THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

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Faculty of Finance and Management

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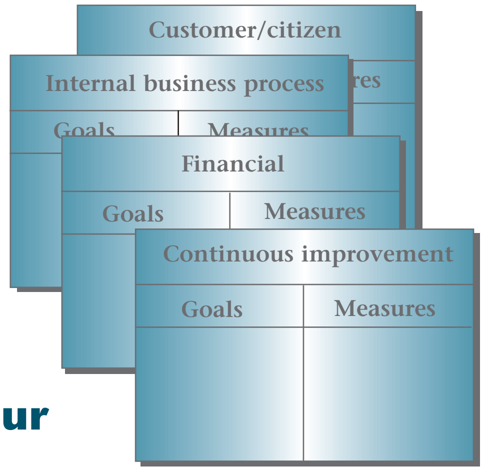
The balanced scorecard



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Faculty faces

Main contact numbers
Tel: 020 7920 8486
Fax: 020 7920 8784
Web site: www.icaew.co.uk/fmfac

Chris Jackson
(Head of Faculty)
Extn: 8525; Email: Chris.Jackson@icaew.co.uk

Kirsten Fairhurst
(Services manager)
Extn: 8508; Email: Kirsten.Fairhurst@icaew.co.uk

Judith Shackleton
(Technical manager)
Email: Judith.Shackleton@icaew.co.uk

Debbie Came
(Administrator)
Extn: 8486; Email: Debbie.Came@icaew.co.uk

Elections are coming – we need candidates!

Would you like to have some influence on how your Faculty develops? We are on the look-out for enthusiastic Faculty members who would appreciate the challenge of joining the organising committee.

The committee works with the Faculty team (see our names and faces at left) to develop a programme for members and to ensure that what is delivered to them is of the highest quality, accessible and practical. The committee meets four times a year and works mainly by emails.

Twelve of the committee members are elected, with four seats coming up for election each year, so candidates expect to serve on the committee for three years – in this case, from May 2002 to May 2005.

Members of the committee come from a wide range of backgrounds. They are all chartered accountants, most work in commerce or industry, and a few come from practice and from academic life.

If you are interested in standing, please contact me (see details at left) and I'll answer your questions and provide further details.

Chris Jackson

FACULTY OF FINANCE AND MANAGEMENT

Committee Elections 2002

Notice of Elections

Notice is hereby given that elections will be held in 2002 for four seats on the Executive Committee of the Faculty of Finance and Management. Nominations must be received by the Executive Secretary of the Faculty by noon on 3 April 2002. Polling day will be on 15 May 2002.

January 2002 Issue 83

Comments and suggestions should be addressed to Chris Jackson BA FCA, Head of the Faculty (see left).

The Faculty of Finance and Management ICAEW,
Chartered Accountants' Hall,
PO Box 433,
Moorgate Place,
London EC2P 2BJ

FINANCE & MANAGEMENT is edited and produced on behalf of the Faculty by Silverdart Ltd, Unit 211, Linton House, 164-180 Union Street, London SE1 0LH. Tel: 020 7928 7770; fax: 020 7928 7780; contact: Alex Murray, Gabrielle Liggett or Helen Fearnley.

Martin Kimber steps down

After many years serving business members' interests on Institute committees, Martin Kimber has decided to step down because of ill health.

Martin's involvement with the Institute began in the early 1980s when he worked on a publication for business members entitled 'Making the Most of Marketing', produced by the Business Support Group (BSG). The BSG was the predecessor of this Faculty and Martin was a member of the BSG committee.

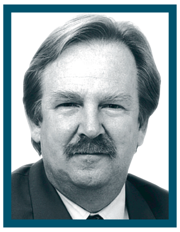
After the BSG, Martin was one of the small team who set up the Faculty in 1991. From there he joined the committee as an elected member and became deputy chairman in 1998.

His main interests are in marketing and strategy, both in managing the Faculty and in supplying information on these subjects to members. He has helped to create the informal team-working style of the Faculty committee which has allowed us to make so much progress. He has been a very popular member of the committee and he will be missed by his colleagues. We wish him the very best.

Managing value with the balanced business scorecard

"How should we appear to our SHAREHOLDERS?"
"How will we sustain our ability to change and improve?"
"WHAT MUST WE **EXCEL** AT?"
"How do our customers see us?"

In his recent Faculty lecture, **Robin Bellis-Jones**, managing director with the Bellis-Jones Hill and Prodacapo consultancy, drew on his experience in management and performance improvement techniques to show how use of a balanced business scorecard can help in delivering value.



After declaring his intention to show the benefits of a 'balanced business scorecard' (BBS) in the context of a wider understanding of value based management (VBM), Robin Bellis-Jones asked – and answered – the question 'What gives shareholders confidence?'. The key, he suggested, is a management team that:

- understands the nature of value;
- understands the business and its value drivers; and
- is clearly in control and value-focused.

He then examined what each of those attributes means.

The nature of value

Bellis-Jones pointed out that figures for General Motors (GM) and Coca Cola over the same 10-year period (1983-1993) show GM – though registering a 1993 market capitalisation of $81 billion – actually losing $700 million market value, after subtracting $88 billion of invested capital.

Meanwhile Coca Cola (market value $61 billion) had gained $53 billion of value, after a more modest $8 billion of invested capital, illustrating the fact that value created is not the same as total market value.

The important figure for shareholders is market value added (MVA), created when the market value (based on the share price) exceeds the invested capital required to fund the existence and operation of the organisation.

What has excited much interest over recent years, however, is the strong way in which MVA appears to correlate with economic profit (EP) – the measure created by subtracting the weighted average cost of capital from the net operating profits after tax. (Coca Cola, for example, showed a 1983-1993 compound annual growth rate in EP of 27%, and one of 26% in its share price.)

Belief in the strength of the apparent link between the creation of economic value within a business and its market value has led some very large and well known organisations such as Boots, Lloyds TSB and Unilever, to embrace the principles that underpin value based management (VBM).

Driving value into the organisation

At the heart of such VBM, Bellis-Jones continued, is the identification of a business's key value drivers generating EP; a process sometimes known as economic discovery. The following seven generic drivers of value have identified:

- revenue growth;
- operating margin;
- cash taxes;
- incremental changes in working capital investment;
- incremental changes in fixed asset investment;
- cost of capital; and
- growth duration.

The challenge for managers is to understand how to translate these generic drivers of value into ones that are specific to their organisation.

However, managers must also understand their business and how those value drivers apply to it. This understanding emerges from being able to answer the following questions:

- what characterises a 'good' product or customer?
- what represents 'good' value for money?
- are the business's processes 'quiet' and efficient?
- do its activities add value and support the strategy? and
- are the key value drivers embedded in that strategy?

Since value is actually created at the point decisions are made, value is most likely to be produced if decision-making is better-informed and better-aligned at all levels, to allow fast response to a rapidly evolving environment.

But organisational change happens, Bellis-Jones stressed, only as a result of challenge to the status quo. And for change to be successfully executed it needs a concept, process and commitment. The finance director's role in this is to help all managers better understand what make their business tick, and therefore make better-informed decisions.

The range of different types of decision needing to be informed in this way is wide. It encompasses those classified under organisational cost dynamics (with its 'customer management' and 'resource management' subdivisions), plus those relating to organisational effectiveness (from business process re-engineering to benchmarking).

Being in control and value focused

Does a mission statement to be 'best in the industry', mean by price, quality, range? Management must be specific about its aims, or it will find targets difficult to achieve. Performance measurement leads to management successfully identifying its specific future intentions, and then being able to monitor progress from the 'known' short-term, through the huge gap that is the middle-term, towards those desired long-term strategic goals.

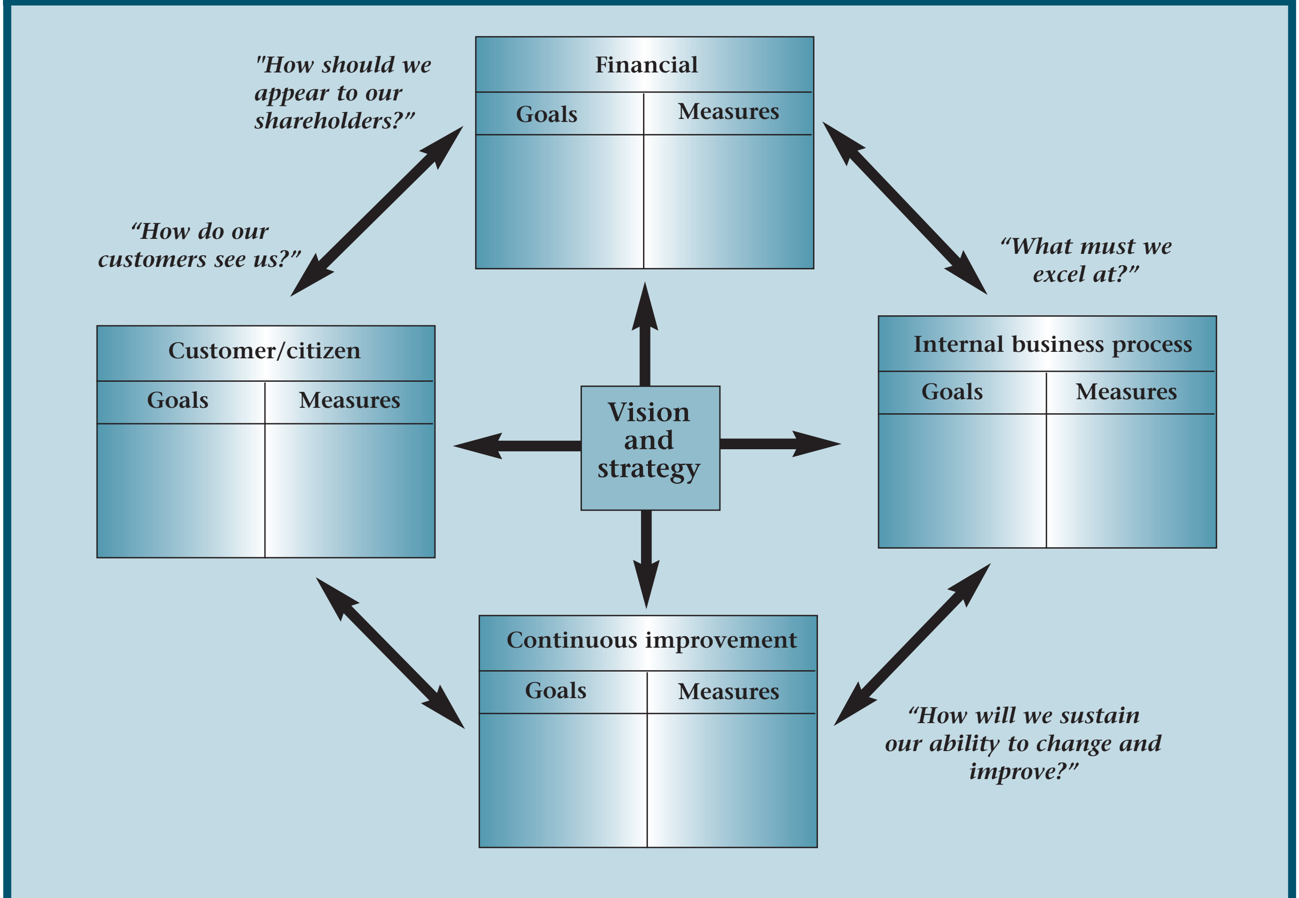
In other words, performance measurement helps link the vision and strategy to achievable objectives and action plans. The most widely used approach to performance management is the balanced business scorecard (BBS).

The balanced business scorecard

The balanced scorecard first came into prominence in the early 1990s, evolving from a performance measurement system to a core management system that is now widely used across all sectors. More recently it has been further developed as a means of deploying strategy across an organisation, but in essence, the BBS addresses the two most common management failings in performance measurement by:

- ensuring strategic alignment between what the organisation

FIGURE 1 'CLASSIC' BALANCED SCORECARD



wants to achieve, how it intends to do so, and how it measures its performance in so doing; and
- enabling performance measurement across different but interrelated perspectives.

This second feature – measurement from different perspectives – produces a much broader view of the performance of the organisation. The classic BBS measures performance from four perspectives – financial, internal business processes, continuous improvement/people and customer/citizen – each with its own goals and measures (see Figure 1, opposite). However, the exact number of perspectives is not sacrosanct and should be varied to suit the needs of the organisation.

Each of these BBS perspectives has a short-term goal, with one or more critical success factors (CSFs) identified with that goal, and uses one or more measures for gauging performance on those critical success factors. The result is enhanced visibility of what is really happening across the organisation.

Bellis-Jones stressed the importance of the quality of thought going into devising a scorecard. Ideally, it should feature a small number of clear measures.

It also involves the use of strategy maps to delineate the cause and effect of the organisation's processes, such that a logical flow is apparent (ie 'if we do X, then Y will result...'). Targets are then set, and progress towards them measured so that remedial action can be taken if needed.

In summary, strategic alignment is achieved through the process depicted in Figure 2, by:

- establishing vision – ie where the company is going;
- setting the strategy – with strategy maps informing the strategic initiatives;
- identifying objectives and critical success factors for achieving the strategic goals;
- establishing measures for how well these objectives and CSFs are being attained; and
- setting targets and monitoring progress against those targets.

Benefits of the balanced business scorecard

Bellis-Jones went on to describe some of the benefits of establishing such a performance management regime.

Generally, the exercise will lead to:

- a consensus on priorities:
- an unambiguous picture of goals:
- a rigorous planning and improvement process;
- alignment of aims and actions;
- regular and clearer communication;
- team working and knowledge sharing;
- an open book management style with no surprises; and
- accountability for delivering results.

The result is a management framework to deliver improved performance. (Data from the US Conference Board has shown companies using performance measurement are more likely to achieve industry leadership, and to handle major cultural or operational change successfully.)

Scorecard implementation issues

Experience suggests a number of success factors that are relevant to the successful implementation of such a performance measurement regime. They include:

- getting top level commitment/sponsorship;
- not insisting on perfection on soft measures;
- encouraging ownership through involvement;
- using the process to drive improvement and change;
- letting the process evolve continuously; and
- providing an accessible visual feedback mechanism.

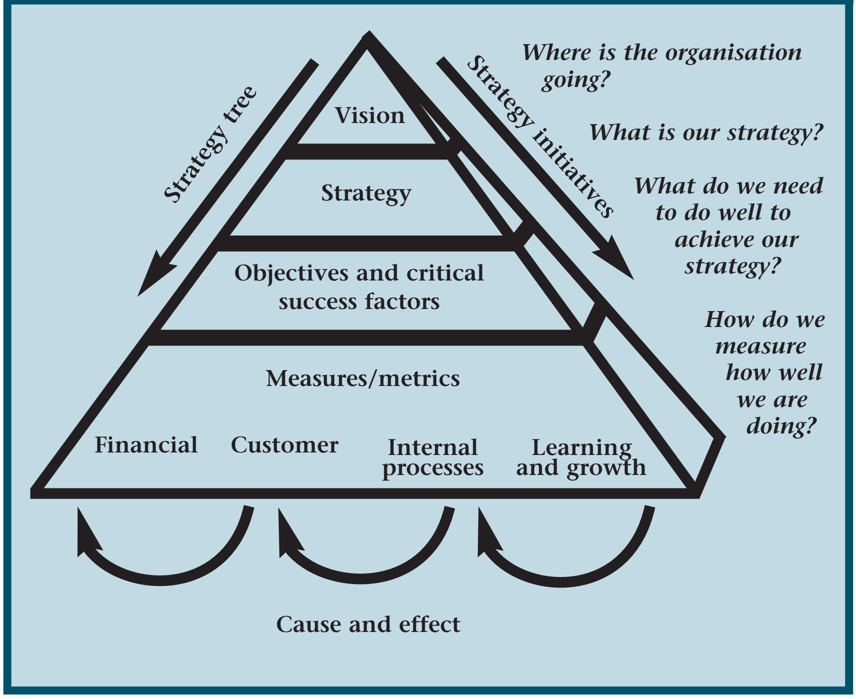
Scorecard technology

Many recognise the critical enabling role of software in a successful scorecard implementation.

When choosing BBS software, Bellis-Jones suggested that managements need to consider a number of questions:

- does it help clearly describe our strategy?
- does it help create a clear 'line of sight' between operational performance and strategy?
- is it action-oriented?
- will it highlight exceptional performance?
- is it scaleable?
- can it easily extract data from other databases?
- can it be used for project and risk management?

FIGURE 2 **STRATEGIC ALIGNMENT**



- can it be shared and updated over the internet/intranet?
- is a stand-alone or enterprise-wide approach the better choice? and
- is the interface clear and easy to understand?

What information is needed, and where can it be accessed by managers?

It is not just the generation of more data, but its translation into forms better suited for informed decision-making, that underpins successful performance management. Recent advances in IT have created the opportunity to improve radically the quality of decision-support information generated for management by transforming transactional data into more meaningful forms such as activity based costing, process management, the balanced scorecard, and business planning.

Until recently, systems supporting the provision of such management information provided only 'point solutions', each software addressing a single area and not designed to integrate and provide a comprehensive source of information. That is no longer the case, and the implications for management information are dramatic.

Now, strategic enterprise management (SEM) systems can bring all the various sources of management information together so that managers can access a common database where internally consistent information appropriate to a wide range of decisions is available on demand.

Such an SEM approach should, in a single database, handle:

- financial data by cost centre;
- organisation charts;
- process mapping and process costing;
- problem identification and change management;
- ABC, product costing and customer profitability analysis;
- BBS and performance management;
- predictive accounting/capacity management; and
- planning, forecasting and "what if?" analyses.

Conclusion

Bellis-Jones pointed out that companies often experiment with a lot of management disciplines and tools without ever bringing the results of these disparate efforts together. An SEM approach can deliver the ability to create real synergy from such initiatives by integrating information from all of them. There is now even a CIMA-founded Strategic Enterprise Management Round Table (members including the BBC, Unilever, Powergen, and Allied Irish Bank), aimed at further research into the potential and possibilities of the 'joined-up management thinking' that is represented by SEM.

He finished his talk by asking the audience a question: "What is the 'future state' that your organisation wishes to achieve, and over what timescale?" His own view was that the desired transition should be viewed as a journey with performance management, including the BBS, providing the focus for reaching the end-point – better value creation – without detour or delay.

Robin Bellis-Jones is managing director with the Bellis-Jones Hill and Prodacapo consultancy, which specialises in business improvement. Tel: 020 7937 7377; email: ukinfo@bellisjoneshill.com. Or visit the web site: www.bellisjoneshill.com.

Learn more about scorecards on the web

These web sites may be useful for readers interested in balanced scorecard issues:

Balanced Scorecard Collaborative – website of a professional services firm developed by the creators of the balanced scorecard, Dr Robert Kaplan and Dr David Norton. A wide variety of resources is available following free registration.
www.bscol.com

Balanced Scorecard Institute – non-profit organisation with a remit to provide 'web-based guidance, information and tools to government and non-profit managers'. Although it has an American focus, there are many useful resources including an explanation of basic concepts, a selection of articles, a directory of software vendors, and an online discussion forum.
www.balancedscorecard.org

Balanced Scorecard Resource Centre – information rich resource centre from a UK consultancy firm, 2GC Active Management, which includes a series of frequently answered questions on the balanced scorecard addressing the basics, a selection of presentations available in full text, case studies (including examples from the oil industry and the UK financial sector), recommended reading, and a collection of rated and reviewed links.
www.2gc.co.uk/resource.asp

The Manager.org – clear and concise resource centre for the balanced scorecard drawing together some of the key articles and documents available on the internet in full text.
www.themanager.org/Knowledgebase/Management/BSC.htm

The Scorecard Authority (BetterManagement.com) – includes over 80 articles, newsletters, industry case studies, white papers, presentations, and videos on the balanced scorecard. Abstracts and introductions are provided on open access, with the full text available following free registration.
www.bettermanagement.com/scorecardauthority/library/articles/articles.asp

More links are available from the ICAEW web site's links pages at: www.icaew.co.uk/library.htm

Valuing your intellectual property

Intangible assets, including intellectual property, contribute an increasing amount to companies' market capitalisation; but how should they be valued? **Doug McPhee** (*below, left*) and **Edward Round**, both of KPMG, discuss the various methods of doing so.

The companies in the FTSE350 illustrate the increasingly important role of intangible assets in market valuations. For many, their market capitalisation bears little resemblance to the book value of their tangible net assets. This is not surprising in that many western accounting regulatory regimes are based upon the historic cost convention and do not permit the reflection of the true prevailing value of internally generated goodwill, including intellectual property rights (IP). Further, the growing importance of technology and services companies, where intrinsic value is reflected in the people, patents and processes of the business, will continue to drive this imbalance.

Hence it is unwarranted to assume that equity book net asset values, as represented in financial statements, are indicative of market value. The asset based approach is clearly only rough and ready, in that it does not take into account the effect of market goodwill and, more particularly, the ability of a business to generate future cash flows which can be used to pay returns to the debt and equity providers of the business. Looking at net tangible assets as a guide to overall business value also contains several specific flaws. First, it does not take into account general market favourability towards (or prejudice against) a particular sector or business, which will alter the share price without necessarily altering the value of the underlying IP.

For example, with the share price collapse of the 'dot.coms' the new economy sector as a whole became unfashionable. This left several technology businesses not directly involved in e-commerce with extremely depressed share prices, and some businesses involved in the actual manufacture of high technology goods found themselves with a market capitalisation lower than the value of their tangible assets. Had their intangible assets suddenly became liabilities overnight? It seems unlikely.

In addition, this valuation approach does not provide a value of individual IP assets. Businesses are often less interested in the overall value of their assets than in understanding the value of their individual assets – a brand or a technology – so that value can be realised through sale, tax restructuring or securitisation.

Thus, more sophisticated techniques are required if a more useful valuation of individual assets is to be achieved.

Why value?

Increasingly, businesses require their IP to be valued. For example, they may require relative values to be attached to their IP, to facilitate decisions on investments, disposals, acquisitions or partnering arrangements. Alternatively, if IP is to be moved between two businesses in different jurisdictions, taxation issues can result in a valuation being necessary. Further, regulators, such as in the US, can require periodical valuation of IP.

There are many different methods for the valuation of IP. For a market value to be arrived at, an experienced valuer should be used. Some valuations, especially in less established IP markets, should be treated with a degree of caution. However, this has not prevented the creation of several semi-automatic valuation strategies that merely require input of a number of details about a technology or IP to be valued, resulting in an apparently definitive figure.

Valuation, however, is not simply a mechanical and scientific process, albeit that reliable mechanics and good science are imperative. Of equal importance is the application of sound commercial judgement, transaction experience and common sense. It is good practice not to rely on one specific valuation technique or approach but use a number of them in any valuation, to develop and ultimately establish an appropriate valuation range for a given business. Once an initial valuation range has been derived, a skilled professional business valuer can then consider it carefully, refine it, and settle on a final valuation range. Then, where appropriate and possible, a final valuation figure can be arrived at for approval and certification.

The main methodologies used in the valuation of IP and other intangibles can be placed in three broad categories – cost-based, market-based, and economic income-based.

While the exact details of many commercial valuation methodologies tend to remain proprietary, their fundamental principles allow them to be placed in these three categories. Usually, a valuation project would take into account the results of valuation methodologies from each of these three categories; the valuer using his expertise to decide which of the three carries most weight in the particular circumstances of the valuation.

Cost-based valuations

A cost-based valuation can take into account either the historical cost of acquiring IP or the replacement cost. Historical cost tends to be easy to quantify, and is favoured where intangibles are reported on a balance sheet. Replacement cost is reliable when IP has only recently been acquired from a third party.

The cost-based approach is important because it arrives at figures that can be reported on balance sheets. Though sometimes unsatisfactory for reflecting the real worth of IP to a business, cost-based valuations are auditable and so are favoured in this regard.This approach is useful in that a reliable and accurate estimate can be made of the cost of acquiring or replacing IP. However, cost is not a relevant benchmark where there is no correlation between historic expenditure on an asset and its current value. For example, in the case of a brand, much of the value of the brand exists in its reputation, which is not taken into account in the cost-based approach. Further, the cost-based approach is inappropriate in the case of patents protecting a valuable market share; in these circumstances, the cost of developing an invention and protecting with patents does not correlate with the actual value of the IP assets.

The cost-based approach is still used because of its importance to the creation of auditable accounts; it can also be useful when supporting the valuation of IP at an early stage in development such as for tax purposes.

Market-based valuations

Market-based valuation relies on the ability to make a comparison between the value of a particular IP asset and recent transactions involving comparable assets. This is a practical approach, which makes use of prices actually paid for comparable IP assets. A variety of market-based approaches can be used, such as dealing with comparable companies or comparable transactions, or a combination of both.

However, given the uniqueness of IP assets, third party arms length transactions involving similar IP assets are usually infrequent. While transactions involving the shares of companies owning comparable IP assets are relatively frequent, it is difficult to make a correspondence between the overall value of a business and its intellectual property. Unlike assets such as shares, there is no formally established market in intellectual property with the opportunity to develop the concept of a publicly displayed market price.

Also, the commercial details of deals to transfer IP rights are obviously sensitive, and would not necessarily be made public. Even if deals were reported, they would be unlikely to be to the level of detail required to obtain an understanding of the value of individual intellectual assets and technologies.

Though market-based valuations clearly have their drawbacks, they will undoubtedly become more relevant as the increase in IP transactions grows. Several web-based IP exchanges now exist for companies to advertise the existence of IP available for licensing or acquisition – as more deals are done, market-based values will become more relevant and accurate.

Economic income-based valuation

Economic income approaches to valuation aim to identify and quantify cash flows or earnings attributable to a particular IP asset. These cash flows or earnings can then be capitalised to determine a value for the asset. An additional valuation approach is to adopt a notional royalty rate for a particular item of IP and then proceed with a valuation on some form of discounted cash flow basis. All of these economic approaches are fairly complicated, and require a degree of transparency in internal reporting systems for a successful valuation.

Economic income valuations are theoretically superior to other approaches, as the focus is on future earnings or cash flow. Thus, there is little reliance on historical cost-based analysis. However, by virtue of being predictive, they can be inaccurate if too many assumptions have to be made. Economic income approaches are widely accepted and the concepts widely understood; consistency in valuations can be achieved which facilitates comparison across an IP portfolio. While they certainly have the clearest intention in terms of identifying the value of IP to a business, they may not in fact be capable of achieving this because of incomplete data and our imperfect knowledge of the economic model of the market.

One approach to the valuation of IP is termed the ‘relief from royalty’ method. This approach looks at the scenario where a business does not own the IP under valuation, but has to pay a royalty to some notional owners for its use. The value of the IP is the capitalised value of the after tax royalties that the company is ‘relieved’ from paying after deducting the costs associated with maintaining the licensing arrangements.

Conclusions

Valuation of IP is becoming an increasingly important part of management accounting. Techniques are becoming increasingly sophisticated, and experience is enhancing these techniques to produce increasingly accurate valuations. It is equally clear that the days of the well-meaning non-specialist IP valuer have long gone and unless IP holders are willing to suffer real financial loss it is essential that professional IP valuers be consulted.

Doug McPhee is a chartered business valuator and partner in KPMG’s corporate finance team. He focuses on commercial valuations in the M&A arena and is a member of the intellectual property services group. Tel: 020 7311 8524.

Ed Round is a manager in KPMG’s intellectual property services group, specialising in all aspects of intellectual property rights. Tel: 020 7694 2739.

TAX UPDATE

Talking about business tax

In her latest Update column **Francesca Lagerberg** looks at various recent consultations and developments in business taxation, including the Chancellor's pre-Budget statement.

Francesca Lagerberg is senior consultant to the Tax Faculty of the ICAEW (www.taxfac.co.uk).

It's good to talk, the advertisements tell us. The government has taken this to heart and the last few months have seen a number of consultations on issues including intellectual property changes, deferral relief for disposals of substantial shareholdings, 'green technology' issues and corporate debt rule changes. This article considers a few highlights from these consultations to see where they may take us.

Relief for disposals of substantial shareholdings

It has become increasingly plain that the corporate tax regime is creaking around the edges and needs improvements to help keep the UK competitive. One particular issue relates to how a business can restructure and reinvest to take advantage of emerging opportunities. Over several consultation documents there has been a discussion relating to the taxation of capital gains on disposals of companies' substantial shareholdings.

The current situation is that most large businesses are organised into groups of companies and when they wish to restructure it can often crystallise large tax charges on any resulting capital gains. When faced with such liabilities a business may find it a disincentive to restructure and reinvest or embark on complex offshore tax planning with its own costs and administrative burdens.

Two options were placed on the table by the government. One was a deferral approach, the other an exemption. The government has been veering towards an exemption approach and has provided more detail on how such an approach might work, to add to the debate. In continental Europe there is an exemption for capital gains and foreign dividends but the government is proposing something more like the current system, based around a credit for foreign tax.

So would this idea work? The Tax Faculty of the ICAEW has been very involved in discussions in this area and has advocated an exemption system, as opposed to a deferral regime, from the outset. There are still a few concerns (see TAXREP 21/01 on the Tax Faculty's web site at www.taxfac.co.uk) but fundamentally the arguments appear to be going in the right direction.

The pre-Budget report in November 2001 has 'delivered' in this area with published draft legislation and a start date of 1 April 2002. The Inland Revenue has also published an accompanying technical note, with comments welcome by 31 January. The substantial shareholding threshold remains at 20%, despite suggestions that this might be lowered.

Corporate debt

It does not seem so long ago that we had major changes in the area of foreign exchange and financial instruments. However, this area is up for change again as it and corporate debt are being subjected to review with the intention of bringing some consistency to the way items are treated. Some proposals were put forward by the Revenue in a July 2001 consultation. As befits a highly complex and technical area, these proposals were detailed and intricate. There was also a rather ambitious idea that changes could be brought in by this January.

In its formal response the Tax Faculty (see TAXREP 24/01) has pointed out that many practitioners are unaware of the impact of all of the changes set out in the consultation document. Furthermore, even practitioners who specialise in this area are finding it difficult to understand all the ramifications. The government has announced it is pressing ahead with a new regime but it will be effective for companies' accounting periods beginning on or after 1 October 2002.

And there's more

Clearly there is still much more to come. Next year will see advances in filing by internet for corporation tax and there are likely to be further initiatives relating to the operation of businesses. The pre-Budget report alluded to several factors affecting larger businesses and corporates in general. Look out in particular for the major reforms coming to the intangibles and goodwill regime and to the Revenue's paper, now published, on how it wants to communicate better with larger businesses. For more, see www.inlandrevenue.gov.uk.

TREASURY **UPDATE**

The growing influence of e-finance

In his latest treasury update column, **Chris Mansell** looks at the growth of electronic treasury, at FRS 17, and at basic working capital issues for treasurers.

Chris Mansell is a former treasurer and is now a director of several companies.

FRS 17 will be discussed in more detail in next month's Financial Reporting update column.

Survey data confirms the increasing influence of the internet both on business generally and treasury management in particular. In one of the latest surveys, conducted by the Association for Financial Professionals, JP Morgan Treasury Services and Ernst & Young, nearly three-quarters of the finance directors, controllers and treasury managers who responded say that the level of urgency within their companies for business-to-business e-commerce is as strong or stronger today than 12 months ago. An even bigger proportion expect the net to have a major impact on payments, collections and investments, with debt and foreign exchange management not far behind.

However this is for the future. At the moment less than a third felt that e-commerce and the internet had either an "extremely" or "very" important impact on treasury management in the previous 12 months. Those that did identified improved workflow efficiencies, including more up-to-date information, sharing access to data, and working from multiple locations as the most important gains. Two other useful points emerged from the survey. A majority of respondents believed that using the internet, especially as an information source, was saving them money, while most also thought that the major financial service providers had succeeded in resolving security issues.

One of the most active areas of e-commerce within treasury management is foreign exchange dealing. Atriax, one of the leading players in this new market which in effect offers an internet portal for multi-bank electronic dealing, believes that the real efficiency gains on offer lie not so much with automating the transaction (as opposed to using the telephone) as in execution or straight-through processing as it is coming to be known. It is the manual execution process that is the source of almost all errors and exceptions.

Balance sheet turbulence ahead

Treasurers of larger organisations will be thinking hard about the implications for balance sheet management of the new FRS 17, as indeed will pension fund trustees. Implementation of the new accounting standard for pensions is not until 2003, but a first tranche of disclosures was due from June 2001, and a further tranche is due from June 2002.

FRS 17 incorporates a broadly prescribed method of valuing the assets and liabilities of a pension scheme, giving far fewer options for managing balance sheet volatility than under SSAP 24. This means that:

- any mismatch between assets will be shown on the balance sheet;
- the impact of pension fund investment policy will also become transparent; and
- this new-found balance sheet volatility may impact on debt covenants.

Research suggests that the assets likely to create least volatility are high quality bonds, which themselves mirror the discounting factor usually applied to establish their balance sheet value. Equities produce about three times the volatility of bonds.

Working on working capital

Treasurers can get actively involved in day-to-day management by promoting better use of working capital. With shareholder value, the touchstone for most organisations, they will appreciate that every pound tied up in working capital must generate at least the company's weighted cost of capital in order to earn its keep.

The simple arithmetic of working capital (stocks plus debtors less creditors) means that there is a lot to have a go at in order to improve financial performance in this area.

Working capital management is nearly all at the detailed level, so a project to improve performance should start by reviewing all the processes within the working capital chain from purchasing through to cash collection. Establishing time frames for each element is a critical part. Extending the review to beyond the finance function is also important. A forum might be created where a cross functional team might analyse the current situation, identify and discuss problem areas and hopefully generate solutions and performance targets. Treasury managers are in a strong position to give a lead to this process.

FORTHCOMING FACULTY EVENTS – 2002

To attend any Faculty event, please fill out the form which adjoins this page, remove it by tearing along the perforation, and mail it or fax it to Kirsten Fairhurst at the Faculty's address given on the bottom of the form. If you have any queries relating to these or other events, please contact Kirsten Fairhurst on 020 7920 8486.

● **28 January**
EVENING LECTURE (Chartered Accountants' Hall, London)

'MANAGING THE CHANGE – PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR' – ANTHONY DART, BUSINESS CONTROLLER, HIGHWAYS AGENCY.
Skills in financial management, rather than financial reporting, are vitally important in the public sector. Anthony Dart, former technical director at CIMA, explains the changes he has made to the planning and implementation system at the Highways Agency and discusses the future of the finance function in a large organisation. Registration 5.45pm; lecture 6.00pm.

● **11 February**
EVENING LECTURE (London Guildhall University)

'STRATEGIC MANAGEMENT: NO ACCOUNTING FOR PRACTICE' – PROFESSOR LEE PARKER, ADELAIDE UNIVERSITY.
Lee Parker draws on his experience as a consultant and academic to analyse the role of the management accountant in business. He identifies the skills needed by management accountants to become leaders of business. Registration 5.45pm; lecture 6.00pm; refreshments and networking 7.00pm.
This is an event organised by London Guildhall University's MSc in Strategic Management Accounting.

● **18 February**
EVENING LECTURE (Chartered Accountants' Hall, London)

'VALUEREPORTING – A REVOLUTION?' – DAVID PHILLIPS, PRICEWATERHOUSECOOPERS.
This lecture looks at some of the issues raised by David Phillips in his article in the December issue of *Finance & Management* (see 'Developing a way to show corporate value' on page 7) including the information that investors need, how to manage for value and the benefits of greater transparency. Registration 5.45pm; lecture 6.00pm.

● **27 February**
EVENING LECTURE (Chamber of Shipping, London)

'STRATEGIC DYNAMICS – SURVIVAL OF THE FITTEST – BUILDING TOMORROW'S BUSINESS' – KIM WARREN, LONDON BUSINESS SCHOOL.
Managers are faced with a range of strategy approaches and tools. Kim Warren introduces 'strategy dynamics' as an innovative approach to strategic management that combines systems dynamics thinking with a rigorous fact-based view connecting the fundamentals to performance outcomes. Registration 6.30pm; lecture 7.00pm, followed by refreshments and networking.
This event is organised by The Association of MBAs, and is open to Faculty members.

RECORDINGS OF FACULTY LECTURES

The following lectures and conferences held by the Faculty in 2001 are available, in both **audio** and **video** format.

To obtain a recording, please tick the audio and/or video box on the tear-off response form opposite.

There is a charge of £5.00 for audio recordings and £10.00 for video.

CUSTOMER RELATIONSHIP MANAGEMENT
Professor Robert Shaw of Marketing Best Practice International Ltd describes the critical success factors and the role of financial management in the investment of CRM.

BEYOND BUDGETING (HALF DAY CONFERENCE)
Robin Fraser and **Peter Bunce** of the Beyond Budgeting Round Table CAM-I Inc illustrate how to manage performance better without budgets – plus a contribution from **David Berkeley** of Bulmers.

THE BALANCED SCORECARD
Robin Bellis-Jones of Bellis-Jones, Hill & Prodacapo shows how the balanced scorecard has enabled the vision of a strategy-focused organisation to become a reality.

BUDGETING AND PLANNING FOR THE 21ST CENTURY
John McKenzie of Armstrong Laing explains the increasing inability of budgets to deliver, and explores ways for companies to develop more dynamic budgeting processes.

Why you need to know about XBRL

Reuters, the news and information giant, has become the first publicly listed company in Europe to release its financial results (third quarter 2001) on the internet using a prototype of a new XML standard, Extensible Business Reporting Language (XBRL). It could start a trend, as **Helen Fearnley** reports.

Finance & Management *will publish a more detailed article on XBRL shortly, in the context of a review of the current state of B2B.*

XBRL is expected to revolutionise financial reporting, providing the business community with a standard way to publish, extract, and exchange financial reports and associated information. The standard is being developed by XBRL.org, an international consortium of key players including leading international accountancy firms Andersen, PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG; the International Accounting Standards Committee; the Australian, Canadian and English Institutes of Chartered Accountants; the American Institute of Certified Public Accountants (AICPA); various software companies including Microsoft; IBM; and, of course, Reuters.

Expanded

Originally researched by the AICPA, other leading accountancy institutes around the world, and the Big Five accountancy firms, XBRL is intended to be a tool for financial reporting. However, its scope has been expanded to include accounting for financial and commercial transactions.

XBRL is based on the XML data mark-up standard, itself developed in 1998 and now proving a great assistance in the growth of e-commerce.

Put simply, XBRL is a standard for data formats, enabling different computer programs, including business software packages, to share and process data. Its main selling point is that the streams of data sent from one system to another do not have to be in a set order because the classification of each item of data travels with it.

The ultimate determinants of how extensively XBRL is used include:

- how much its use for reporting purposes is encouraged by governments, international agencies and regulators;
- the degree to which it is capable of facilitating the reporting requirements of international and national accounting standards; and
- the extent to which it is actually used by corporations.

Significant technical and awareness-raising efforts are currently underway.

On the technical front, at the time of writing, a working party on the UK version of XBRL was still determining the exact taxonomy to be used. Any questions on the international accounting standards (IAS) taxonomy appear to have been resolved, but probable further amendment and expansion of the UK taxonomy – and review with more companies – were planned. The intention was to achieve an acceptable taxonomy for the UK version by the beginning of this year.

Widespread

Before publishing its third quarter 2001 figures on the internet using XBRL Reuters worked with both the ICAEW and the UK XBRL working party. Its innovative step is seen as marking the beginning of broad testing of XBRL over coming months, leading to the publication of the UK version. In turn, that publication will enable more widespread use of XBRL.

The UK XBRL working party's chairman, Chris Rodgers, has commended Reuters' lead in Europe as "showing the gathering pace of XBRL development. The UK's progress reflects solid work at both the national and international level on this electronic financial language... We are looking forward to the introduction of XBRL as a truly effective means of financial communication around the world."

The Faculty of Finance and Management,
The Institute of Chartered Accountants
in England and Wales,
Chartered Accountants' Hall,
PO Box 433, Moorgate Place, London EC2P 2BJ
Telephone: 020 7920 8486
Fax: 020 7920 8784

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

The Faculty's web site address is – **www.icaew.co.uk/fmfac**