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Tracking the Future

simultaneous continuum. Using Africa in the continental sense does obscure the very real and severe regional and state-wide differences, but overall macro-trend projections for the continent can be largely true for even the most failed state or underdeveloped region. As macro-trends go, Africa's share of the global population has increased from a mere 9 percent in 1960 to 15 percent in 2010. By 2050, this will have risen to 23 percent – substantially larger than China or India2.

These seismic shifts in population growth are set to transform certain regions more than others. Already the focus of much market attention, both East and West Africa are likely to see the biggest demographic add-ons.

Huge increases in population might make the average reader lament the continued population 'time bomb' facing the continent. While poverty levels are likely to remain far too high,

[redacted]

**Africa's share of the global population has increased from a mere 9 percent in 1960 to 15 percent in 2010**

**Africa's billion people spent $860 billion in 2008, more than India's population of 1.2 billion**

Africa's share of younger people is likely to rise not because of dramatically increased fertility rates and larger families, but as a result of a relative drop in the number of workforce members – aged 15–65 years – in the other major population centres of China and India. From 2030, Africa's share of younger people will begin to dramatically outstrip that of both China and India as their fertility rates fall back (see Chapter 6).

A rise in younger working-age men and women in Africa – perhaps as many as 1.1 billion by 2040 – creates the potential for both economic advancement and social dislocation. It therefore won't be surprising to see a contradiction occur across the continent, where societies that don't open their economies, liberalise trade conditions and curb corrupt governance continue to languish as failed states – and even rogue states.

South Africa, as economically advanced as it might be, already grapples with one of the highest unemployment rates for any country of its level of development. Pockets of failures will therefore continue to destabilise vast swathes of the continent, despite the positive trends.

The good news is that the African workforce is growing in greater proportion to that of other continents. This means that the workforce, if adequately trained and integrated into the demands of the global economy, can become a sought-after commodity. With a decline in the number of work-active humans across the developed world, the future of the global workforce might be in China and India until 2030, but for long-term investors beyond that Africa will be sought as a pool of human talent.

Along with the broader trend of mass urbanisation across the planet, urban growth rates in Africa are now the highest in the world. By 2050, 61 percent of Africa will be urbanised (from an estimated 38 percent currently). African cities are swelling rapidly. The population of a 'mega-city' like Lagos swelled from 300 000 in 1950 to around 15 million in 2007 and is expected to reach more than 25 million by 20153.

Improvement in aspects of human development such as levels of education and access to better health care are contributing to a new urban culture. Literacy rates in particular are growing at a rapid pace; they are now at about 65 percent of the African population and projected to be almost 90 percent by 20504. Life expectancy rates are improving, with the notable exception of South Africa as a result of inadequate hiv prevention for much of the last decade. Communicable diseases are being brought under control, to be replaced by a more 'normal' pattern of concern for chronic diseases and social problems. By 2050 it is expected that under- or malnutrition rates may be similar to incidences of obesity, proving the changing nature and normalisation of African society.

**Africa's economy and trade grow**

If Africa is to shed its shackles of negativity, then the recently released McKinsey research report, Lions on the Move, is a wake-up call to potential investors still unsure about the future growth of the continent. Africa's economy is starting to show impressive growth – and in many cases, really rapid growth. Africa's collective gross domestic product (gdp), at us$1.6 trillion in 2008, is now roughly equal to that of Russia or Brazil. Africa's billion people spent $860 billion in 2008, more than India's population of 1.2 billion. Considering that India has recently been considered one of the globe's key consumer markets for the coming decade, the growth in purchasing power of the average African is nothing short of startling.

Importantly, this growth continued during the global economic crisis from 2007–2010; the continents of Africa and Asia were the only two regions of the globe to score positive growth. Africa's ability to withstand the global battering sets a critically positive trend for the future.

Such resilience was largely the result of sound policies in place before and during the financial crisis, which enabled most countries to use fiscal and monetary policy to dampen adverse effects. It was also a function of the limited global exposure from Africa's banks to the global market. Before, during and even after the crisis Africa has been characterised by steady growth, low inflation, sustainable fiscal balances and public debt, as well as rising foreign exchange reserves6. If Africa was able to navigate through such a storm with relative ease, especially when compared to the disasters of Ireland, Greece and Portugal, then together with projected future improvements in social conditions and prospects, the continent is exceptionally well placed to build on its resilience.

Africa's growth acceleration is currently geographically dispersed across much of the continent although it must be analysed with caution because impressive growth rates often don't translate into a meaningful improvement in the lives of ordinary citizens; elite monopolization of resources often retains wealth in the hands of the politically well-connected few.

Notwithstanding this cautionary note, 27 of the 30 largest economies on the continent have expanded rapidly since 2000. All economic sectors contributed, including resources, finance, retail, agriculture, transportation and telecommunications. The direct causes of Africa's growth surge were improved political and macroeconomic stability, and microeconomic reforms.

Africa has seen some of the fastest-growing economies in the world, but also some of the slowest, including several in decline. Angola, bolstered by oil fields, is the third-fastest-growing economy in the world. This contrasts with Zimbabwe, which is experiencing a precipitous decline, based on a lack of natural resources coupled with a disastrous series of economic policy choices and deteriorating democratic governance. Clearly, commodity-strong economies resulted in some of the world's highest advances in gdp.

Three of the world's ten fastest-growing economies are currently African7, with some having been at times the fastest growing in the world. Equatorial Guinea, for example, reached 75 percent growth in 2004 because of oil production. Angola, Ethiopia, Rwanda and Mozambique have regularly equalled or even exceeded a gdp of 10 percent, and these examples are likely to persist in future. The International Monetary Fund estimates that gdp in the 47 countries of sub-

Saharan Africa rose 5 percent in 2010 – pretty impressive given the global recession.

Africa's gdp will increase to approximately $2.6 trillion in 2015, a rise of almost a trillion dollars in only seven years. Economic growth will expand by an annual average real rate of 5.5 percent each year through the five-year period. The surge will be led by rapidly expanding economies like Ethiopia, Mozambique, Tanzania and Zambia but, importantly, will be underpinned by robust growth in large regional heavyweights like Egypt (assuming a peaceful democratic transition), Angola, Kenya and Nigeria. More meaningful economic


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recoveries in advanced economies in the later part of the forecast period will support economic advancements in commodity exporters. The next five years will manifest further financial market deepening, and currency and asset appreciation across Africa.

Africa's total trade will maintain recent trend growth, expanding by an impressive average of 17 percent per year. A number of structural and policy-induced improvements will serve to maintain Africa's improved position in world trade. Africa's share of global trade is in line to almost double, from 3.2 percent currently to 6 percent in 2015, clearly reversing its historically marginalised position. It is important to recognize that Africa's share of world trade bottomed at 1.7 percent in 2001, then doubled to 3.2 percent in 2009, and is now expected to double again between 2010 and 201510.

Oil in Africa has created 'wealth spots' where a few countries have exceeded their neighbours in affluence. As the potential for peak oil looms in the mature oil-exporting nations of the world, expect some similar growth spikes in countries like Ghana where new deposits have been found. African oil discoveries are likely to be a driving force for major growth as the industrialised world turns its attention to some of the planet's last untapped reserves. In Ghana's case, its more transparent democracy can ensure that enhanced commodity revenues (estimated initially at around $1 billion a year) place the country firmly on the global map, thereby raising its voice in international forums and on issues of global concern.

What these countries often lack in distributing their wealth to their citizens, they make up in developing a power dividend. They attract the attention of large corporates and countries alike. They become the focus of diplomatic initiatives from countries in need of shoring up their own supply of scarce natural resources. A democratic dividend won't necessarily be the defining positive spin-off from impressive gdp results, but rather an enhanced global attractiveness (and assertiveness) for foreign investment and elite-based agreements – even if only partial lip service is paid to democratic accountability and transparency. Expect smaller commodity-rich African states to become global household names, their presidents courted from Beijing to Brasilia, even though riches and rising gdps are no immediate panacea for ending corrupt governance.

So despite the continuation of a battle to enhance democracy, a key feature of the future will be a rise in overall wealth of Africans. Already, if one takes an economic measurement like Gross National Income per capita (gnp/per capita), the average African is wealthier than his Indian

counterparts11. If placed as a single market, Africa would already be the tenth largest on earth. Similarly, the populations of Africa's wealthiest 12 countries based on the same gnp/per capita matrix are already wealthier than the average Chinese.

**Global business looks to African consumers**

With these levels of economic advancement, Africa will soon be courted by global corporates from more mature developed markets. With profits static at best and likely to remain so following the effects of the global financial crisis, foreign companies will be seeking to tap into this hitherto virgin market. With 900 million consumers on the continent, the problems and pitfalls in doing business in Africa are quickly being outweighed by the promise of a market clamouring for goods and services.

The signs are already there. Foreign service providers in the retail, telecommunications and financial services sector are fast realising that Africa holds the key to new consumers and will provide an ever increasing component of bottom-line profit as spending cuts, reduced retirement funds and decreased social benefits take a toll in the West. In Kenya, a battle between units of Britain's Vodafone Group and India's Bharti Airtel has driven down the consumer's cost of a text message to just a few cents. Yum Brands of the United States recently said it wants to double its kfc outlets on the continent over the next few years to 1 20013. Indeed, the rate of return on foreign direct investment in Africa is higher than in other developing countries, outstripping even Asia.

The desire by US consumer giant Wal-Mart to enter Africa via a $2 billion controlling stake (51 percent) in South Africa's Massmart is one of the most noteworthy steps thus far in the recognition of the African consumer as a global player to come. This is all the more significant because Wal-Mart has historically had little or no exposure in Africa.

Wal-Mart's growth in the United States is slowing. In its 2010 annual report, the company reported net sales of about $260 billion in the United States, which is a 1.1 percent increase from net sales in 2009. In contrast, us net sales in 2009 increased 6.9 percent from the year before14. Looking to developing markets has long been a feature of Wal-Mart's Chinese expansion, but Africa always seemed a rather distant – and perhaps feared – alternative.

**Africa's total trade will maintain recent trend growth, expanding by an impressive average of 17 percent per year.**

While in the medium term African consumers may become the big winners because Wal-Mart has impressive if not controversial global expertise in bringing low-cost basics to lower-end markets, another big winner will be South African business. Long seen as service leaders on the continent, the plethora of outstanding corporate entities in critical service industries are likely to make South African companies the flavour of the decade and ripe for foreign takeovers. We can therefore expect a battle between the country's forthright, often aggressive trade unions and private capital keen on becoming part of a global enterprise. It is worth noting what all the fuss is about statistically. For decades, the African consumer has been dormant, struggling to survive. Now, from Lusaka to Abuja, demand for commercial property developments and new shopping precincts can no longer be ignored. The African consumer is coming of age both in numbers and in spending power capacity.

Some 40 percent of Africans now live in urban areas, a figure that approximates that of China. Suddenly, the vision of poor Africans barely eking out a dollar-a-day living is shifting. For the first time, some 130 million Africans are going to enjoy a discretionary income to spend on goods and services beyond the bare essentials. McKinsey suggests that middle-income earners in Africa have now exceeded the numbers of their Indian counterparts. It predicts consumer spending will reach $1.4 trillion in 2020, from about $860 billion in 2008.15 African absolute growth in consumption is now greater than in India or Brazil. Add the fact that half of the continent's population is under the age of 24 and you can see that they are likely to create huge purchasing demands in future.

Africa's gdp per capita stands at $1 630 in 2010; by 2015 this will have increased to $2 200 at a real annual growth rate of 5.7 percent. This increase in gdp per capita will result in a 30 percent rise in the continent's spending power. Take a projected future middle class of some half a billion people, together with almost a billion to be added in population growth over the next 40 years, and you have a fine recipe for consumer growth.

If these trends aren't enough, then look at the creation of wealth in the new expanding urban centres. In the next decade alone, Africa's top 18 cities will have a spending power of some $1.3 trillion. Africa now has 52 cities with more than a million residents in each, more than double the number in 1990 and equivalent to Western Europe today.

Private final consumption in Africa's ten largest economies will more than double – from around $730 billion today to over $1.5 trillion – in the next five years alone.

**An agricultural revolution**

Foreign investment in Africa clearly has a positive effect on the corporate bottom-line and it will also extend affordable services to millions who had little chance of access before. But there is another much more dangerous trend that Africa has yet to acknowledge adequately. A key global trend has been the growth of middle classes across the developing world (outside of Africa) and the demands on agriculture or food security for these millions. With limited arable land in China or Saudi Arabia, for example, these and other countries are looking to African agriculture as a panacea for their looming problems.

For years, Africa has grappled with the potential to create a 'green revolution'. Developing high-yield crops, training experts in agricultural science, increasing government budgets for the sector and building agricultural markets have only been partially successful. The domestic approach has had patchy success. Now the influence of foreign interest threatens to undermine this further.

Since 2007, 20 million hectares of farmland in Africa – an area as big as France's sprawling farmland and worth $20–30 billion – have already been quietly handed over to capital-exporting countries such as Saudi Arabia, Kuwait and China. They buy or lease millions of acres to grow staple crops or biofuels and ship them home. The countries doing the selling are some of the world's poorest and least stable, including Sudan, Ethiopia and Congo.

Although exact figures are often in dispute, reports suggest that up to 50 million hectares of land – more than double the size of the United Kingdom – have been acquired or are currently in the process of being negotiated by foreign governments and wealthy investors working with state subsidies.

What is significant about these deals is their scale. In Sudan alone, South Korea has signed deals for 690 000 hectares, the United Arab Emirates for 400 000 hectares, and Egypt has secured a similar deal to grow wheat. An official in Sudan says his country will set aside for Arab governments roughly a fifth of the cultivated land in Africa's largest country, traditionally known as the breadbasket of the Arab world.

It is not just Gulf States that are buying up farms. China secured the right to grow palm oil for biofuel on 2.8 million hectares of Congo, which would be the world's largest palm-oil plantation. It is negotiating to grow biofuels on two million hectares in Zambia, a country where Chinese farms are said to produce a quarter of the eggs sold in the capital, Lusaka.

As food security becomes more critical, expect nations with deep pockets and parallel sovereign funds to be signing deals. Unless African leaders leverage their land and enter into mutually beneficial agreements, this trend is likely to cause long-term economic damage to the continent.

Estimates for 2010 indicate that almost a million Chinese farm labourers are already working on African soil. With a reluctance to utilise local labour, Chinese firms aren't only denying Africans a job, but these land deals are being kept 'in-house' with any skills transfer from the Chinese to Africans somewhat unlikely.

A second trend is that foreign buyers are reducing the supply of arable land for domestic farmers. In the Gambella region of Ethiopia, Indian companies have been on a spending spree. As a result, displaced locals now find themselves without any recourse to land and seem destined,if they are lucky, simply to work for the foreign entity. In the Sudan, communal lands are under attack from commodity traders. The size and importance of these transactions can lead to state fragmentation, while dispossession can contribute to sustained domestic political strife.

We can therefore expect to see a divisive edge to foreign land acquisition on the continent. As food security becomes a household concern – just as global warming has become – then a multitude of foreign players will be seeking out additional tracts of land. A key trend for Africa will be the interest shown by international agri-business, investment banks, hedge funds, commodity traders as well as pension funds, foundations and powerful individuals keen to secure the potential of an attractive rate of return. Farmland in Africa is giving a 25 percent return a year – pretty attractive for any fund strategist or investor seeking a return in a tight rates environment.

Of course, Africa can benefit if technology used by foreign companies to increase crop yields can be employed beyond the foreign-owned land for domestic food production. This will be crucial in avoiding the destruction of domestic farming at the expense of foreign land deals.

Similarly, the displacement of existing farmers will need to be addressed through providing adequate compensation from the state. Together with the much-vaunted state spending on agri-business in general, can Africa take these trends, as threatening as they are, and perhaps develop a positive outcome?

**Since 2007, 20 million hectares of farmland in Africa – an area as big as France's sprawling farmland and worth $20–30 billion – have already been quietly handed over to capital-exporting countries such as Saudi Arabia, Kuwait and China.**

# CONFIDENCE ACCOUNTING: A PROPOSAL

## Executive summary

The use of a single number for accounting terms such as profit or balance sheet value is clear and simple, but wrong. 'Confidence Accounting' is a term for a proposal to use distributions rather than discrete values in accounting and auditing. The term was coined by Long Finance proponents as part of a shift from using specific values in accounts to the use of interval estimates and confidence levels, making accounting and auditing practices more closely resemble other measurement sciences.

In a world of Confidence Accounting, the end results of audits would be presentations of distributions for major entries in the profit and loss, balance sheet and cash flow statements. Accountants would present uncertainties as ranges to investors and managers, rather than as discrete numbers: 'the balance sheet of Company X is worth £Y, plus or minus £Z, and we are 95% confident that it falls within this range'. Auditors would verify these ranges. This would move auditing towards 'measurement science', in line with the way most laboratories report measurements. Audited accounts would be presented in a probabilistic manner, showing ranges. Over time, investors could evaluate an audit firm on the basis of how closely historic accounts fell within the stated ranges. Such evaluations might conclude that firms were too lax or too strict. Clients would be able to make their own decisions about audit quality on the basis of historic evidence rather than having to rely on assertions of quality.

In 2011, ACCA (the Association of Chartered Certified Accountants) and the Chartered Institute of Securities & Investment (CISI) commissioned the Long Finance community, led by Z/Yen Group Limited (Z/Yen), to provide a proposal setting out the arguments for Confidence Accounting and two worked examples of how audited accounts prepared under Confidence Accounting for two hypothetical firms might look, one for a bank (Banco-UK Plc) and one for a professional services firm (Pro-Co UK Ltd). The two worked examples are presented in the first two appendices.

The proposed benefits of Confidence Accounting include a fairer representation of financial results, shorter and fewer footnotes, measurable audit quality and a mitigation of mark-to-market perturbations. The worked examples show that Confidence Accounting:

- is workable and can be applied to banks and professional services firms, and probably most major firms in other industries
- does result in a fairer representation of financial results
- could reduce the size and complexity of annual reports, in the case of Royal Bank of Scotland, for instance, by between 29 and 99 pages out of 446 pages (2010)
- probably provides a sound basis for measuring audit quality
- probably provides a basis for beginning to reconcile balance sheet valuation and market value, and
- certainly highlights the need for clarity between uncertainty over valuation during the period of going concern versus risk about changes in the state of the economic climate.

The worked examples raised issues of defining 'going concern', mark-to-market valuation and identifying discontinuous environmental change. Those involved in future Confidence Accounting discussions may find that this approach helps to reconcile some of these problems. The authors feel that Confidence Accounting would enhance existing financial reporting. They envisage that Confidence Accounting would be presented alongside traditional accounts, either as part of the notes or as a set of proforma accounts.

### 1. Origins

This report argues that the use of a deterministic numeric paradigm in accounting and auditing may well be the root cause of many current problems. Accounting methods could use probabilistic inputs and show resultant outputs as distributions of

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numbers. Accounting and auditing have been subject to much criticism over the past two decades. During the dot.com era, some accountants subjected themselves to needless criticism by putting forward business plans based on deterministic numbers that were incapable of showing the all-too-frequent reality: a small chance of making lots of money and a large chance of losing money. Had accountants submitted plans that showed the distributions, they might well have served investors better, reduced unreasonable expectations and minimised criticism of the accountants' role. Instead, they presented single numbers or played with high, medium or low forecasts to calculate 'average' forecasts, none of which contained the possibility of winding up the business or conversely of wild success.

Criticism perhaps reached a peak in the early 2000s after a series of telecommunications and Internet company failures, coupled with Enron's collapse. More criticism has followed the financial crises since 2007. These crises have been systemic failures, where interactions among banks, rating agencies, regulators, governments, financial instruments, and auditors mattered more than the specific behaviour of a particular actor. Still, as important actors, it is incumbent on accounting professionals to explore how auditing and accounting could be improved.

Something akin to Confidence Accounting was raised in 1977 in a letter to the New York Times by Professor Joshua Ronen of New York University's Stern School: 'The myth of certainty, with its accounting for the past, holds the accounting profession to a single number'. In the 1990s and early 2000s, Mainelli and Harris used the term 'Stochastic Accounting' (Mainelli and Harris 2002). In the mid 2000s the term 'Confidence Accounting' was coined by Long Finance (www.longfinance.net) proponents as part of a shift to interval estimates and confidence levels, making accounting and auditing more closely resemble other measurement sciences. In 2006 Gresham College held a symposium in conjunction with New York University, 'Reforming Auditing – Incremental Change or Radical Action?', with Professor Ronen, where the connection to Ronen's earlier thoughts was made.

As Paul Moxey of ACCA observes, 'If auditors practise risk-based auditing, then why can't we see the odds they face?' This simple question raises a number of concerns about

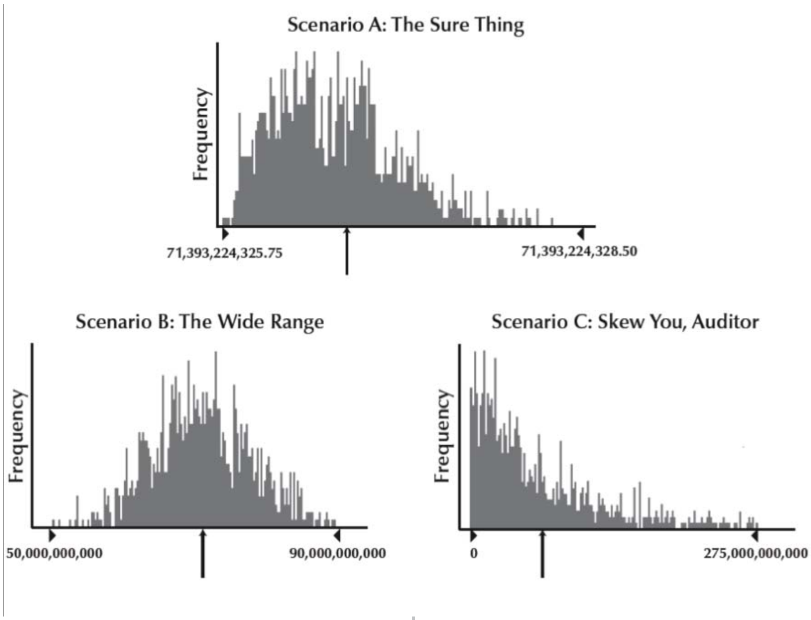
**The use of a deterministic numeric paradigm in accounting and auditing may well be the root cause of many current problems. Accounting methods could use probabilistic inputs and show resultant outputs as distributions of numbers.**

the approach to financial statements and auditing by today's accountants. 'Balancing the odds' might well give a truer and fairer picture of accounting than traditional ways of 'balancing the books'. Chenoweth notes that News Corporation reported its profits for 1987 as Aus$364.364 million, 1988 as Aus$464.464 million, 1989 as Aus$496.496 million, 1990 as Aus$282.282 million, 1991 as Aus$391.391 million, and 1992 as Aus$530.530 million, after which it moved to rounded millions. As he queries, 'If this accounting team is so confident that they can make the minor numbers in a profit report say anything they want, then what does this say about the big numbers the company was reporting?' (Chenoweth 2002: 302)

The uncomfortable truth is that accountants have quite a bit of influence over the final number. When Global MegaCorp states its assets as £71,393,224,327 we know this number is a fiction. This is an estimate of the mean of assets but the distribution of values is not actually available to allow the accounts user to know more. Realising the obvious absurdity and statistical improbability of purporting to know a huge corporation's assets to the penny, accounting conventions call for accountants to round things off, but we still do not have an idea of the range of the distribution. One number alone is sought to describe complex distributions. The three frequency charts below (Figure 1.1) all provide the same mean for assets: £71,393,224,327, under today's deterministic, single-number paradigm. In fact, the distribution of possible assets has a very different shape in each of the three scenarios. Anywhere accountants need to build a complicated valuation model, they should probably be considering presentation of the model in a probabilistic way.

**In the mid 2000s the term 'Confidence Accounting' was coined by Long Finance (www.longfinance.net) proponents as part of a shift to interval estimates and confidence levels, making accounting and auditing more closely resemble other measurement sciences.**

Figure 1.1: Three scenarios – assets exactly £71,393,224,327




Scenario A has an insignificant range of possible outcomes. The accountant is grappling with rounding differences of pennies – this is immaterial to the auditor. Scenario B has an unbelievably large range normally distributed around the mean. The accountant is grappling with significant uncertainties when computing assets. Scenario C is heavily skewed, with the most likely outcome being significantly lower assets than the mean outcome. In some respects, spurious precision creates instability by making people seek explanations for movements that were well within expected outcomes if the accounts had been presented more appropriately.

The financial crises since 2007 certainly brought renewed attention to the quality and value of audit work. The audited balance sheets and going-concern statements for many major financial firms over this period were clearly questionable. Virtually all the major financial firms were audited by the Big Four. There was no discernible dissension among the Big Four about the manner or methodology of financial audits. Audit Policy: Lessons from the Crisis was published by the European Commission in October 2010. The report pointed to the importance of improving audits to enhance financial stability, questioning how banks could fail just months after successfully passing through audits. This has prompted issues related to Confidence Accounting. Andrew G. Haldane, executive director, Financial Stability and member of the Financial Policy Committee at the Bank of England noted:

*For perhaps the first time, it [Proposed Regulatory Prudent Valuation Return, published in December 2011] provides confidence intervals around banks' balance sheets – what some have called 'confidence accounting'. The stage is now hopefully set for such principles to be rolled out across Europe. For example, the European Banking Authority (EBA) is developing binding technical standards on a prudent valuation methodology by end- 2012. ('Accounting for Bank Uncertainty', speech given at the 'Information for Better Markets' conference, Institute of Chartered Accountants in England and Wales, London, 19 December 2011)*

It is instructive to dwell for a moment on the relationship of auditing to accounting:

*The relationship of auditing to accounting is close, yet their natures are very different; they are business associates, not parent and child. Accounting includes the collection, classification, summarization, and communication of financial data; it involves the measurement and communication of business events and conditions as they affect and represent a given enterprise or other entity. The task of accounting is to reduce a tremendous mass of detailed information to manageable and understandable proportions. Auditing does none of these things. Auditing must consider business events and conditions too, but it does not have the task of measuring or communicating them. Its task is* *to review the measurements and communications of accounting for propriety. Auditing is analytical, not constructive; it is critical, investigative, concerned with the basis for accounting measurements and assertions. Auditing emphasizes proof, the support for financial statements and data. Thus, auditing has its principal roots, not in accounting, which it reviews, but in logic on which it leans heavily for ideas and methods. (Mautz and Sharaf 1961: 14)*

Accounting constructs, assembling information that helps others form a view. Auditing begins where accounting ends. Auditing critiques, expressing an independent opinion on accounts and verifying their freedom from misrepresentation and errors of principle. Suggestions for reform to audit are many and varied, trying to address a variety of problems – audit firm market concentration, lack of independence, principal–agent problems, lack of indemnity, relationships with regulators, mark-to-market rules. Since 2007, Confidence Accounting has also received more attention from theorists and regulators.

Confidence Accounting questions the basis of contemporary audit and accounting in terms of measurement science, or metrology. Metrology deals with the fact that nearly all measurements are inexact. Inexactness is often stated as 'measurement uncertainty' or 'error'. Scientific measurement specifies accuracy and precision. Accuracy is a matter of how closely a stated value is to the actual value. Precision means how likely it is that repeated measurements will produce the same results. A measurement system can be accurate but not precise, precise but not accurate, neither, or both. If your bathroom scale contains a systematic error, then increasing sample size by weighing yourself more often increases precision but not accuracy. If your bathroom scale is very accurate but your weight tends to fluctuate wildly, today's spurious accuracy is not a good guide to your weight, eg for safety purposes. A faulty scale can give a precise weight with a constant error.

Scientists view measurement as a process that produces a range. Scientists and engineers express a measurement as X, with a surrounding interval. There is a big difference between point estimation and interval estimation. Accounts provide point estimates, scientists intervals. For example, physical scientists report X ± Y. Social scientists report interval estimates for an election poll and state how confident they are in that the actual value resides in the interval. Statistical terms, such as mean, mode, median, deviation, or skew, are common terms to describe a measurement distribution's 'look and feel'. The key point is that scientists are trying to express characteristics of a distribution, not a single point. This report argues that financial measurement should be little different from scientific measurement.

**2. Concept**

Confidence Accounting is a term that covers the use of distributions rather than discrete values in auditing and accounting. In a world of Confidence Accounting, the end results of audits would be presentations of distributions for major entries in the profit and loss, balance sheet and cash flow statements. The value of freehold land in a balance sheet might be stated as an interval, £150,000,000 ± 45,000,000, perhaps recognising a wide range of interesting properties and the illiquidity of property holdings. Next to each value would be confirmation of the confidence level, eg, 95% confidence that another audit would have produced a value within that range. Finally, there would be a picture, a histogram of the distribution, so people can see the shape of things. The proposed benefits of Confidence Accounting include a fairer representation of financial results, fewer and shorter footnotes, measurable audit quality and a mitigation of mark-to-market perturbations.

The banker and financial researcher, John Abbink, relates a story about a banking analyst who had an interview with the CFO of a large European bank. As they were chatting about the accuracy of the financial results, the CFO picked up a copy of the bank's annual report and opened it to the P&L. The CFO ran his finger down the accounts till he reached the bottom and said, 'Ah, yes, Dividends Paid. This number is true'. Perhaps it is, but there are numerous accounting, and thus audit, issues where a range reflects the true situation:

- capitalisation of research and development, where assessments need to be made on the likelihood of a future revenue stream
- intangible assets whose future value may fluctuate markedly, such as long-term contracts, patents, trademarks and licensing agreements, must be recognised, valued, and amortised, yet this may not include all intangible assets – only intangible assets that meet certain criteria according to SFAS 141
- administering pensions and health-care obligations, where actuarial assumptions become crucial
- executive stock options, which may, or may not, be exercised under certain conditions
- off balance sheet items, which may have some effect
- non-cash tangible assets are not even straightforward to value.

The common thread is that the assessment of asset value and revenue requires an assessment of future probabilities, not certainties. Even in less contentious aspects of accounting similar concerns about future probabilities are involved. For example:

- inventory valuation relies on estimates of future sales and prices
- work-in-progress needs careful handling of divergent assessments of earned value
- numerous measures are marked-to-market, but through devices such as an annual average, eg interest calculations, foreign-exchange movements, which could have different results with different assumptions
- using asset valuations every few years on 'big ticket' items such as property assumes inherent stability in prices, yet even supertanker sales prices can fluctuate wildly and rapidly
- all setting of reserves and provisions, eg bad debts, requires estimates of future outcomes.

The search for a single number is intertwined with debates of historic, current or fair value. Accountants and auditors seek guidance from accounting standards, sometimes conflicting guidance, all in pursuit of a single number to describe a distribution. Accountancy's theoretical framework assumes a deterministic system that outputs a single number. Accountants and auditors have different roles, but both draw on virtually the same intellectual frameworks and regulation. In bookkeeping, the focus on an exact single number is important. After all, what is the point of trying to 'balance the books' if 'close enough' is adequate? Without the discipline of 'balancing the books', lower-level mistakes would be missed and misunderstandings would not be resolved. Higher-level interpretations are, however, probabilistic, ie inputs into a higher-level figure such as turnover include many sorts of estimate. Not everything can, or will, balance. Inputs are probabilities and outputs are distributions. At a low level, bookkeeping remains, but the interpretation and presentation of financial information needs to shift to distributions.

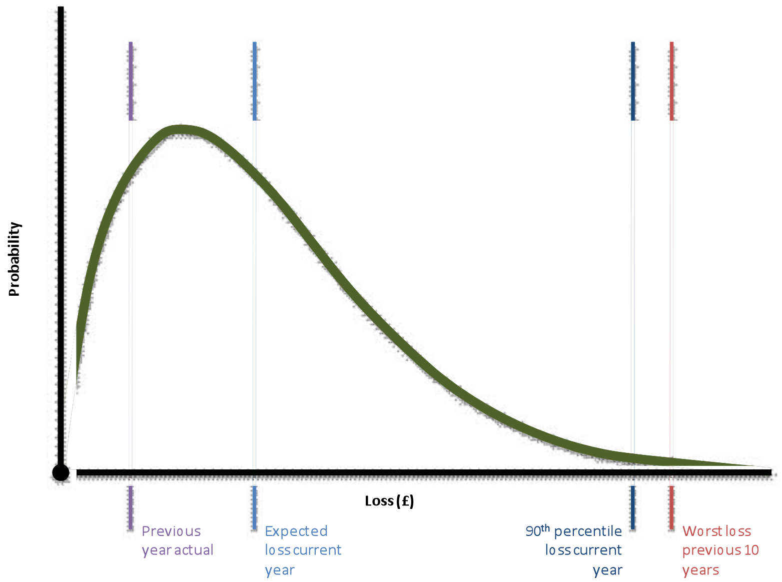
This is not a proposal that traditional accounting should stop or that Confidence Accounting should take its place for all reporting entities. Rather, Confidence Accounting could provide additional and valuable information that is either not in, or difficult to see in, the accounts of some types of entity, not least those in banking or insurance. Initially, at any rate, the authors envisage that Confidence Accounting would be presented alongside traditional accounts, either as part of the notes or as a set of proforma accounts. Confidence Accounting should be evolutionary not revolutionary.

**PRESENTATION**

If outputs from Confidence Accounting are distributions, then they should materially affect the way financial statements look and feel. The structure of financial statements would remain similar to the three current, primary statements, ie balance sheet, income statement (profit and loss) and statement of cash flows. The accountant would, however, present three distributions as histograms for net assets, profit and cash. These distributions would be built up in turn from underlying distributions, eg in the case of assets – current assets, property, plant, equipment, investments, etc. A standardised reporting format might specify the presentation of the distribution and conventions on representing confidence levels, quartiles or standard deviations.

Standard representations of distribution histograms will have to be specified. Standards for distribution function measures will have to be specified as well, to ensure accurate presentation. Graphical disclosure is important for Confidence Accounting. By showing the four most relevant data elements (previous year's actual loss, current year's expected loss, current year's 90th percentile, and the worst loss over the previous 10 years) most users will be able to make informed judgements about the degree of prudence used in the preparation of the accounts. Assumptions can be easily compared across a sector and with external views, eg those of economic forecasters, rating agencies and equity analysts. Hu (2011) points out that there could be benefits from more comparable practices among auditors and credit rating agencies, allowing each to benefit. Although there would be a substantial volume of disclosures, the format is simple and can be applied consistently (see Figure 2.1)

Figure 2.1: Sample portfolio disclosure




There will be some difficulties acquiring information to determine distributions. Many firms have too few data to give any statistical validity to a distribution. Much can be done to provide data through intra-firm comparisons, benchmarking or auditor input, eg a statement about what constitutes a standard actuarial curve for bad debts in a given business sector. As it is the directors who must prepare annual financial statements that give a true and fair view of the state of affairs, in many cases, they will have to provide a qualitative distribution curve (quite a bit of software supports homemade distribution curves). If this seems artificial, in fact it is quite the opposite. Which is worse, forcing directors to a single number, such as a guesstimated mean when none exists, or asking them to specify their views of the likely range of outcomes?

Some organisations will want to provide extremely wide ranges in their distributions. Where this reflects reality, so be it. In other cases managers will hope that a wide range removes some responsibility of meeting targets. In practice, markets will punish managers who have not invested enough in gathering information to reduce uncertainty. Expect phrases such as 'Global MegaCorp was punished today on release of its results, with a range for ROA of over 15% in an industry where 5% is the norm, much of this attributed to overseas licence problems…'.

Risk-based auditing is another area where Confidence Accounting might help. Some accountants would claim that things have moved on. Auditors will point out that they already use probabilistic techniques in establishing sample sizes. Without getting into a detailed debate on evidence in their working practices, eg whether auditors perform Monte Carlo simulations to establish sensitivities, the crucial evidence of successful Confidence Accounting would be the presentation of audited accounts in a probabilistic manner. Disclosure of materiality would possibly be a sensible accompaniment to a move towards Confidence Accounting. Beneath that evidence one would expect to see methods that established input distributions, determined their interactions (eg sensitivity analysis, Monte Carlo simulations and some statistical calculations) and presented their impact in meaningful statements.

Over a decade ago a large international accountancy firm proudly introduced a risk-based, audit software tool. Despite a lot of marketing press about a 'risk-based approach to audit' and 'advanced techniques', risks were scored on a 'high-medium-low' scale, with not a number in sight. This was not an example of a sophisticated user interface because behind the scenes 'high-medium-low' was converted into '3-2-1' and then added and averaged in a travesty of probabilistic risk. The firm had no mechanism to apply anything other than a deterministic risk rating, hence it was unable to incorporate a distribution of possible outcomes into its working practices.

# Beyond Regulatory Compliance

It is commendable to obey the commandment "thou shall not kill"; but it is even more virtuous to add love when abstaining from the killing. This is the only way to derive maximum benefit from obedience; and this is the overarching principle of compliance.

**Business Regulatory Environment in Malawi**

Depending on the type of business you are in, there are laws and regulations that are applicable to each establishment. Generally, there are laws that apply to all forms of businesses, such as Company Law, Labour Law, Consumer Rights, and various Health & Safety and Environmental Requirements, among others.

There are also industry-oriented regulations such as the Reserve Bank of Malawi directives and requirements for financial institutions; Malawi Bureau of Standards for manufacturers and providers of consumer goods and services; Copyright Society of Malawi which administers the Copyright Law and rights for authors, composers, publishers etc.

**Comparative Regional and Global Regulatory Climates**

The World Bank's Country Policy and Institutional Assessment "CPIA" business regulatory environment rating (1=low to 6=high) assesses the extent to which the legal, regulatory, and policy environments help or hinder private businesses in investing, creating jobs, and becoming more productive. If this index is anything to go by, the Malawi regulatory environment is rated around 3 out of 6, which doesn't look so terrible. However, when compared to the best regulated African Country, Ghana, which is rated at 4.5 out of 6.0 and Number 2 globally, it becomes evident that compliance in the current climate should not be an onerous responsibility. Globally, Georgia is the most regulated country boasting of a 5.5 out of 6.0 rating. However, since no corporation enjoys doing business in a low regulated environment, regarding 'ease-of-doing-business' in Malawi, the World Bank rates Malawi at 149 out of 189 countries globally, as of the year 2014.

The underlying matter here is that if organizations can quickly measure-up with the current regulatory environment, it will be much easier to transition our practices into a more stringent environment as the Malawian Economy grows, and regulators start to exercise higher-level of control. Below is a snapshot of the CPIA rating considerations:

**Georgia is the most regulated country boasting of a 5.5 out of 6.0 rating.**

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The ultimate benefit is functioning in a productive and efficient environment, in which all elements work together toward a common strategy of preventing and detecting compliance irregularities.

A. Economic Management
1.Macroeconomic Management
2. Fiscal Policy
3. Debt Policy
B. Structural Policies
4. Trade
5. Financial Sector
6. Business Regulatory Environment
C. Policies for Social Inclusion/Equity
7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability
D. Public Sector Management and Institutions
12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16.Transparency, Accountability, and Corruption in the Public Sector

The above CPIA rating considerations help to understand that lower rating implies the inadequacy of mechanisms to enforce globally accepted principles governing the four areas (A to D). Presumably, Malawi already has volumes of rules, regulations, guidelines and recommendations for all these areas; unfortunately the rating strictly focuses on the implementation part of the process.

**Rules vs Guidance**
As we start to get keyed up about compliance and delving deeper into the topic, it is crucial to appreciate the divide between rules and guidance, and to be able to appreciate the necessity of both. Every well crafted regulation platform includes rules that must be adhered to, where black is black and white is white (no two-ways about it), but also contain guidance initiatives that offer best practices that are not mandatory but have embedded benefits for the businesses. For example, the Corporate Governance Code for Malawi recommends that no board should have less than two non-executive directors. Though companies may not be penalized for not maintaining sufficient number of independent directors, it remains a fact that boards that have adequate independent oversight are much more effective than the ones that are not.

Cognizant of the above, every compliance function needs to develop compliance matrices that clearly separate rules from guidance and ensure that rules are adhered to at all cost. Guidance implementation needs to first be weighed against cost and benefits; but also needs to be highly considered in order to be consistent with best-in-class practices. The ultimate responsibility of identifying what is best for the entity is with the Board.

**Benefits of Compliance**
It is a challenge to effectively make a business case explaining how compliance translates into bottom-line financial benefits for the organization. The most crucial element is how far we can move away from the usual tedious process of completing compliance registers and with the corresponding reporting to regulatory authorities, and look into equally compelling operational opportunities.
One of the proposed approaches to reaping tangible benefits through compliance is to look at an integrated approach to governance, risk and compliance as this can assist management in making the critical connection between strong compliance processes and tangible business results in areas such as revenue enhancement, reputation and brand protection, customer attraction and retention, higher profitability/lower costs, improved workforce performance, asset protection and so on. Essentially, these are many of the key attributes of an effectively run business, and remarkably emanating from the forces of an effective compliance framework.

Compliance provides benefits beyond the obvious. There are intrinsic benefits to compliance in addition to avoiding fines and penalties. Companies improve security, communications, and overall business practices. Being cognizant that the crucial factor is the impact on the business' bottom line, a compelling case for integrated governance, risk and compliance as a valuable enabler of the corporate strategy can always be stated. According to best practice advisory recommendations, this involves gaining an understanding of current costs, identifying surpluses, and identifying gaps and unnecessary complexities.

The ultimate benefit is functioning in a productive and efficient environment, in which all elements work together toward a common strategy of preventing and detecting compliance irregularities. Conspicuously, there are also potential tangible benefits that directly connect with other issues of importance to stakeholders (the important elements mentioned earlier—e.g., revenue, reputational protection, customer attraction).

### Steps towards Compliance

Before embarking on a value-addition journey of compliance it is important to take stock of all important matters; as the saying goes, "no king goes into battle before counting his horses." This is where a compliance program comes in.

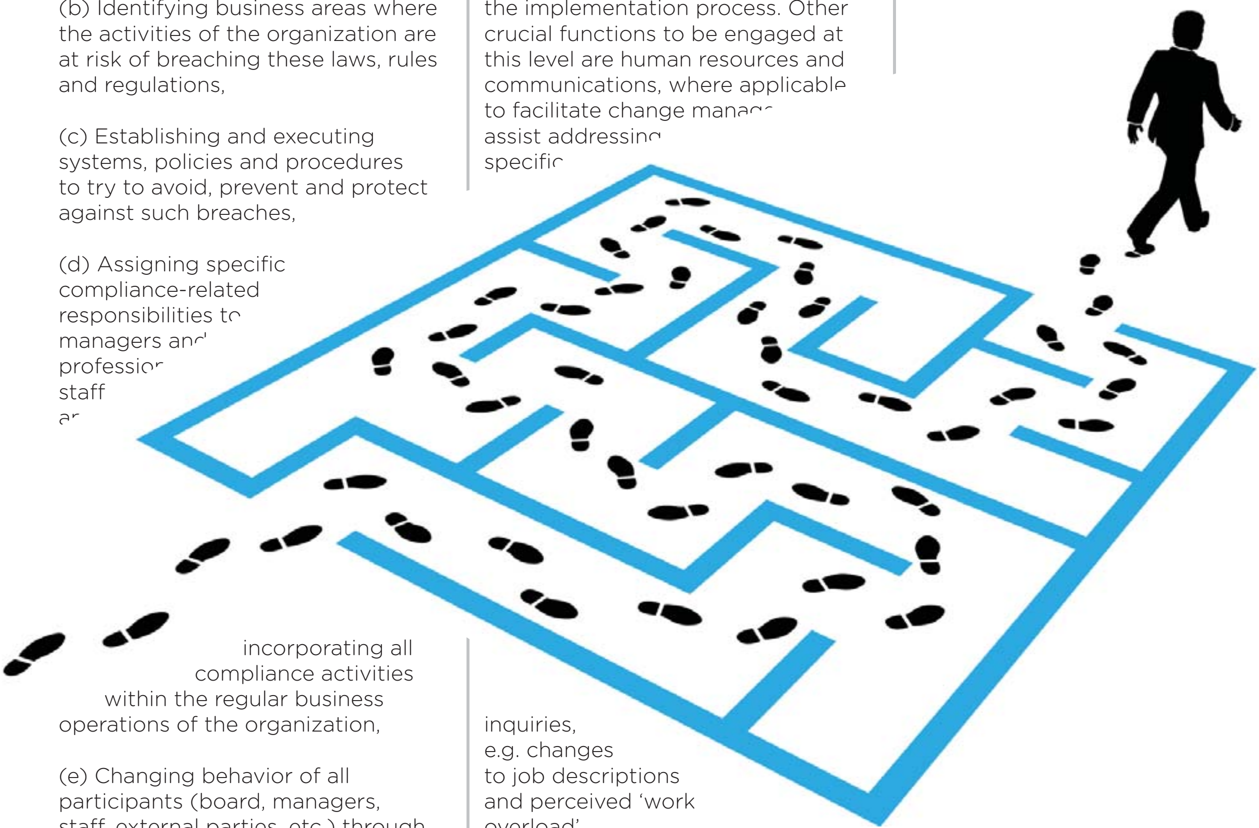
This program refers to an organization's management plan for conducting all of its activities within the frameworks of law, rules and regulations. A program based on best practices usually includes the following procedures:

(a) Identifying the laws, rules and regulations that apply to the activities of the organization,

(b) Identifying business areas where the activities of the organization are at risk of breaching these laws, rules and regulations,

(c) Establishing and executing systems, policies and procedures to try to avoid, prevent and protect against such breaches,

(d) Assigning specific compliance-related responsibilities tc managers anc professior staff ar



incorporating all compliance activities within the regular business operations of the organization,

(e) Changing behavior of all participants (board, managers, staff, external parties, etc.) through communication, education, training and coaching where this is necessary,

(f) Monitoring and reporting all compliance-related issues, and

(g) Reviewing, auditing and improving the whole compliance program and effort.

### Developing an Entity-wide Culture of Compliance

Just like any other enterprise-wide initiative, regulatory compliance requires to be embedded into the culture of the organization if any tangible benefits are to be realized. The best way to achieve this is by devising an intelligent mechanism that brings compliance into the open, entrenched into all business processes, with clearly communicated responsibility shared among all employees. The functional leader will need a buy-in from peer-executives, departmental heads and, most importantly, the CEO and the Board of Directors.

It is noble to acknowledge that changing organizational culture, or indeed proposing new shifts within the existing platform, can be very daunting. This is why the backing or blessing of the CEO and the Board can go a long way to ease the implementation process. Other crucial functions to be engaged at this level are human resources and communications, where applicable to facilitate change manag assist addressing specific

inquiries, e.g. changes to job descriptions and perceived 'work overload'.

The success of cultural change will also be determined by the adequacy of training and exposure offered to relevant departmental heads, including the compliance officer. This would create an opportunity to emphasize the benefits of running an all-compliant organization. Down the road, buy-in becomes easier as benefits become more visible, and stakeholder confidence also starts to resonate across the company functions.

### Ready to Do More than Just Compliance

Being within the 'blood-stream' of business, companies must continue to fulfill the minimum regulatory requirements, but much more, to focus on making a powerful business or profitable case for doing them; and thus, developing a way of working that assists management in running the business better.

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# Strategically Positioning Accountants within Total Quality Management Programs in a Company.

In today's global competitive environment, companies are becoming "customer-driven" and making customer satisfaction an overriding priority. Customers are demanding ever improving levels of service regarding cost, quality, reliability, delivery and the choice of innovative new products. Quality has become one of the key competitive variables and this has created the need for Accountants to become more strategic and become involved in the provision of information relating to the quality of products, services and activities that produce them.

The scaling up of Total Quality Management in a company is an initiative founded on the principle that companies should design and build quality in, rather than trying to inspect it in, by focusing on the causes rather than the symptoms of poor quality. To do that, Accountants should help companies achieve their quality goals and objectives by providing a number of reports bordering on both financial as well as non financial aspects that can be used for decision making. The financial reports on quality would inform management of the total cost of quality in the entire organization so that they are able to manage it better.

Strategic as they are these days [and not bean counters as they used to be then], Accountants, must provide valuable input into the formulation of Total Quality Management [TQM] objectives. Accountants must ensure that TQM objectives are not only Specific but also Strategic in nature and also that TQM objectives are Measurable and Meaningful. Besides, TQM objectives must be Attainable and Agreed by all employees in the company as well as Realistic and Rewarding. Furthermore, that the TQM objectives are not only Time bound but also Teambuilding in the company. Again, that they are Extendable and Empowering the employees and finally that the TQM objectives are Reviewed and Rewarding to both the employees and the company. In other words, Accountants should ensure that the company comes up with TQM objectives that are SMARTER to the power two.

The financial reports that Accountants should provide comprise four categories of costs. These are: prevention costs, appraisal costs, internal failure costs and external failure costs. Prevention costs are the costs incurred in preventing the production of products that do not conform to specifications. These costs include the costs of preventative maintenance, quality engineering, quality planning and training and the other extra costs of acquiring higher quality raw materials including supplier reviews. Appraisal costs are the costs incurred to ensure that materials and products meet quality conformance standards. They include the costs of inspecting purchased parts, work in progress and finished goods, quality audits and field tests. Internal failure costs are the costs associated with materials and products that fail to meet quality standards. They include costs incurred before the product is dispatched to the customer such as the costs of scrap, repair, downtime and work stoppages caused by defects. External failure costs are the costs incurred when inferior products are delivered to customers. They include the costs of handling customer complaints, warranty replacement, repairs of returned products, forgone contribution from lost sales arising from poor quality and the costs arising from a damaged company reputation.
For management to derive maximum value from this financial report, each category of quality costs must be expressed as a percentage of sales so that comparisons can be made with previous periods and standards [in the UK quality related costs were reported to range from 5% to 15% of total sales revenue in 1985 according to Plunkett et al]. A sample of a Cost of Quality Report is shown below:

The cost of quality report can be used as an attention-directing

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## For management to derive maximum value from this financial report, each category of quality costs must be expressed as a percentage of sales so that comparisons can be made with previous periods and standards

**Cost of Quality Report for the Period...**

| Description | Amount | Sub-Total | % of Sales |
|---|---|---|---|
| | | | |
| **Prevention Costs** | | | |
| Quality training | xxx xxx | | |
| Supplier Reviews | xx xxx | | |
| Quality engineering | xx xxx | | |
| Preventative Maintenance | xx xxx | | |
| | | xxx xxx | x.x |
| **Appraisal costs** | | | |
| Inspection of materials received | xx xxx | | |
| Inspection of WIP and completed units | xxx xxx | | |
| Testing equipment | xx xxx | | |
| Quality audits | xx xxx | | |
| | | xxx xxx | x.x |
| **Internal failure costs** | | | |
| Scrap | xx xxx | | |
| Rework | xxx xxx | | |
| Downtime due to quality problems | xx xxx | | |
| Retesting | xx xxx | | |
| | | xxx xxx | x.x |
| **External failure costs** | | | |
| Returns | xxx xxx | | |
| Recalls | xxx xxx | | |
| Warranty repairs | xx xxx | | |
| Handling customer complaints | xx xxx | | |
| Forgone contribution from lost sales | xxx xxx | | |
| | | xxx xxx | xx.x |
| Grand – Totals | | xxx xxx | xx.x |

[Adapted from C. Drury, 1996]

device to make the top management of a company aware of how much is being spent on quality-related costs. The report can also draw management's attention to the possibility of reducing total quality costs by a wiser allocation of costs among the four quality categories. For instance, by spending more on the prevention costs, the amount of spending in the internal and external failure categories can be substantially reduced, and therefore total spending can be lowered. Similarly, by designing quality into the products and processes, appraisal costs can be reduced, since far less inspection is required.

Non financial reports must comprise number of defects at inspection expressed as a percentage of the number of units completed analysed by product, number of reworked units expressed as a percentage of total sales values, number of defective units delivered to customers as a percentage of total units delivered and number of customer complaints.

In conclusion, eliminating inferior quality, which can be better achieved with the assistance of the Accountant, can therefore result in substantial savings and higher revenue in a company; in the end help the companies maximize the shareholders' value, which is the primary aim of most companies.

## CRISIS MANAGEMENT LESSONS FOR ORGANIZATIONS

# MALAYSIA FLIGHT MH370

No organisation is crisis proof, and adopting an "it won't happen to me attitude"or "we will see when we get there attitude" is preparing for disaster.

**Introduction**

The Chinese Philosopher Confucius once said "Our greatest glory is not in never falling,but in rising every time we fall".Crisis situations are inevitable to an organization's life but bouncing back after a crisis and ensuring that business continues are what successful organizations do.By now we have heard of terrible crises which have faced different organizations in Malawi from Cashgate to strikes.In this age of the internet, social networks and instant messaging, a tragedy would is by millions of people in a matter of hours. No organisation is crisis proof, and adopting an "it won't happen to me attitude"or "we will see when we get there attitude" is preparing for disaster.

A crisis is any situation that threatens the integrity or reputation of a company, usually brought on by adverse or negative media attention. These situations can be any kind of legal dispute, theft, accident, fire, flood or manmade disasters. It can also be a situation where in the eyes of the media or general public a company did not react to one of the above situations in the appropriate manner. If handled correctly the damage can be minimized.

Malaysia Airlines Flight MH370 Crisis

On 7th of March, 2014 Malaysia Airlines Flight 370 lost contact with air control less than an hour after taking off. Malaysia Airlines (MAS) reported the flight missing one hour after the scheduled arrival at Beijing. The aircraft, a Boeing 777-200ER, had 12 Malaysia crew members and 227 passengers from 14 nations. Despite the unexpected circumstances, Malaysia Airlines managed to contain the situation using Crisis Communication strategies that could also help organizations in Malawi during times of crisis.

A look at Malaysia Airlines Crisis Management

**1. Communicating quickly and making the position known**

The Airlines first news release included at a minimum the, who, what, when and where of the situation. Malaysia Airlines issued a media release reporting the flight missing one hour after the scheduled arrival at Beijing. In Malawi, most organizations like to take their time to communicate about a crisis situation to stakeholders. The longer an organization takes to communicate the more speculation grows, such that the organization's crisis communications are reduced to mere fire fighting tactics.

**2. Choosing a designated spokesperson and Showing**

Sympathy in communication

Malaysia Airlines's CEO, Ahmad JauhariYahya, communicated with compassion and sincerity, not just through his words (both written and spoken), but by the way the airline took care of the grieving families.

**3. Established a crisis communications base**

The airline activated a website which is the best strategy for them as a crisis communications home base. The link to the website was predominantly displayed from their corporate website's homepage. All communications and updates regarding the crisis were being published on the website. Communications were published in English and Chinese to accommodate the different audience's touring to the website for news and updates. Most organizations have a low presence on the internet such that if a crisis arises it would be hard to communicate to the masses who are constantly

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“The longer an organization takes to communicate the more speculation grows, such that the organization’s crisis communication are reduced to a mere firefighting tactics”

sharing information on the internet.

**4. Communicating quickly using social media**

Malaysia Airlines communicated any developments through the company’s Facebook and Twitter pages, while linking back to their home base for more information.

**Crisis Management Strategies Organizations should employ**

**1. Assemble a Crisis Communication Team**

This team is essential to identify what actions should be taken. The team should be comprised of individuals who are key to the situation. They should include as a minimum the CEO, the chief of Public Relations, the Vice President, the Senior manager from the division in charge of the area that was involved in the situation that has brought about the crisis, the safety and/or security officer, the organization Lawyer, and anyone else who might be able to shed some light on the situation such as eye witnesses.Members should have inplace their roles, actions to be taken, and possible scenarios.

**2. Inform your internal audiences**

Internal staff should not be kept in the dark about the issue at hand. If the press is the only source of information for the staff, morale can be damaged and employees can become confused and hurt, especially if the incident is reported inaccurately in the press. Because of where they work, staff will be viewed as sources of information and can be the origin of leaks and rumours.

**3. Ensure that Organizations crisis management is always prepared**

A crisis situation can hit an organization at the time they least expect like in the case of Malaysia Airlines Flight MH370, therefore, You must have a prepared statement on hand that can be used to make an initial general response to the media when knowledge about the crisis first becomes known on a widespread basis or by reporters. As the crisis progresses and new information and facts become available, it is also advisable to develop prepared statements to be made by the spokesperson at the onset of any media interview, briefing or news conference.A crisis situation is always difficult especially when dealing with the media. Therefore, tough questions and rehearsals are necessary to help the spokesperson prepare.It is important, at the onset of the crisis, that the spokesperson, backup and advisors spend some time rehearsing prepared statements and answers to possible “tough” questions that may be asked by reporters. If possible, similar rehearsals should be conducted prior to each media interview, briefing or news conference. It is better to over-prepare than to be surprised by the depth of questioning by the media.

“The longer an organization takes to communicate the more speculation grows, such that the organization’s crisis communication are reduced to a mere firefighting tactics”

# ALTERNATIVE DELIVERY CHANNELS

## A Move From Brick and Mortar

Many are times commercial banks have been looked at as overcharging on commissions from their customers. At the same time the banks have been justifying their charges due to the high costs of banking as a result of the strenuous investments needed in order to secure and maximize returns for the customers' funds, and obviously also to maximize profitability for the shareholders. Banks also need to ensure there is continuity for the services they provide which requires heavy capital investment. Another aspect which is capital heavy for banks is to ensure that they have what is commonly referred to as a "place of business".

Business Services and Products mainly relying on technology are becoming the norm worldwide. It is in this light that banks worldwide (and locally) have also adopted the use of technology to introduce competitive innovations and among them is Alternative Delivery Channels (ADC) Banking.

Alternative Delivery Channels (ADC) in its simplistic definition is the innovative provision of banking services away from the conventional methods of banking or in other words banking services which can be provided away from the physical branch where there is no direct interaction with banks personnel. Examples of the services for ADC are ATMs, Mobile Banking, Internet Banking, Point of Sales and Mobile **Money Platforms.**

There are several perceived advantages to the implementation of ADC platforms both for the customer and the banks. To the customer the most important advantage is the convenience which ADC brings, the services are brought to the customer and not vice versa as it is with the conventional way. Depending on the number of users subscribed ADC will end up offering cheap services overall to the end user, directly or indirectly. Look at a case of a local Malawian who travels several kilometers just to cash a subsistence allowance or worst still to verify a balance in his or her account. The cost of travel is far much more if he was to be subscribed on a Mobile