
 3 The role of the data protection officer.
 4 The importance of password control.
 5 Assessing whether you are at risk.
 6 Security and your private life.
 7 Contingency planning and back-ups.
 8 Network security and remote access.
 9 Reviewing your arrangements.
10 What to do about fraud.
   Course summary and review.

(k) Course title: How to carry out a complete review of controls

Objective: To provide course members with the knowledge, skills and attitudes to enable them to undertake complete reviews of systems of internal control.

Session
Introductions and learning goals.

1 What we mean by systems of internal control.
2 Why reviews are required – case studies.
3 Getting help from internal audit.
4 Planning the review.
5 Ascertaining current control systems.
6 Evaluating the control arrangements.
7 Testing for evidence of strengths and weaknesses.
8 Seeking improvements.
9 Getting staff committed to change.
10 Reviewing what we have done.
   Course summary and review.

(l) Course title: Establishing your own compliance routines
Objective: To provide course members with an understanding of compliance with procedure and how it can be established and maintained.

Session
Introductions and learning goals.
 1 The importance of compliance.
 2 Ensuring procedures work in the first place.
 3 The start is staff commitment.
 4 Making sure procedures are understood.
 5 Setting up compliance-checking routines.
 6 Allowing errors – keeping things positive.
 7 What to do about major breaches.
 8 Dealing with fraud and corruption.
 9 Allowing for creativity.
10 Making procedures fun.
   Course summary and review.

(m) Course title: Making yourself the key to control
Objective: To provide course members with an understanding of the methods of being in control of themselves, as the key to establishing systems of internal control.

Session
Introductions and learning goals.
 1 The self-control model.
 2 Finding out where you stand – signals of burnout.
 3 Managing stress – finding happiness at work.
 4 Managing conflicting priorities.
 5 Coaching not managing.
 6 Managing your time.
 7 Listening skills.
 8 Using body language for control.
 9 Controlling your emotions.
10 Becoming a creative control freak.
11 Compliance with procedure – making sure you are up to date.
12 Working within a healthy environment – plants and colours.
13 Internalising control.
14 Putting the self-control model to work.

Course summary and review.

(n) Course title: Managing the ethical environment
Objective: To provide course members with an appreciation of the ethical framework of the organisation and enable them to work efficiently within this environment.

Session
Introductions and learning goals.
 1 The roots of ethics in business.
 2 The organisational position.
 3 The internal disciplinary code.
 4 Different perspectives – enforcement versus encouragement.
 5 The dangers of sleaze – case studies.
 6 Assessing your position on ethics.
 7 Making the right decisions.
 8 Accountability.
 9 Whistleblowing – rights and responsibilities.
10 Establishing your own ethical code.
   Course summary and review.

(o) Course title: Value for money and quality
Objective: To provide course members with an introduction to the topic of value for money and ensure they can translate these into quality standards.

Session
Introductions and learning goals.
 1 The concept of VFM.
 2 Ensuring efficient processes.
 3 Ensuring effective processes.
 4 Measuring quality.
 5 Measuring performance.
 6 Assessing success.
 7 Seeking constant improvement.
 8 The link into standards and procedures.
 9 How to tackle operational problems.
10 Taking an integrated approach to service delivery.
   Course summary and review.

(p) Course title: Using control circles
Objective: To provide course members with the competencies underpinning the design, use and review of control circles that seek to add value to systems of internal control.

Session
Introductions and learning goals.
 1 The concept of control circles.
 2 How to set them up.
 3 Using teamworking.
 4 Getting good ideas.
 5 Dealing with errors and poor performance.
 6 Spotting systems weaknesses.

7 Preparing reports on systems improvements.
8 Selling ideas through presentations.
9 How the CICF can facilitate control circles.
10 Maintaining the circles – integration and acceptance.
   Course summary and review.

(q) Course title: The theory of risk and contingency
Objective: To provide course members with an understanding of risk assessment and how it can be used to direct controls at high risk areas.

Session
Introductions and learning goals.
 1 The concept of risk management.
 2 Linking risk to business objectives.
 3 Key control objectives.
 4 Going through an assessment process.
 5 Transferring risk – techniques.
 6 Insuring against risk.
 7 Tackling risk through control – prevention.
 8 The dynamics of changing risks.
 9 Using the computer to assist risk management.
10 Seeing the wood for the trees.
    Course summary and review.

(r) Course title: Financial controls
Objective: To provide course members (with no background in finance) with an understanding of financial management as a key aspect of the system of internal control.

Session
Introductions and learning goals.
 1 Discovering the world of debits and credits.
 2 Basics of financial accounting.
 3 Basics of management accounting.
 4 The role of internal audit.
 5 The role of external audit.
 6 The corporate standards on financial regulation.
 7 Understanding the year-end financial statements.
 8 Using the budget as a key control.
 9 Project appraisal – financial implications.
10 How to use open learning to increase your knowledge.
    Course summary and review.

(s) Course title: Ensuring accountability
Objective: To provide course members with an understanding of the concept of accountability and ensure that they are able to work efficiently within this environment.

Session
Introductions and learning goals.
 1 The meaning of accountability.

 2 Being responsible for resources.
 3 The technique of delegation.
 4 Establishing codes of conduct.
 5 Financial regulation – in outline.
 6 Representing the organisation.
 7 Maintaining a record of activities.
 8 The role of audit services – internal and external audit.
 9 Getting a balance with autonomy and supervision.
10 Getting rid of the fear of failure.
    Course summary and review.

(t) Course title: Using information for control
Objective: To provide course members with an understanding of information systems as a key aspect of the system of internal control.

Session
Introductions and learning goals.
 1 Defining the management information system (MIS).
 2 The end-user computing concept.
 3 Decision support systems.
 4 Using information in the control cycle.
 5 Using SMART targets.
 6 Exception reporting.
 7 Data profiling and the detection of fraud.
 8 Data protection security standards.
 9 Contingency and back-ups.
10 Developing your information system for control.
    Course summary and review.

"We can build on the above courses and develop learning goals for each individual session. The approach to delivering the sessions will be a mix of input (imparting knowledge using visual aids and explanation), discussion, brainstorming (using the flip chart), syndicate group exercises (with feedback and evaluation), tasks (to reinforce the learning), videos and so on. The courses can be further developed into say stage 1, 2 and 3, where stage 1 level of difficulty may involve a half-day course while stage 3 may run into several days. All possibilities can be explored. We can also provide videos and open learning material (i.e. notes) to support each course and these can be referred to by course members as a record of what happened during the course – and as a revision tool. Note that the videos may have to be left in the CICF and viewed through a booking system. Further exercises may be provided to again consolidate and expand the work covered."

"I think that the head of CICF should be a competent trainer – there are people who can deliver training well in contrast to those that are better suited to hands-on activities. But we must also remember to locate training within the everyday realities of working life

or it will be too artificial, as George Bernard Shaw said:"

 He who can, does. He who cannot, teaches (Partington, 1992, p. 637).

"As such, it is best to bring in the right people to do the right parts of the training programmes. We need a course chair to be present throughout the event and, as we have said, this may be the head of CICF or one of the CICF staff. But specific sessions will be done by specialists. For example sessions on purchasing, IS/IT and human resource would be done by the purchasing manager, IS/IT manager and personnel manager respectively. Sessions explaining the role of internal audit would be presented by the chief internal auditor (or representative) and so on – you get my meaning. This reinforces the CICF's role as one of facilitation, not being experts in everything that goes on in the organisation."

5 Procedures help desk

"We have spent a whole day discussing procedures and their important role in the system of internal control. Procedures also appear as an integral part of the managerial control system. Extensive, cumbersome procedures that entail a heavy-handed bureaucratic approach equate to over-control. Which, in the end, means there is little or no control as people simply hide behind stacks of paperwork to avoid making decisions or taking responsibility. On the other hand, a failure to establish any form of procedure many mean a lack of standards in the way people work and perform. This also leads to poor control as people adopt a *laissez-faire* view, with things going badly wrong. The glaring problem that I have seen, is the complete lack of assistance managers and staff have in developing and maintaining procedures. By the very nature of their work, internal auditors do have a lot of expertise in reviewing procedures. Unfortunately, because it is seen to impair independence, they are not encouraged to help re-design operational procedures. I have carried out many audits where the manager accepts that procedures are inadequate but has no idea where to start the task of getting them right. The CICF should assume this role. It needs to be a source of expertise on procedures and able to provide advice on how they may be developed, drafted and implemented, and able to provide hands-on assistance in these tasks. Organising skills-based training in preparing procedures as a means of promoting control is another way that help can be provided. A response-based, help-desk

facility can be used for providing ad hoc advice, as and when required."

6 Troubleshooting

"How many times have you heard that an investigation is being launched into a particular section. Where there is a strike, a computer failure, customer complaints, grievances from staff, failure to achieve value for money, poor services, maladministration, continual losses, unusual performance reports, breakdown of communication, open warfare with other sections and so on. The 'Let's have an investigation' phrase is often heard as the solution. The problem is – these investigations can turn into witch hunts; they can be badly run; they can drag on for years and they can simply fizzle out altogether. There are several key points to note here. Firstly, where something goes wrong, we must give the responsible managers an opportunity to investigate and report. Where this is unsatisfactory, we can commission further investigations but there must be some valid conclusion that identifies underlying causes and provides good solutions. We don't want to spend years beating round the bush with an ill-conceived inquiry panel that delays things on the basis that the problem will simply vanish or people will forget about it as time goes by."

 "The CICF can assist in troubleshooting; in helping management solve control breakdowns by diagnostic and analytical techniques. They can also help management establish investigations into particular problems that impact on systems of internal control. I'm not sure that the CICF should embark on full-scale investigations, since they would then need a lot of resources for this. The CICF may be better off co-ordinating such investigations which would be resourced through external or seconded resources. The idea would be to ensure these investigations are properly managed and do not lead to a blame culture and all its negative implications. Troubleshooting looks at mistakes made by managers and staff as opportunities to make improvements. Most managers do not want to refer their problems to outsiders as they see this as an indication of failure. The CICF should recognise this view and get involved as a positive development, seeing mistakes as something made by the system not the person. Where problems are related to human failure – this must be seen as a need to improve competencies and not a vendetta against the person in question. If however, there is a lack of basic competencies, or indeed negligence, we must refer the

matter to personnel who will have procedures for dealing with this."

"CICF having a key role in fraud investigations is questionable. But it could work where we see management being responsible for sorting out these types of problems with advice and support from CICF. The concept of a centralised fraud team is useful but fraught with difficulties. Many such teams become so powerful that they become corrupt – a team of untouchables, accountable to no one but themselves. They trust no one and no one trusts them as they spread fear and suspicion throughout the organisation. Their future is dependent on employees being bent – which means there is no incentive to getting systems strengthened. Although, fraud teams tackling external fraud (i.e. non-employee fraudsters) can probably be better justified."

"In helping people to investigate and solve their own problems, it is not a question of trusting employees, it is a question of getting employees to trust themselves, so long as we can spot cover-ups."

7 Control awareness initiatives

"One interesting concept I have been developing relates to the use of control circles. We all know about quality circles, where a group of workers (say 4-12 people) get together on a voluntary basis to discuss their processes and work out where quality can be improved. This is partly formalised by using a facilitator to coach the circle and having recommendations go to a steering committee. The same idea can be applied to control circles – people get together with a facilitator and use their creative energies to discuss control systems and how they can be better adapted to meet the needs of the shopfloor."

"We can develop internal control circles as an extension of any existing quality circles and adjust the terms of reference to include a focus on controls. Or, if we need dedicated control circles, we can get them to focus on risks, problems, causes and solutions using risk analysis techniques where required. We can encourage the groups to link operational problems into deficiencies in procedures, training, standards and systems. The task is to generate useful ideas. Not to take away the role of the line manager – but more to make recommendations upwards to line management and feed initiatives into a steering committee or audit committee."

"The CICF will seek to promote the use of control circles across the organisation, perhaps using pilot schemes. CICF may attend the initial meeting and report progress on the initiative to the audit committee. It may retain a watching brief on implementing

solutions, publicising the circles, identifying resources, co-ordinating meetings, and extending the programme to other circles."

"We need to make internal control the responsibility of everyone and not just the audit committee and senior management. Note that the training programme on control circles is a good start place for launching this initiative."

8 Reporting on controls

"The chief executive who reports on systems of internal control, not because they feel pressured to do so by a vaguely-worded external guideline but because they feel it right and proper to do so, should be admired. This report should say:
- what the organisation understands by systems of internal control;
- what training is provided to staff throughout the organisation linked to competencies (in control);
- whether corporate procedures are being adhered to;
- whether managers and staff have adopted good operational procedures that promote both control and creativity;
- where people can turn to for help in improving their controls;
- how investigations into control deficiencies and errors are handled;
- how fraud is contained and dealt with – if it occurs;
- how information systems support control feedback cycles;
- how quality and VFM are measured and maintained;
- what ethical framework the organisation has adopted and how this message is spread to staff;
- what initiatives are in place to ensure improving controls is kept on the agenda.
- where expertise in control lies and how this expertise is spread to employees in line with the self-control concept;
- how control as an issue is dealt with as an integral part of working for the organisation."

"The bottom line is to report how these initiatives come together to form a comprehensive System of Internalised Control. The CICF simply furnishes reports on their activities to the CE for submission to the audit committee and main board of directors. Internal audit will retain its role as independently reviewing sections, functions and controls – the CICF is simply an initiative that complements this all-round effort to get controls right."

9 Launching the CICF

"We need to establish the benefits of adopting a CICF so that it is supported by the organisation and launched. These benefits may include:

- better risk and control awareness;
- good procedures and increased working efficiency as a result;
- better value for money;
- expertise available to employees;
- control issues integrated into staff training programmes;
- better staff morale through the self-control concept;
- more chance of compliance with procedures;
- management of fraud and irregularity;
- better management information systems.
- and improved systems of internal control."

"We should really go through the standard routines for launching a new CICF, where we have a published mission statement, newsletters, logos, office space, help desk, brochures and e-mail messages. The important point is to establish the facilitative role to support and help employees and not to review and report on them. In this sense, we need to ensure there is easy access to the services."

"Presentations to staff on a section by section basic can be one way of getting the message across."

10 A warning

"There is one word of warning we must issue. Many people have a resistance to change. There are others who perceive control as an intrusion and resist any moves in this direction. We must break down these barriers and seek driving forces to create a culture where managers and their staff take responsibility and see no problem seeking help in establishing systems to enable them to meet these responsibilities. But we must be careful about giving too much detailed advice as we may create victims of managers, who cannot function without double-checking with CICF."

"There are forces that oppose control including lack of support from top management, incompetent staff, fear of failure, excessive work pressures, boredom, poor communications, staff mistrust of their managers, lack of staff motivation and fear of reprimand for non-compliance with procedure. Where these forces are strong, the CICF will need to work with the CE on initiatives to create an environment where it can work. If not, there will be excessive negative conflict and the CICF will eventually turn into

nothing more that a hit squad; checking, criticising and reporting on employees as part of the internal disciplinary machinery. The other problem is where the CICF is used by managers to avoid blame if things go wrong. Again the CICF will not really work in organisations that have established a blame culture."

"Well – there you have it, Bill. My preferred solution."

The day spent in Kingston was quite enjoyable. A lively place where people spent their time keeping busy. It was such a contrast to the laid-back tourist resorts on the north coast. The visit to the Bob Marley museum and record shop proved successful and Bill returned to the car with a bag full of records.

The journey back was much quieter as Bill relayed his concerns about getting support for this new approach in his company, which had proved very difficult in the past. As they got closer to Mo'Bay, Jack sensed that a final word on this whole matter of control was required. Responding to this Jack said:

"Control starts with self-control – this is ensuring there is enough stress to represent a challenge as demanded by the occasion. But not too much stress that cannot be handled. People who feel they are in control can deal with stressful situations. People who feel that they have little or no control over their environment may well suffer from stress. They enter a cycle of problem – worry – problem – worry and so on."

"Meanwhile coaching sets aside the traditional management control and command styles and replaces it with help and self-development. We challenge norms, look to the future and encourage mistakes as part of the learning process so that our controls incorporate these concepts and provide accountability."

"Self-control meets formal control systems in time management. If we see everything as a series of interlinked systems then time management becomes an enabling system to ensure we have time to discharge our objectives. Also, as a self-control device, this is very important as we devise and implement these systems."

"We have said that the essence of control is still self-control. Why do so many people feel they would never want to work for anyone or that they hate their job? They are victims and feel lost to the factors that affect them and their environment. But to take control and have a possible dream to work to, sets a frame for self-control. Not the kind of law of control that represses and restrains by instilling fear. But the kind of control that envisions this dream and sets free the spirit to take steps to ensure it happens. The fun and excitement of

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arriving at the dream should be all-consuming – and be based around the value of life concept, that ultimately ends in happiness."

"Control does work within this reference frame, although it must have a charm and ease that attaches to the person as a form of soft systems analysis. Boundaries and barriers are tackled and the main focus is on releasing one's energies – in almost a child-like manner to roam free and seek this vision. We all do what we have to do, and then wish to do other things as a form of escapism. What if we could incorporate these wishes into our everyday work? Would not this provide the energy that distinguishes a vibrant person from an employee moving through a cold and distant procedure in a zombie-like fashion. Energy is about fun, discovery, fulfilment and challenge. As we make mistakes we learn about ourselves – formal appraisal systems are located in past performance against a set standard in the process flow model. Appraisal should be about self-discovery and a desire to develop in the light of these findings. The manager as a coach assisting in this journey is important, not as a deviation spotter, but as a guide and source of inspiration. If we know where to go, how to get there and what problems to look out for, then all it takes is a reason to journey i.e. motivation. Energy directs the extent to which we throw ourselves into the task and this must come from within. It comes from an earnest desire to express our innermost feelings through the exercise of life. As such it is spiritual in nature as it has no dimensions or mass but floats above the consciousness without form. Its power, however, is deep as it is the difference between a person who has lost the will to live and someone who sparkles with life and vitality. It is not based on physical fitness but a love of life and a clear focus on realistic outcomes. We take control as systems that support and direct the spiritual nature of our being, which moves us far away from the traditional view of this concept. It places us closer to a philosophical model where we need to re-examine our motives and visions so as to get people to take them to heart in an open and unthreatening manner. Can we ask organisations to operate on this level? And can we teach ourselves to view controls in this way? The control chart appears a somewhat mechanical interpretation of reality based on adopted standards, measuring devices, information systems and past performance as the guide to current decisions. How do we measure spiritual well-being and internalised energies? These conceptual infrastructures are so important that we must try – and this requires a different mindset than traditional approaches. Control is then an uplifting process that locates one to higher planes and not a pressure lid that contains any form of originality or freedom of expression. This is the challenge, and this is the problem with no solution; just a journey of discovery that takes one closer to understanding the problem, rather than fixing things. A major preoccupation of our society is the quick fix which the hour-long TV drama has helped to evolve. A culture of simply fixing things as the drama unfolds and is sorted out before the 60-minute deadline. So society feels that all issues can be controlled in much the same way – that is why people ignore paper systems and view the real world as closer to pure chaos than a series of simple solutions."

They arrived at Bill's hotel. Jack said his goodbyes regretfully. He really would miss Bill. Bill likewise said that he had enjoyed their discussions and debates over a last drink with Jack at the hotel. Ruth joined them shortly after and Jack was sure that there would be a tearful goodbye between this couple this evening. As it became dark, Jack drove out of the hotel for the final time heading for his home in the hills outside Mo'Bay.

Chapter eight – the letter

Jack turned to the clerk at the post office counter and said; "You sure this is for me?" looking at a letter she had just handed over to him.

A sharp nod confirmed that it was his, although he did not recognise the handwriting.

Jack stepped back into the shade to avoid the midday sun which burned down on the centre of Mo'Bay town. He opened the letter and immediately saw that it was from Bill, in England.

The sanctuary of a nearby bar provided the relief from the sun Jack was looking for, and over a cold Red Stripe, Jack read through Bill's letter:

"Dear Jack,
I hope all is well.

I must say I enjoyed our long talks on a subject that seems to involve so much. The more you find out about controls, the more there is to learn. As you have said, there is no real solution – it's simply a never-ending journey much like the one from Mo'Bay to Kingston.

Anyway I hope that your book is going well and is nearing completion. I will be buying a copy as soon as it is released.

Well let me give you my news. I have good news and bad news.

First the bad:

I returned to my company amidst a great deal of commotion. Apparently, during my vacation, the chief executive had gone on long-term sick leave with severe depression, and the prospect of not coming back at all.

We roped in a new temporary CE who dispensed with the consultant's review that we had been planning, you know the stage two detailed review.

Anyway, I made a presentation to the board and spoke about the idea of a corporate internalised control facility – I even prepared a paper on this with diagrams and so on. For convenience I suggested we locate this within the internal audit section as a start.

This went down quite well, although I spotted that not everyone appeared sold on the idea. Some of those present didn't like the point that the CE and main board should be ultimately responsible for internal control and

made comments to this effect. They did, though, agree that all employees are also responsible for controls.

Well, unknown to me, a compliance officer (in the form of consultant) had been appointed and was about to start work on establishing a compliance team. The role is one of actioning a series of planned visits to all parts of the organisation with a remit to report on compliance back to the director of finance and audit committee. The board has said it will discipline all staff who are in breach of procedure and effect a clear-out of bad apples.

I objected to this and pushed for the CICF as an alternative or at least a complementary solution – but was overruled. I guess you were right in suggesting that the CICF approach only works where it fits with the organisational culture. I eventually got so upset that I announced that the real solution to the problem was seven squared and marched out of the board room.

But the good news:

To cut a long story short I have tendered my resignation and have decided on a change in career. I'm buying a share in Ruth's parents' restaurant and they have agreed that I should help them refurbish and manage the place. Which is not too bad an idea since Ruth and I have been on the phone every day since I left Jamaica and I guess I can safely say – we are making long-term plans.

I have to settle my affairs and have been in touch with the Jamaican High Commission about joining this business venture. I will be arriving in a few months' time and will call you then.

I'm not sure that we need to embark on any more journeys through control, I think we have been there and done it. Maybe we can find another subject for discussion – what do you think about managing special investigations as an interesting topic?

Best regards,
And see you in a few months,

Bill Reynolds"

Well, thought Jack with a smile – this is one journey that does have an ending after all.

Appendix: The management control system

1 The managerial system control attributes

The managerial control system represents the fundamental processes that must be in place to control any operation. The systems school of thought uses General Systems Thinking to help define these processes and the way that they link together to form a complete system. When reviewing what may be viewed as a business unit (i.e. a defined set of resources under a manager working to achieve a defined objective) then we may consider the adequacy and effectiveness of the macro-based managerial control system. This is done by considering whether the various attributes (as set out below) are present. Potential weaknesses may be identified where any of these attributes are lacking.

The areas that form the managerial control system (MSC) may be listed:
- objectives; a clear statement of goals;
- strategic analysis; an efficient way of achieving the goals;
- structuring; the way resources will be deployed;
- human resource management; a process of acquiring the required resources;
- quality standards; the standards that will be applied to the operation in terms of quality and quantity;
- procedures; the way work will be undertaken;
- operational activities; the activities themselves;
- marketing; the way that clients' needs are defined and met;
- management information; the information that is required to manage the activities.

2 Objectives – control attributes

Main issues
All operational activities must work to a clear objective. The role and responsibilities of a department (and therefore the relevant manager) must be agreed at the outset and this should be understood throughout the organisation. Any problems with role definition will affect the entire operation and this will have a major adverse effect on performance even if the control systems are good.

Main risks
The main risk that attaches to inadequate objectives is that substandard performance may easily be masked even though the operation itself may be well-controlled with staff working efficiently. The problems arise when, because of poor role definition, the impact of the resulting services is not able to fully contribute to the overall welfare of the organisation. It could be a case of vague role definition or that the manager is not working to the terms of reference originally agreed when the activity was first resourced. Control mechanisms promote the achievement of the control objectives that must be in place for systems objectives to be achieved. If business objectives are unclear, then it follows that systems objectives will likewise suffer with the resulting adverse consequences. This flow of objectives forms the basis on which the available resources are applied, and in this respect is totally dependent on the formal terms of reference for the particular operation.

Principal controls
Objectives – control attributes
- formal document setting out terms of reference;
- charter: documented, agreed by the organisation (signed), kept up to date, short, precise, reflects current position, components and sub-components, authority and responsibilities shown;
- objectives publicised;
- set out in job descriptions;
- set out in strategic documents;
- understood by all operational staff.
- communicated throughout the organisation;
- performance targets based on achieving objectives;
- objectives contribute to the overall welfare of the organisation;
- MBO techniques where objectives are broken down into tasks and goals;
- objectives regularly reviewed and re-assessed.
- all activities linked in some way into these objectives;

- objectives based on overall organisational objectives;
- training and developmental programmes linked into objectives;
- approved budgets linked into objectives.

3 Strategic analysis – control attributes

Main issues

The next part of the managerial control system relates to the process for effecting strategic analysis. Management textbooks contain much detail on this subject and we may note here that all operations must employ an effective strategy. In one sense the managers' primary role is to define this strategy and ensure that it is fully implemented. In addition, it must be subject to a continuous review and adjusted accordingly so that it is up to date and vibrant. The main issue that arises is based around the need to install the mechanisms that underpin strategic analysis.

Main risks

The failure to define a formal strategy leaves a gap between the objectives and the way these objectives will be met. This gap may be seen as the process of directing the available resources in such a way as to maximise their impact so as to achieve value for money from these resources. A lack of strategic analysis means a lack of direction and no clear method through which to seek continual improvements in the way services are provided. In this situation there will be no formal process for ensuring that the operation is successful in terms of service delivery, and operational weaknesses may not be addressed by management. A constant state of crisis management is usually symptomatic of a lack of strategy.

Principal controls

Strategic analysis control attributes
1 Goal formation:
   - based on objectives;
   - in line with organisational values and policies;
   - consistent with social responsibilities.
2 Analyse internal position:
   - process for isolating Strengths;
   - process for isolating Weaknesses;
   - process for isolating Opportunities;
   - process for isolating Threats;
   - the above based on a formal MIS.
3 Analyse external position:
   - process for isolating Political factors;
   - process for isolating Economic factors;
   - process for isolating Social factors;

- process for isolating Technological factors;
- process for isolating Legal factors;
- the above based on a formal MIS.
4 Identification of strategic gap:
   - staff performance problems identified;
   - other resource problems identified;
   - inefficiencies identified;
   - poor service delivery (including complaints) identified;
   - the above based on a formal MIS.
5 Evaluate alternatives:
   - process for stimulating the production of alternatives and weighing each one up based on a formal MIS.
6 Select strategy:
   - process for discussing and authorising the best strategy based on a formal MIS.
7 Implement strategy:
   - comprehensive and formally documented strategy circulated to all staff and agreed by senior management;
   - meetings with staff to discuss the strategy and any training implications;
   - clear change management procedures aimed at systems, structures, culture and the staff;
   - milestones and tasks assigned to staff with deadlines and budgets that are built into the performance appraisal process.
8 Review current strategy:
   - regular reports of progress on strategy and staff achievements;
   - effective action where strategy is not being progressed;
   - effective action where strategy is not achieving the intended results;
   - effective action taken to update the strategy on an ongoing basis;
   - an adequate MIS to support the above review process.

4 Structuring – control attributes

Main issues

The way an operation is structured in terms of the definition of staffing roles can have a major impact on the success of the resulting services. If this component is not properly managed then, regardless of the skills and commitment of the staff, frustration and inefficiency will be the net result. Control is enhanced where the organisational structure flows from the main strategies and allows the human resource aspects to be efficiently planned.

Main risks

Examples of some of the control risks from a poorly planned organisation structure may be listed:

• poor task definition leading to duplication of effort and overall confusion;
• inappropriate spans of control leading to over/underemployed managers;
• vague reporting lines making it difficult to establish accountability;
• activities that have no defined person who is formally responsible for their success or otherwise.

In the main, the risks will relate to inefficiencies in the way staff are employed. It will also be very difficult to implement strategy if the underlying structure has not been adjusted to reflect the new strategy. The main problems result from structures that have not been regularly updated.

Principal controls
Structuring controls attributes
• defined structure flowing from the strategic analysis process;
• ongoing restructuring to reflect changes in strategy;
• ongoing analysis of jobs to ensure that they reflect the requirements of the defined structure;
• constant review and updating of job descriptions;
• person specifications that reflect the requirements of the job with minimum qualification and experience levels;
• periodic job evaluations to ensure the grade equates to the work being performed;
• staff working to the requirements of their JDs;
• clear reporting lines that are used in practice;
• officer accountability established;
• use of delegation wherever possible with built-in reviewing arrangements;
• appropriate spans of control that ensure that the managers' skills are fully utilised;
• correct mix of technical staff and no obvious skills gaps;
• use of project teaming where appropriate along with adequate associated controls;
• the relationship between staff from these and other link operations clearly defined.

5 Human resource management – control attributes

Main issues
Staffing may be the single most important factor in the managerial control system and this could make the difference between a badly-run service and an efficient one. Reviews of staffing are not concerned with individual personalities and performances, but deal with the processes that underpin the HRM aspects of management. The HRM

components may be broken down into a defined system.

The important point to note is that each of the above matters has to be carefully planned and implemented by management who should not leave it up to chance (Figure A1).

Figure A1
Human resource management cycle

Main risks
There are many risks where the HRM process has not been adequately planned, and some of them may be listed:
• the wrong type of staff employed;
• de-motivated workforce;
• poor performance;
• high levels of disciplinary activity;
• an inappropriate culture;
• managerial frustration;
• staff incompetence;
• constant breaches of procedure;
• high levels of errors and corrections.

Principal controls
Human resource management – control attributes
1 *Organisation objectives:* HRM policies set within the framework of organisational objectives:
   • specific HRM policies set within the framework of overall organisational HRM policies;
   • HRM policies fully documented.
2 *Manpower planning:* An ongoing process for:
   • assessing future HRM demand;
   • assessing existing resources;
   • assessing future internal supply;
   • assessing future external supply;
   • isolating a supply gap in terms of numbers and skills;
   • plans for bridging this gap;
   • keeping the plans up to date.
   This plan should be published and properly implemented. It should result in the

supply of the right staff and may cover: recruitment, training, redeployment, development, automation and improving staff performance. The plan should be kept under constant review.

3 *Job analysis:* Management should establish a process for providing a continuous assessment of the working arrangements to ensure that each post properly reflects the requirements of the operational strategy. The types and levels of skills and experiences must be reassessed wherever strategy changes or problems are evident. JDs may have to be amended in line with these changes.

4 *Personal specification:* The type of person required to discharge the duties of the various posts (which may have been redefined) should be codified within a person specification. This should be linked to recruitment/selection and staff development to ensure that current and/or proposed postholders meet this specification.

5 *Recruitment:* Clear recruitment procedures should be identified in line with organisational policies. This may involve recruiting through:
   • internal staff;
   • general advertisements;
   • professional journals;
   • recruitment agencies;
   • links with educational establishments;
   • job fairs;
Formal shortlisting arrangements should include the manager who will be responsible for the new recruit.

6 *Selection:* All matters on the person specification should be considered:
   • the line manager should be involved;
   • specialist skills should be fully tested by including the right people on the interview panel;
   • the selection process should be adequately resourced;
   • the selected individual should be given full details of the requirements of the job and type of control culture that they will operate within;
   • all personal references and certificates should be confirmed by an independent third party.

7 *Induction:* Arrangements for carrying out suitable induction training should be in place:
   • this should be geared to acclimatising the newcomer as quickly as possible;
   • a probationary period should be required so that either side may terminate the contract at short notice. This should include regular performance reports and action taken where necessary.

8 *Appraisal:* A formal performance appraisal process should be in place:
   • this should be based on targets which in turn should be based on operational strategy;
   • where targets are not available then a daily record of work activity should be made by each officer and presented to the line manager for review and action where necessary;
   • wherever possible a time-charging system should be in place with each task given budgeted hours by the manager. Reports on actual/planned hours should then be available for consideration by management;
   • management must also be included in a similar procedure.

9 *Training:* A suitable staff training programme should be in place based on the following:
   • performance appraisals wherein performance gaps are isolated;
   • training programmes directed at closing these gaps;
   • review of the results of training;
   • general professional training for the services that are being provided;
   • an approved training budget in line with overall training needs;
   • regular in-house skills-based training carried out by senior staff;
   • a link between training and the person specification;
   • additional training where a new procedure is being implemented;
   • comprehensive record of courses that staff have followed and results where appropriate;
   • appropriate management action where staff have dropped out of training courses or have failed any qualifying examinations.

10 *Development:* In conjunction with staff training, each member of staff should be on a clear developmental programme. This may include:
   • performance appraisals;
   • experience gaps identified;
   • work rotation;
   • secondments where appropriate;
   • additional work responsibilities wherever possible;
   • the use of delegation wherever possible as long as there are good controls over quality and access to management at short notice;
   • line managements' close involvement in individual career development.

11 *Separation:* It is necessary to establish firm procedures for picking up on poor

performance and these may take the following pattern of events:
- targets set on quality and quantity of work;
- review of the achievement (or not) of these targets;
- training directed at performance problems;
- counselling where performance cannot be corrected;
- disciplinary action where the failings continue for unreasonable periods, or the person's behaviour is inappropriate;
- generally, managers should have the ability to deal with staff who are not able to perform to the required standards.

12 *Promotion:* In contrast to poor performance, managers should be able to reward good performance as follows:
- files that record specific achievements;
- a system for recognising outstanding performance;
- a method of linking promotions to good performance;
- a method of providing good performers with exposure to more interesting and demanding work;
- a clear link between rewards and any performance appraisal scheme.

13 *Review:* Management should establish clear mechanisms for reviewing the way HRM policies impact on the efficiency and effectiveness of the operation. Organisational policies should not provide a barrier to performance, and where this occurs then action must be taken to remedy the situation.

6 Quality standards – control attributes

Main issues
Quality cannot be ignored by managers and they are charged with defining and implementing appropriate quality standards. Quality is about doing things right all the time and depends on sound procedures. Operational activities have to be carried out with reference to a predetermined standard and this is set by management. In this context, standards are set in terms of quantity and quality and they must be communicated to staff before being reviewed. A continual struggle to improve quality standards should also be part of management's goals. Quality assurance in its true sense is in fact the implementation of the managerial control system that is detailed later. A more narrow view of quality control is dependent on effective review systems that look at the way work is

performed. This may consider the performance of staff *per se* or, management may review the extent of compliance with quality standards.

Main risks
Some of the risks associated with a lack of good quality standards are as follows :
- poor work performance;
- excessive supervisory review and correction;
- inconsistencies in the application of operational procedures;
- conflicts between quantity and quality;
- poor performance appraisal standards and an inability to set performance targets;
- an environment that is not able to support quality goals;
- inability to provide a quality service/product.

Principal controls
Quality standards – control attributes
Management must install quality systems and as already mentioned, this factor affects all activities. There are however several specific processes that will contribute to quality assurance and examples are listed as follows:
- managerial supervision and review of staff activities;
- standards for operational performance;
- checks on staff output that are not merely concerned with correcting poor products but have the wider role of determining the underlying causes and how they may be rectified;
- managerial concern for quality where this is promoted at every opportunity;
- commitment to achieve quality assurance standards (ISO 9000);
- good documentation and efficient filing systems and working papers. High standards should be set in this respect;
- a zero error policy built into performance targets with associated review checks;
- a zero client complaints policy built into performance targets with associated review checks;
- the principles of quality circles applied allowing bottom-upwards communications from work teams feeding into the managerial process;
- comprehensive external and/or internal reviews commissioned by management to promote improvements in operations and services.

7 Procedures – control attributes

Main issues

All operations are carried out with reference to procedures. Where these have not been carefully considered, planned, documented and implemented then they will depend entirely on individual members of staff. Sound operational procedures that reflect the way management wishes work to be performed are essential to the proper mainte-nance of control. Procedures should be used to direct operational activities and may be used to promote creativity and discretion where necessary. On the other hand, they may be used to contain staff and ensure that they work to consistent standards. The choice will depend on the particular activities and type of staff that are employed. Within this model, some matters will be subject to formal detailed procedures while others will simply be set within the framework of general policy statements. We may establish a dynamic process for using procedures as follows (Fig-ure A2):

Figure A2
Managerial direction
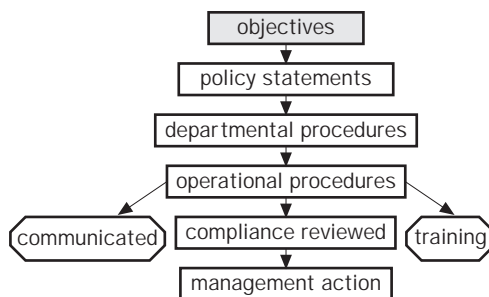
The manager must review the way the above system is being defined and applied.

Main risks

Where procedures are inadequate then prob-lems will ensue and these will include:
- management will not be able to define how an activity should be undertaken;
- it will not be possible to identify staff train-ing needs;
- it will not be possible to review staff's work;
- it will not be possible to define how particu-lar operational services interface with link systems due to unclear procedures;
- staff will not have their operational roles clearly defined;
- clients will not understand how their ser-vices are being provided.

There is a resource implication in defining and drafting clear operational procedures

and keeping them up to date. However, the risks associated with the lack of documented procedures are great and, as such, should be fully addressed.

Principal controls
Procedures – control attributes
1 *Objectives:* Each procedure should have a clear link into the systems objective that is being sought.
2 *Policy statements:* Procedures should work within corporate policies that have set the overall framework.
3 *Departmental procedures:* There should be clear procedures that apply to the whole department, section or operation. These should promote equity across the organi-sation.
4 *Operational procedures:* For each main activity that is undertaken clearly docu-mented procedures should apply which must be:
   - comprehensive;
   - up to date;
   - in line with the realities of the activities;
   - consistent with job descriptions.
5 *Communicated:* The procedures should be properly communicated to all staff even where they are working in a different area:
   - upwards communications should arise where staff have a major input into what is officially set out;
   - the procedures should be produced in a suitable format by using colours where appropriate along with clear print. All staff should be given up to date copies;
   - there should be a formal avenue for get-ting management to respond where staff are experiencing problems with a partic-ular procedure.
6 *Training:* It is essential that in-house (or external) skills training is undertaken where:
   - technically difficult procedures are in use;
   - procedures are changed;
   - they are not being applied properly;
   - new starters are in the post;
   - the current standards with which the procedures are being applied are inade-quate.
7 *Compliance reviewed:* There must be an effective method that allows managers to satisfy themselves that procedures are being adhered to and this may include:
   - management commitment to compliance;
   - documentation that supports the applica-tion of a procedure;
   - supervisory review;
   - spot checks particularly for remote loca-tions;

- special control teams that undertake regular compliance tests;
- occasional comprehensive reviews of compliance;
- compliance built into job descriptions;
- disciplinary action where non-compliance occurs.

8 *Management action:* The auditor must look for effective management action where the standards set by the various procedures are not being achieved:
   - this should be geared to setting a culture that promotes the use of good workable procedures;
   - job descriptions should include the requirement to comply with procedures. They should also include the requirement to seek improvements to procedures.

8 Operational activities – control attributes

Main issues
The operational activity may be seen as "the things that are done" in the area under review. The whole premise of reviewing the managerial control system is that they have a fundamental effect on the services that are being provided. It will be necessary to derive a control system (or series of systems) for the operation being performed. This is done by breaking the processes down into natural stages in line with the flow of work. Systems objectives will be identified along with the associated control objectives before the appropriate control mechanisms can be applied during the evaluation stage.

Main risks
The main risks to the operational element of an organisational activity should be related to the inability to achieve the five key control objectives that are concerned with:
- compliance with procedure;
- reliable information;
- protecting assets;
- promoting economy and efficiency;
- achieving objectives.

At all stages of the operation, these objectives must be secured as well as the relevant systems objectives that attach to the stage.

Principal controls
Operational activities – control attributes
Reference should be had to the various textbooks and ICQs that detail suitable operation-specific control mechanisms relating to specific areas such as stores, personnel, debtors systems, expenditure systems, budgeting, final accounts, banking and so on.

9 Marketing – control attributes

Main issues
Most management textbooks include extensive material on marketing, and these should be consulted. What may be noted here is that competition affects all aspects of a business and most activities work in line with the principles of a strategic business unit; the main point being that all services must be competitive and provided to meet client expectations. This applies equally to in-house services since managers should have the ability to select the supplier who best meets their needs. This is the reality of competition and managers who do not appreciate this factor will risk losing their client base even where they are internal clients working for the same organisation. Marketing controls are part of the managerial control system and these should be in place along with the other fundamental managerial processes. It is not possible to provide a service where clients' needs have not been ascertained and provided for as part of the service delivery process.

Main risks
Where marketing issues have not been adequately considered, then a number of problems may result including the following:
- dissatisfied clients;
- poorly defined product;
- competition from similar service providers;
- isolation from the realities of the organisation;
- complaints from clients;
- disputes over internal re-charges;
- demotivated staff;
- services contracted out to competitors.

Principal controls
Marketing – control attributes
Some of the relevant control attributes may be listed:
- a clear marketing strategy based on good marketing information;
- marketing research properly resourced;
- service level agreements;
- complaints procedure;
- standards for responding to clients' enquiries such as:
  time taken to respond to memos,
  time taken to address a complaint,
  time taken to answer the telephone,
  amount of detail provided to clients on request;
- brochures that set out the services provided and how these might be secured;

- continual re-assessment of the services/products that are provided in line with feedback from clients;
- continual re-appraisal of the costs of providing the services and how these might be minimised by improved efficiencies and the application of best practice;
- continual assessment of competitors' services and how they compare to what is on offer;
- regular client surveys to see if they are making full use of the services that are being provided;
- employee code of conduct and checks to see if the requirements of this code are being satisfied;
- regular meetings with operational staff to discuss marketing-related issues and how improvements may be sought.

10 Management information – control attributes

Main issues

A "total systems approach" should be applied where the information system is seen as part of the managerial processes and is interfaced into the operation that it supports. It is not possible to assess an information system without considering the way it fits into an operation with clear business objectives. The type and extent of controls over the MIS are dependent on the objectives that are being achieved and this in turn is linked to the services that are being delivered.

Main risks

Where the MIS is inadequately controlled, then it may not produce information that is:
- reliable;
- accurate;
- timely;
- secure;
- promoting accountability;
- promoting operational efficiency;
- promoting operational effectiveness.

Many important controls rely on the information that is supplied to management as part of the review process. The implications of poor MIS may reduce the overall impact of many other controls and so lower management's reliance on them.

Principal controls
Management information – control attributes
The following controls represent the minimum that should be considered when assessing a MIS:

- There should be a documented IS strategy that has been defined to support the operational strategy.
- This in turn should be supported by an IT strategy that covers:
  – Hardware requirements – software requirements,
  – Networking arrangements – database solutions.
- The strategy should define the type of systems architecture that is being developed and how this links into the existing organisation-wide architecture. New developments should fit this strategy.
- There should be clear policies on controlling PC-based systems covering acquisition, input, processing, file and output controls;
- There should be a defined officer who is responsible for the integrity of the information.
- There should be clear guidance on complying with the DP Act 1984 in terms of registration, access, protection and accuracy.
- The information systems outputs should be linked to the reporting needs of the operation and all reports should be accurate, complete, timely, secure and useful.
- There should exist a reporting system that accounts for the operational activities on a periodic basis to senior management. This should include relevant statistics and performance indicators.
- Activity reports in terms of the budget and spending to date should be produced periodically at least each quarter and action should be taken on adverse variances.
- Management reports should be based on the exception principle where variance from standard is used to highlight potential problems.
- A computer replacement policy should be in place to ensure that all equipment is up to date and efficient. There should also be adequate security over the computers and information that is held.

11 Conclusions

One model of control argues that control is seen to shadow the management process as an additional system superimposed over and above this process to ensure that activities are carried out properly and objectives achieved as follows (Figure A3).

The alternative model simply argues that the management process constitutes the absolute control process which is impossible to separate from management's main activities (Figure A4).

Figure A3
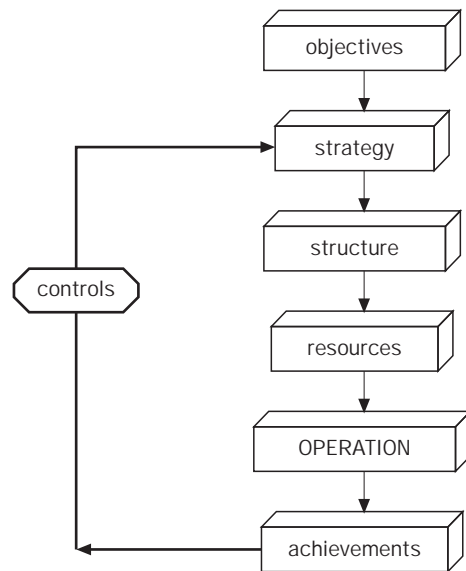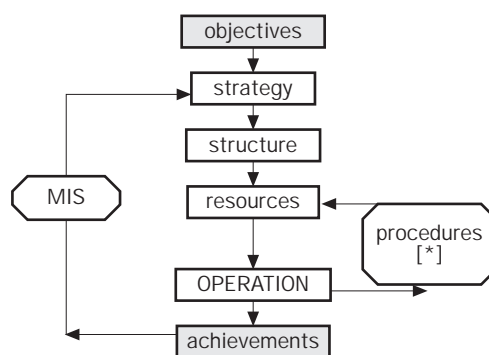Traditional control model

Figure A4
Management control system – amended

We can surmise that at least 80 per cent of control is exercised via the management processes whilst the remainder falls in line with the more traditional type of controls that are based around the actual operation (incorporated within operational procedures – [*] Figure A4). All managers and employees should consider the extent to which the MCS has been catered for in their areas of responsibility and should likewise ensure that they have a good appreciation of the inherent risks and associated controls therein.

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