


A question of influence

A portrait of Paul Spencer, a middle-aged man with short, light-colored hair and glasses. He is wearing a dark blue pinstriped suit jacket over a light blue shirt and a dark tie with small white polka dots. He is smiling slightly and looking towards the camera. The background is a blurred green, suggesting an outdoor setting with trees.

PAUL SPENCER RECOUNTS TO **GRAHAM BUCK** HIS PART IN MAKING THE ACT ONE OF THE MOST RESPECTED VOICES IN THE CITY AND LOOKS BACK ON A DISTINGUISHED CAREER THAT BEGAN IN BRITISH LEYLAND'S TREASURY DEPARTMENT.

PHOTOGRAPHER: ROGER HARRIS

From the early 1970s, when he worked for British Leyland's international treasury division, to his recent chairmanship of National Savings & Investments, Paul Spencer's work for the ACT spans a full four decades. During this period, he has been responsible for the finances of several blue-chip companies, including Rolls-Royce, Hanson and Royal & Sun Alliance, and held the post of president of the ACT from 1997 to 1998.

Forty years ago BL, which had just been formed through the union of the successful Leyland Motor Corporation and the ailing British Motor Holdings, was the UK's major car maker and had a sizeable treasury department, recalls Spencer, who was already refining his view on the treasurer's role.

On joining the ACT's editorial committee, he regarded his most important initial task as defining – and distinguishing between – what being a treasurer and what being an ACT member should involve. "In my view, there are two basic types of treasurer," he says. "There is the highly technical individual, and those with slightly more developed commercial instincts who can recognise just how treasury relates to the outside world. Of course, both types have many strengths. Back in that period there were many excellent technicians, and I'd include among them [ACT policy and technical director] John Grout, who was also at British Leyland at the time and was my first boss."

It was the period preceding the emergence of private equity groups as a dominant force. Conglomerates such as Hanson and Tomkins were still on the takeover trail, triggering much discussion about whether or not such acquisitions benefitted the business world and the general economy.

This trend led to the ACT and the Bank of England jointly hosting a debate on the issue which attracted 100 of "the great and the good". "Sir James Goldsmith spoke in favour of acquisition deals, while [the then chairman of ICI] Sir John Harvey-Jones put the case against." Sir James's motion was passed by a sizeable majority.

Spencer believes that the growing power of private equity during the 1990s and beyond, as conglomerates diminished, filled the gap to ensure that chairmen were steering companies in the right direction and not merely using the position as a means of lining their pockets.

"At the same time, I decided to focus on increasing the influence of the ACT in the City, as I was fortunate to have colleagues who did a great job in directing its other activities such as

education and training. My view has always been that The Treasurer and the ACT can and should serve as a unique link between corporates and the City. Although the ACT will survive, unless it is seen to act as a mouthpiece and exerts its influence it will not thrive." That influence helped the ACT persuade the Bank to set up the commercial paper market in the UK, at a time when Hanson was its biggest user on both sides of the Atlantic.

On taking up presidency of the ACT in 1997, Spencer had two major themes he was keen to further: promoting the strong links between corporates, individual treasurers, the ACT and the City, and the need to appoint more women to senior positions in treasury. "During my period at Rolls-Royce, I promoted Judith Harris-Jones to assistant treasurer and I was also delighted that Philippa Foster-Back was chosen as my successor when I stepped down from the ACT presidency," he says.

He continued his links with the association by offering mentoring work, revising the ACT's governance and then acting as prime mover in establishing an advisory board. As that board's first chairman, he had a veto in selecting who could join the board, which he deployed to ensure it comprised those who wielded influence in the City, whether or not they had taken the ACT examinations. "I was all for admitting those who embraced the theory of treasury at the highest level and would help the ACT," he says. "It goes back to my earlier remark: you need both technical and commercial treasurers.

"Today, the balance has swung more in the direction of a body there to educate rather than to create excellence. But we shouldn't lose sight of the need to maintain our influence. We'll never be the size of the ICAEW, so we must focus on punching above our weight by using our influence. It's a delicate balance."

He suggests that another vital function of the ACT is in helping treasurers develop their careers. This involves addressing the issue of why relatively few go on to become FD, chairman or chief executive, despite treasury offering "fantastic training" for these senior positions. One possibility is that the ACT's focus on technical excellence might

not allow quite enough scope for developing commercial skills.

"We're experts in understanding market risk," says Spencer. "As we entered the credit crunch, FTSE 100 companies were generally far less geared than many had feared. Treasurers managed to avoid becoming besotted with accountancy profit and instead

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looked at cash and cash management, deliberately keeping their company's gearing low. That's a huge positive and we should broadcast just how vital the treasury role is."

Outside his ACT duties, Spencer held the role of associate director and treasurer of Hanson from 1986 to 1996. It was a period of major acquisitions that culminated in the group's demerger into separate businesses. In late 1995 he was approached by Royal Insurance to be FD. On joining, he set about persuading colleagues that consolidation in the insurance industry was overdue. At the time there were five main players, all of roughly equal strength and each with a chief executive of a similar (50+) age.

Before joining as full-time FD, Spencer spent a week with the board in the US acting in an advisory role, when it was agreed to approach Sun Alliance with a merger proposal. Completion of the deal took 18 months, the resulting cost reductions totalled £235m and staff numbers were also cut by more than 5,000 – all ahead of projections.

"So the integration was a success, but as a merger it fell short of expectations," he reveals. "There was no real union of each company's respective strategies and cultures, and the two chief executives didn't get along with each other. This changed once a new chairman came in and appointed an American, Bob Mendelsohn, as the new CEO."

Spencer then spent a "hugely enjoyable" four years running Royal & Sun Alliance's UK operations and turning around its fortunes. However, after a string of run-ins with the CEO "to the point where it became clear that one of us had to go", Spencer left in 2002. Mendelsohn himself followed a few months later as the group's share price – in common with the FTSE 100's other blue chips – moved steadily lower in the wake of the tech boom-to-bust and the financial impact of the September 11 terrorist attacks.

"At this point, I decided to enter into a plural career that enabled me to chair ACT's advisory board and take on some new positions as a non-executive," says Spencer. "But I also responded to a newspaper job advertisement for non-executive roles at National Savings & Investments. I got the job of chairman of its audit committee in

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2004 and the following year I was asked to take over as chairman."

He describes NS&I as a "unique animal", and possibly the most successful example of outsourcing by a government-owned department. At the end of the 1990s, its operations – and more than 4,000 employees – were outsourced to Siemens and today the organisation is run by a staff totalling no more than 120 individuals. During his time as chairman, the funds raised by NS&I rose steadily from £40bn to more than £90bn, helped by the credit crunch and concern over the future of other financial institutions.

Spencer says he dealt with six different ministers – of varying abilities – during his term of office, which he completed last September. "Ministers needed some assistance in properly understanding what went on at NS&I," he adds. "The concept was relatively simple but mastering the fine detail and how exactly it operated was rather more difficult."

Spencer's many achievements were recognised at the start of this year, when he was awarded a CBE. In the last few years, he has taken on a number of pension fund positions: he chairs the Rolls-Royce and BA funds and is an independent trustee of the BAT and BT funds. For him it represents the wheel turning full-circle.

"Back in 1974, when I served on ICI's pension fund and we were considering whether the fund should invest in a certain company, we first asked the size of its pension fund deficit," he explains. "The question was very relevant at that time and its relevance has re-emerged at periodic intervals over subsequent years, including today."

For more than five years he has headed the audit committee at advertising group WPP and admires the achievements of its chief Sir Martin Sorrell, "one of the few surviving entrepreneurs in the FTSE 100. It's vital that commercial organisations are still able to attract and retain such individuals as too many of them are being lured away to the world of private equity. Although the business world needs good corporate governance, it should be balanced by a willingness to take risk."

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