The Institute of Chartered Accountants in England & Wales

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Faculty faces

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Future of the finance function on the web

For those readers interested in the future of the finance function (see articles starting opposite), the following web sites may be valuable:

eCFO: Reinventing the Finance Role – an 'executive perspective' from PwC on how e-business is impacting on the future development of the finance function, and advice on how to make the transition from the current state.
www.pwcglobal.com/extweb/newcolth.nsf/docid/A44A6FE17C78B33A85256A310078AABB?OpenDocument

Management Centre Europe: Financial Management – information centre on financial management from the European headquarters of the American Management Association, including a selection of full text articles on the current and future states of the finance function.
www.mce.be/news/financial_management.htm

Redesigning the Finance Function – on-line publication from the Society of Management Accountants of Canada in the 'Shaping the Future' series which outlines the pressures on the finance function and the causes for change. Includes chapters on best practice, the redesign process, and the challenges ahead.
www.cma-canada.org/templates/vlc/redesigning_finance/articles/redesigning_the_finance_function.pdf

The ICAEW Library & Information Service's award-winning links pages can be accessed at www.icaew.co.uk/library.htm along with a series of Knowledge Guides.

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

ABSTRACTS FROM LIBCAT

Acher G – Impacting shareholder value
True and Fair, No.59. May 2001: p3 (1 page)
● *Third party perception of an organisation – its corporate reputation – can have a major impact on shareholder value. The author argues that a fall in corporate reputation can have a more damaging effect on share price than events that have traditionally impacted on share price such as losses through business units or treasury.*

Symon K – Getting it together
CA (ICAS), Vol.105. No.1137. April 2001: p30-32 (2 pages)
● *A study conducted by KPMG suggested that only 17% of mergers and acquisitions actually improve shareholder value. In 30% of mergers there is little in the way of movement up or down, and in 53%, shareholder value is less after the deal than before. The author reports on how mergers and acquisitions can mean bad news for shareholders, unless the vital work of integration and assimilation quickly follows the drama of the initial deal.*

Keegan M – Corporates raise the standard for the reporting revolution
International Accounting Bulletin, No.286. 30 April 2001: p8-9 (2 pages)
● *The authors report that it is time to take action on non-financial reporting and for corporations themselves to rise up and storm the barricades. The authors look at the PricewaterhouseCoopers ValueReporting framework which has four key elements – market overview, value strategy, managing for value, and value platform – through which ValueReporting provides the company with a comprehensive way to evaluate and structure its communications to the marketplace.*

Smith M – The network option – a valuable marketing tool
Accountant, No.5968. March 2001: p14-15 (2 pages)
● *In the professional services marketplace, marketing is playing an increasingly prominent and sophisticated role. Marketers must fulfil the future business needs of their firms and develop a greater understanding of the tools available to them. This is especially true of small to medium-sized firms.*

http://www.icaew.co.uk/library.htm

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Welcome to the virtual business world

Companies are now in a position to derive huge future benefits from sophisticated technology. PricewaterhouseCoopers partners **Martin Harmer** and **Jacky Ross**, both co-authors of books on aspects of this e-future, discuss its possibilities in terms of the virtual office (including virtual shared services), and the virtual finance function.

'At work', you may nowadays be on a plane, at a client site or in your home. Where we work is no longer defined by job title or who employs us. Wider access to more complete and accurate information via both wired and wireless web technologies is improving business processes, employee work/life balance and overall business efficiency.

The new workplace: connectivity

Technology, and the connectivity it enables, are driving these changes. In preparation for potential Y2K issues, companies scrambled to install uniform platforms for company-wide processes, and implemented enterprise resource planning (ERP) systems, amongst other things. While some still question the effectiveness of these systems, their installation set the stage for a radical change. With processes available to employees across web-based systems, geographical proximity of co-workers became less important.

The shared service organisation

This sophisticated technology enabled companies to 'lift' parts of a function and consolidate that function into a single unit. For instance procurement in a large company could be shifted from several single-office purchase agents to a single purchasing unit, capable of streamlining the process, reducing the number of vendors and negotiating better prices – a structure we think of as a Shared Service Centre. However, even this term is becoming dated, because now the 'centre' need not be housed in a single office. Shared Service Organisation would be a more accurate term for a single process-function unit serving a large company.

A B2E strategy

Moving beyond uniform software platforms and email, this technology is now changing how companies manage and communicate with individual employees. Early adapting corporations are now installing Business to Employee (B2E) portals.

A best-practice B2E program starts with a strategy that crosses multiple corporate functions and business units. It includes the development of a multi-functional enterprise portal, the alignment of web and core technology investments, and the adoption of architecture and standards that allow companies control of their intranet initiatives. Implementing a B2E strategy requires clear senior executive sponsorship and a governance structure with the mandate to enforce standards and drive implementation.

While companies often make technology the focus of these projects, our experience has shown that 75% of this effort will focus on implementing the transformational change that the B2E program will cause on an organisation and its people.

This transformation will include a fundamental change in the way work products are produced and where work is performed. It will alter organisational structures, increase opportunities for innovation, and change ways of communication.

Personal and company freedom

These changes offer benefits for both companies and valued employees. Flexibility in work location can make employees' working lives more satisfying. Working from home saves employees money and time, reducing turnover rates and enhancing the company's reputation as an employer.

The choice need not be black and white. Employees can also combine work at office and home to provide the same working hour input with more quality time (eg working from home on Fridays, during long-term assignments on site with clients, thus providing a full week's work while enjoying four nights 'at home').

Other aspects of daily work are affected by 'virtual' offices, for instance meetings and training. The conference call is now being replaced by web-based technology that allows participants to see a common screen

Death of the abominable 'No'-man?

Andrew Hick of executive search firm Norman Broadbent, predicts the key qualities required for the finance director of the future.

Historically the finance director has been a 'bean counter'. Although it has long been a key board appointment, the job has previously focused on accounts, accounting, the provision of management information, control, tax, compliance, and sometimes IT. However, the role has begun to evolve.

Nowadays a thorough knowledge and analytical understanding of financial accounting, whilst still an integral element of the role of a successful finance director, is not the only pre-requisite. The days of the FD as 'goalkeeper', all too often exercising excess caution on, say, investment proposals (the abominable 'no'-man) are now long gone.

What companies currently look for in an FD depends on a number of factors, including whether the company is listed on the London Stock Exchange, the New York Stock Exchange or whether it is an owner managed business (OMB). Thus we must differentiate between what a UK Plc board will look for in a group finance director, what an American or other internationally parented organisation will look for in a European finance director, and what private companies require. Even taking these three sub divisions as a starting point, we will not have the complete picture because there are many permutations on what is required of a finance director, largely dependent upon the strategic ambitions of the organisation.

CA, or not CA?

Around 10 to 15 years ago, to be a Fellow of the Institute of Chartered Accountants was widely considered the 'badge of office' for a group finance director of, say, a FTSE company, but this is not necessarily so today. From the early Nineties, the FTSE 100 and 200 have exhibited examples of individuals who have come, not through the traditional 'Big Five' accounting route, but through management consultancy and/or hold an MBA.

Such individuals generally have good honours degrees, and often previous line experience. The reason for appointing them is not their financial accounting ability, but their ability to put together highly successful teams of accountants, controllers and other financial officers adept at these functions and with the ability to 'spiral up' the management information required for strategic decision-making.

Such a finance director is a conduit between the board and the finance function, and their purpose is to analyse management information in order to be in a position to advise the board on, for instance, acquisitions, divestments and new business ventures. The role is now more to do with risk management, capitalisation, debt equity ratios and presentation of the group's financial strategy to the City than it was in the past.

Whilst Fortune 500 companies and OMBs may not be looking for investor relation experience in a finance director, what they will seek is someone with the ability to define and implement financial strategy. Therefore an OMB may be looking for someone with the ability to take the company to market and a Fortune 500 company might look for someone to implement group strategy on a financial level in the region within which they operate.

Whilst retaining the ability to 'drill down' into a business, finance directors now clearly have a broader role to play.

The future

It is apparent that the type of finance director an organisation seeks will depend very much on the board's corporate/commercial strategy. In a on their personal computers, to answer surveys that are instantly tabulated, to ‘raise a hand’ by clicking on an icon and to address everyone on the call when required. With this technology a company can conduct a single interactive training session with scattered workers, or a meeting with geographically disparate peers.

The dwindling of geographical importance also affects large-decision issues. For example, when considering a merger or acquisition, the knowledge that your combined functions can sit literally anywhere in the business world makes the location of a proposed partner irrelevant, freeing you to concentrate on other criteria.

The challenges – managing the structure

Like most opportunities, these come with inherent challenges. How to manage the new structure? What equipment and software to provide to enable ‘virtual offices’ (usually in employees’ homes)? How to create and maintain a corporate culture, building camaraderie among team members? How to determine which workers to trust with the flexibility of working – without direct supervision – from home? How to communicate to a dispersed work force?

Creative companies are devising methods of communicating information easily to all stakeholders.

time of rapid change and growth, a board’s focus should be on identifying an individual with relevant strategic experience. In a time of consolidation or recession, or with increasing global competition posing an ever-greater threat, margins will get tighter. It may be therefore that, as one client put it, they should look for “an FC, better placed at minding the shop”.

Given the undoubted attraction of having a finance director with a broader outlook, it is likely that those individuals who are currently gaining general management, IT and HR experience as European finance directors, will be best placed to become the FTSE 100 finance directors of tomorrow. Such roles would, more traditionally, have gone to group financial controllers.

Deciding what is required

Used wisely and well, an executive search firm can add great value to a recruiting corporate entity by making sure that the right team is put together at the right time to fulfil strategic objectives. Often a board will not be entirely sure what it needs in a group finance director. The natural inclination is to think of replacing ‘like with like’. This is not always a successful approach.

Whilst it is very easy for an executive search firm to concur with the client’s judgement, and more dangerous (commercially!) for the search firm to challenge such thinking, it is much more appropriate if a true partnership relationship is to be developed, that the client’s real, current and future needs are analysed. Traditional thinking must be held up for scrutiny. The client company must be confident that the recruiter will explore what it really needs rather than what it *thinks* it needs.

‘It is often the case that a candidate’s skill set is transferrable... ‘

For example, many companies say that sector experience is a prerequisite. However, it is often the case that a candidate’s skill set is readily transferable. The company might benefit greatly from fresh talent, with a very different outlook. Any group finance director “worth his or her salt” should be able to get up to speed quite quickly with the issues affecting any one particular sector. Presuming that most of the board and executive team have sector experience, why would the company need more? Looking outside the sector also widens the pool of talent upon which to draw.

The sort of experience that counts

For individuals looking to build a career in finance and reach the dizzy heights of group finance director of a FTSE 100 and perhaps beyond to CEO or chairmanship, it is important that they build the right experience in their CVs. By their mid 30s candidates should be able to demonstrate some experience of having worked within at least audit/risk management, and corporate finance, coupled with some real operational experience. It is also important that candidates have gained some international experience. It is less important than it once was to have financial control and management accounting experience.

Given the great demands made on group finance directors and CEOs these days, it is important that candidates are able to demonstrate great physical stamina and intellectual dexterity. Such individuals will undoubtedly need to be assertive in order to make a stand against strong board personalities, where necessary. They must also be pragmatic with the ability to build effective relationships with individuals worldwide and at all levels and, above all, they must be able to demonstrate real commercial strategic vision. In short, the finance director has become less ‘No’-man and more ‘Go’-man!

Norman Broadbent is a UK-based executive search firm specialising in board and senior management appointments. Tel: 020 7484 0000 or visit the web site: www.normanbroadbent.com

Andrew Hick works within Norman Broadbent’s Financial Management Practice. Email: andrew.hick@normanbroadbent.com

Mark Weedon and Richard Pooley of Norman Broadbent also contributed to the above article.

American Airlines owner AMR, for example, is truly a company of virtual offices. Its 100,000-plus workforce includes pilots, flight attendants and mechanics who may rarely step into a corporate office. So corporate leaders furnished every employee with a PC.

This seems to have paid off royally. Company stakeholders are now in touch across a single community network, each connecting from his own location. Corporate executives report a workforce with increased enthusiasm and responsiveness, higher morale, lower staff turnover, higher productivity and a better understanding of corporate communications.

There is another important issue when working in a connected and distributed world: security. This includes not only web-related risk management, but also the ethics of employees working in unsecured locations.

Moving beyond – the virtual finance function

We have seen the implications of technology driven 'virtual offices'. What changes will this technology have on finance as a function?

According to PricewaterhouseCoopers' latest book, 'eCFO: Sustaining Value in the New Corporation', many CFOs see a trend toward an increasingly virtual finance organisation, representing 'a smaller, smarter outfit'. How will this virtual finance function operate?

From an area that governs traditional financial processes, we expect the finance function's agenda to move toward creating value from finance itself. This drive toward virtuality will transform core finance tasks, eg:

- *transaction processing* – over the past decade, companies have reduced headcount and cut costs by establishing Shared Service Centres (SSCs). This has improved efficiency on many fronts, including procurement, customer invoicing, accounts payable, accounts receivable, and general accounting. We expect process efficiencies to continue to increase in best practice companies, with all non-strategic finance tasks migrating to service centres. As these centres mature, outsourcing will offer further opportunities to transform core competences away from those that do not add value;
- *working capital* – operating at 'the speed of e' will affect companies' dependence on working capital. If transactions are instantaneous, with instant settlement, there is no need for working capital at all. Think of a cashless model, ie:

  – no accounts payable: a buyer enters an order and payment authorisation is automated;
  – no accounts receivable: funds are transferred via the bank or direct debit;
  – customised production: an order triggers sequenced release of material from all vendors;
  – WIP inventory only: product is made to order and shipped direct; and
  – reserves only: as only exceptions are manually processed;

- *treasury* – the CFO's corporate treasury function is in a strong position to support B2B. Cost reductions and process efficiencies can be achieved by taking advantage of recent software developments, settlements over the internet, and new or alternative banking services. Furthermore, the trend toward outsourcing key services now includes treasury activities; and
- *decision support* – more and more emphasis will be placed on finance's contribution to decision support, supported by integrated analytics (iAnalytics) – the collection, aggregation, management, distribution and analysis of balanced information that positively addresses stakeholders' decisions. We will see finance take advantage of decision support systems by becoming deeply involved in extensive systems building, new and fresh intellectual capacity, and advanced analytical resources.

Conclusion

Today, web-enabled technology offers exciting opportunities for you personally and for the finance function as a whole. While there are inherent challenges to these changes, taking advantage of the new economy's possibilities can change your workday – and contribute to elevating your corporation's finance function to becoming a truly value adding strategic partner.

Martin Harmer is a partner in PricewaterhouseCoopers' Financial Management Solutions. Martin is co-author of 'Shared Services, Adding Value to the Business Units' (John Wiley & Sons, 1997).

Jacky Ross has global responsibility for the eBusiness agenda of the CFO at PricewaterhouseCoopers. She is co-author of, 'eCFO, Sustaining Value in the New Corporation', (John Wiley & Sons, 2001).

LIBRARY AND INFORMATION SERVICE – SUMMER CLOSURE 2001

The Institute Library will be closed from Monday 6 August to Monday 27 August (Bank Holiday Monday), reopening on Tuesday 28 August 2001. This is to allow for essential housekeeping and IT developments, which cannot take place when the normal service is operating.

Projects will include a major review and reorganisation of the stock to ensure the collection is up to date and easy to use. Ongoing work will include the development of LibCat, the on-line book and journal article catalogue, the Library's web site and Links pages. All of the projects are being carried out so that Library staff can continue to improve the high quality service they provide to members.

During this time, members with urgent information needs can still contact the Library by leaving a message on the 24 hour answerphone on 020 7920 8622 or sending an email to: library@icaew.co.uk. Books can still be returned by post or left with the Commissionaires at the Copthall Avenue entrance to Chartered Accountants' Hall.

Susan Moore
Librarian

Shareholder value through stakeholder management

In his Faculty lecture, **Mark Thomas** of PA Consulting Group outlined how stakeholder value dynamics can be used to remedy some of the hitherto perceived shortcomings of managing for shareholder value. Helen Fearnley reports.

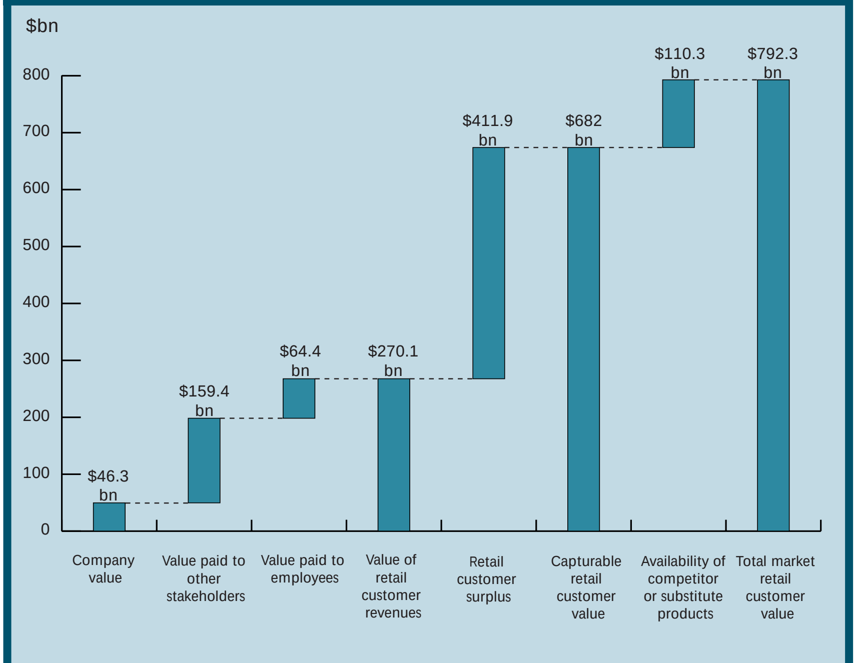
According to a recent PA Consulting Group survey of UK chief executives, 96% claim maximising shareholder value to be their principal objective in managing their business. Yet, Mark Thomas observed, in practice only about 10% of European companies are truly managed for shareholder value. The gap between theory and practice, he suggested, has its roots in some serious reservations managements have about the process, including their gut feeling that managing for shareholder value is too financially-based and short-termist, has an anti-growth bias in its metrics, and ignores other stakeholders.

However, these criticisms are surmountable, Thomas said, by applying the broader-based technique of stakeholder value dynamics (SVD). This improves on traditional shareholder value management in three ways – by providing:

- a coherent view of long-term value creation;
- more robust answers than the purely financial; and
- enormous added value in practice.

The stakeholder value system (SVS), he explained, extends conventional thinking to deliver shareholder returns reliably. It does so by applying rigorous analysis to highly dynamic problems while retaining absolute clarity on the superordinate goal of maximising shareholder value.

FIGURE 1 STAKEHOLDER VALUE AS A REGULATED MONOPOLY



A coherent view of long-term value creation

The SVS addresses many of the shortcomings of simple shareholder value techniques by considering the needs of other stakeholders, taking a longer-term view (removing the anti-growth bias), and providing a coherent perspective on value creation.

A business has two choices in the value equation, Thomas said – to shift value (providing more for one of the stakeholder groups at the expense of another, triggering value-destroying reactions), or to increase absolute value, to the benefit of all. Clearly the latter is the only sustainable way to grow value.

However, that might suggest an oversimplification – that all value shifting is bad. Shifting value can work up until the point that other groups become dissatisfied – the drawback being that the point of dissatisfaction is difficult to predict. For example, simply increasing prices might be a way of transferring value from customers to shareholders, but this has to be done with care: if customers feel that they are being given poor value for money, they will cease buying. The paradox of stakeholder value is that each side in any transaction must consider that it receives surplus value in the deal. In other words, the customer will only buy if he feels that he is getting slightly more than he is paying for, while the company only sells if it is making some sort of profit.

Figure 1 (*left*) shows how the various elements of value are apportioned in a sample company. As it demonstrates, the capturable retail customer value, and even the significantly smaller customer revenues taken (after 60% of that capturable value has been 'sacrificed' as customer surplus), both far outweigh the value created for any of the other direct stakeholder groups. Hence customer value is a vital element – possibly the *most* vital – in the value creation equation.

More robust answers than the purely financial view

SVD acknowledges that there are causal links between the hard and soft elements in a business, and that any analysis which ignores any of these elements risks being wrong-footed by 'second order impacts'. And by considering all aspects of the business dynamics, the system provides remarkable predictive accuracy.

This amount of detail can produce an initially confusing picture (*see Figure 2, below*). The 'full' story for the no-frills People's Express airline abounds with detail. However, each of the loops within the overall figure is simple enough. Looking at the inner loop within the 'physical assets' quadrant, for example, it becomes clear that this is a self-reinforcing one – the more passengers flown increasing revenue, thus earnings, enabling investment in more capacity, leading to more passengers flown.

However, the interaction between these loops shows that in the 'customer value' quadrant, 'customers' – which feed across into 'passengers flown' in the first loop – are a product of another self-reinforcing loop involving product attractiveness and service quality.

Perhaps, then, it should be no surprise that after initial success the (inadequate) staffing levels, and hence falling level of service quality and product attractiveness led to fewer customers/passengers, and eventually the airline collapsed (not foreseeable by looking at the revenue loop alone).

In general if you can identify and quantify the causal loops, you can predict outcomes.

Adding enormous value in practice

Two studies of well-known businesses having successfully used SVD as a predictive tool seemed to prove its accuracy and ability to add value.

Airbus, seeking to time its investment programme optimally, had a graph of its traditionally cyclical business suggesting that a peak had just been passed (1987) and the next would occur in 1994 (based on a historic cycle of seven or eight years).

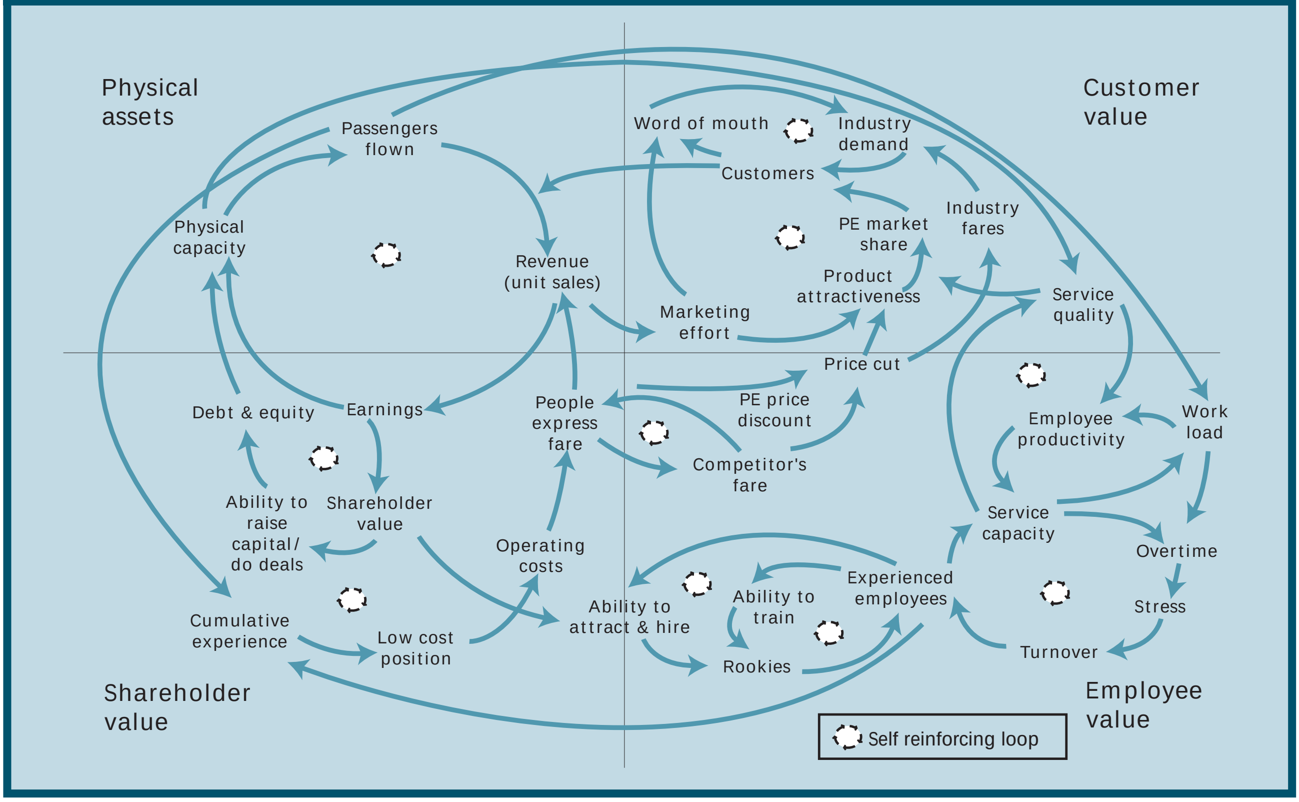
But SVD produced the highly counter-intuitive suggestion that the existing demand was set to continue growing until 1989 – with orders double the level at the supposed 1986/7 peak – and then slump dramatically over the next seven years. The prediction of this highly unexpected break with previous patterns was based on the tendency, at times of already strong demand, for customers to try to ameliorate the extended wait by ordering more – to cover their needs for a longer than usual period. It also allowed for the speculative positions taken up at high-demand periods.

And the prediction turned out to be entirely correct. Fortunately, Airbus had been able to time its investment perfectly.

Mastercard, after six years of declining market share and a history of failed turnarounds, finally underwent an analysis of its customer value drivers and their impact on shareholder value performance and customer value delivery.

The analysis showed 12 key drivers, and demonstrated that four of the top six such drivers – namely, 'increased average time to hold a card', 'increased response rate to solicitations', 'increased value-added services', and 'increased issuing bank preference' – were accomplished with the introduction of co-branded or 'affinity' cards. This was an option

FIGURE 2 THE 'FULL' PEOPLE'S EXPRESS STORY



which the management had already considered, but rejected for fear of giving away its core asset – the brand – to a competitor.

Armed with this new support for co-branding, Mastercard took that route, with dramatic early success, until other competitors inevitably found ways of halting the resulting decline in their own market share.

Conclusion

In conclusion, Thomas warned that although the ideas behind SVD seem so familiar that managers may feel they are already applying them, this is rarely the case. He pointed out the discrepancies:

- while many organisations are clear about their superordinate goals, most are only paying lip-service to shareholder value without creating true alignment of their strategy and other key business processes;
- managements believing they have an intuitive feel for the importance of other stakeholders and take them into account are often not doing so in any quantitative or fact-based way; and
- a management's conviction that it is aware of the dynamics of its own marketplace and plans its strategies accordingly often means that it understands only individual dynamics without any understanding of how they interact, and ends up ignoring most of them.

Hence, a management team satisfied that it is doing a good job of creating shareholder value may well be presiding over an organisation among the near-50% of European businesses actually destroying it.

Mark Thomas works within PA Consulting Group's strategy and marketing practice, helping major organisations to resolve issues of strategy and align their management processes with the creation of long-term shareholder value. He was previously director of corporate development for UniChem. Mark has an MA in mathematics from Cambridge and is an associate fellow of the Institute of Mathematics and its Applications.

To learn more about dynamic strategy email him at mark.thomas@paconsulting.com or telephone 020 7333 5426.

MARKETING **UPDATE**

Valuing customers

Alan Mitchell explores the limits of espousing 'life time customer value', and suggests the calculation can be complex.

Life time customer value is on everyone's lips nowadays, with good justification. It is helping to shift companies' focus from transaction to relationships, and to focus precious marketing and corporate resources. But the idea is not without its drawbacks.

If consultants are to be believed, life time value is simple. First, calculate different customers' life time values. Then, having identified the truly valuable customers (and the customers who, frankly, add little value at all) withdraw resources from marketing to and servicing the least valuable ones, and focus your efforts on those that really matter. Hey Presto! More bangs for less bucks!

But it is not that easy. Some companies' customer data is held in different databases (product transaction histories, for example). So getting a 'single view' of the customer is a major task. Then you have to calculate a meaningful value. Most times, the values people talk about are simple, generalised averages across a range of variables: customer type, number of products purchased, at what value, over what time period etc. The result doesn't tell you much about what John Smith in particular will do next.

More fundamentally, the logic of marketing 'de-averaging' – focusing on the 20% of customers who provide you with 80% of your profit – often clashes with the inner logic of your operations. If you have a plane with 200 seats, and only the front 40 are filled with frequent-flying business class customers, you still need to fill the other 160 seats. If you really want to cherry pick high value customers you don't only need a life time value marketing strategy. You need a completely different operational infrastructure.

And there's another drawback – a single life time value figure doesn't tell you everything you need to know about a customer.

Reconfiguring

A few years ago, one major bank thought that it had cracked the whole life time value calculation and was on the point of reconfiguring its marketing strategy when it realised that many of its least profitable customers – who were earmarked for 'dismarketing' – just happened to be its most ardent ambassadors. Their word of mouth recommendation was generating vast amounts of free new business for the bank.

In business-to-business relationships companies realise that the truly valuable business partner is not only the one who buys most from you, but who helps you achieve your objectives. Now, we are realising this is true in consumer markets too.

Life time customer value is a useful concept, if treated carefully. A life time customer balanced scorecard would be even more useful.

Alan Mitchell writes extensively on marketing and finance, and is a former editor of Marketing *magazine.*

FINANCIAL REPORTING
UPDATE

Deferred tax

In his latest column on financial reporting, **David Chopping** looks at FRS 19 Deferred Tax, which replaces SSAP15 for periods ending January 2002 and onwards.

David Chopping is the technical partner of Moore Stephens, London. He is a member of the technical and practical auditing committee of the Auditing and Assurance Faculty.

The last of the ASB's most recent tranche of standards is FRS 19 Deferred Tax, the replacement for SSAP 15. The new standard applies for periods ending from January 2002.

The basic approach adopted by the new standard is very different from that of its predecessor. SSAP 15 required a partial provision approach, meaning that companies only accounted for deferred tax to the extent they expected it to become payable or, more rarely, recoverable. Many companies had to look at their budgets, particularly capital budgets, in determining whether or not tax would be payable.

Minimises

Consistent with the ASB's approach in other areas, FRS 19 minimises the impact of expectations, and is based far more clearly on the company's actual position at the balance sheet date. The general rule is that deferred tax:

- should be recognised in respect of all timing differences that have originated but not reversed by the balance sheet date; and
- should not be recognised on permanent differences.

In principle, except for permanent differences, whenever there is a difference between the amounts charged to income in the accounts and the amounts included in tax computations this will give rise to deferred tax. The simplest, and most common, example of this will continue to be the difference between capital allowances and depreciation. If capital allowances have been received in excess of the depreciation charged, then this will give rise to a deferred tax liability.

In the case of revaluations, there will normally be no deferred tax. This is because revaluation gains are not normally credited to income, but taken via the revaluation reserve. The only exceptions are where the amounts are dealt with in the profit and loss account, for those companies which mark to market, and where there is a binding agreement to sell a revalued asset which has been entered into before the balance sheet date. Even in this case, no provision should be made where there is an expectation that the gain can be rolled over into new assets.

Of course, deferred tax need not always give rise to a liability. It could also create an asset. SSAP 15 did not prohibit deferred tax assets, but did make them very rare. FRS 19 has made it slightly easier to record a deferred tax asset by removing some of the specific tests required by SSAP 15. The other side of the entry for deferred tax is the entry in a performance statement. The basic rule is that deferred tax should be taken to the profit and loss account, unless the item which has given rise to the deferred tax has been taken to the statement of total recognised gains and losses, in which case that amount of the deferred tax should be dealt with in that statement.

Consistent

In another change from its predecessor, under FRS 19 companies are allowed, but not required, to discount their tax liabilities. Having made that decision, companies then need to be consistent in future years. In order to discount deferred tax amounts, companies need to know when their timing differences will reverse.

This should be determined by taking account of the remaining tax effects of transactions that have already been reflected in the financial statements. However, unlike under SSAP 15, no account should be taken of other timing differences expected to arise on future transactions. The discount rates that should be used are those on government bonds with maturity dates equal to those on the deferred tax assets or liabilities.

In terms of balance sheet presentation, most net deferred tax liabilities should be classified as provisions for liabilities and charges, while assets should be classified as debtors, under a separate subheading if material. Assets and liabilities should only be offset if they relate to taxes levied by the same tax authority and can be offset in practice. In terms of the profit and loss account, all deferred tax should be included within 'tax on profit or loss on ordinary activities'.

FORTHCOMING FACULTY EVENTS – 2001

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.

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

'THE BALANCED SCORECARD' – ROBIN BELLIS-JONES, MANAGING DIRECTOR, BELLIS-JONES, HILL & PRODACAPO.

The balanced scorecard has established itself as a definitive management tool of the 21st century enabling the vision of a strategy-focused organisation to become a reality. The lecture will begin with a short introduction, moving on to discuss implementation issues and then concentrating on maintaining momentum and the areas of difficulty commonly encountered. Registration 5.45pm; lecture 6.00pm; buffet and networking 7.00pm.

● 16 October
BREAKFAST SEMINAR
(Chartered Accountants' Hall, London)

'BUDGETING AND PLANNING FOR THE 21ST CENTURY' – JOHN MCKENZIE, ARMSTRONG LAING.

This seminar looks at the increasing inability of budgets to deliver, and explores ways for companies to develop more dynamic budgeting processes that go beyond numbers and tie in with the way businesses consume resources whilst still providing appropriate controls in today's changing business environment. Registration/breakfast 8.00am; seminar 8.30am-9.30am.

● 25 October
ONE DAY CONFERENCE
(Chartered Accountants' Hall, London)

'SHAREHOLDER VALUE – FROM MEASUREMENT TO MANAGEMENT' – SPEAKERS FROM SHAREVALUER, ATC, MARCONI, CADBURY SCHWEPPES, BAE SYSTEMS, KEPLER ASSOCIATES, AND VALUE PARTNERSHIP.

This conference considers both the 'measurement' of and the broader aspects related to the 'management' of value creation. Specifically the conference will cover issues such as: understanding the investors' perspective on value creation; identifying appropriate performance measures to guide value creation; using software tools to support value creation; and understanding and overcoming the implementation challenges inherent in 'managing for value'. Registration 9.00am; conference 9.30am-4.25pm.

RECORDINGS OF FACULTY LECTURES

Recordings of the London lectures 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.

THIS MONTH

BEYOND BUDGETING
Robin Fraser and Peter Bunce of the Beyond Budgeting Round Table CAM-I Inc illustrate how to manage performance better without budgets.

Myth or magic – the NLP story

Dawn Holberton of CGR, business psychologists, describes the ways neuro linguistic programming (NLP) can be used to improve performance at the personal, team, and organisational levels.

Dawn Holberton is principal consultant at CGR, a firm of business psychologists. As occupational psychologists and trained NLP practitioners they apply psychological and NLP techniques to bring business solutions to their clients' needs. For further information contact Dawn on 020 8427 0777 or view CGR's web site:www.cgr.co.uk

Uttering the phrase 'neuro linguistic programming' can engender a sardonic curl of the lip in the listener, who may recall one of the abundant stories of subliminal manipulation, hypnotic hard-sell tactics, and of the sect-like belief of 'converts' that they have absolute power over others and themselves. None of these is really possible. But the stories result from the claims of certain courses, promising 'unlimited wealth', 'the relationships you want', 'control of any situation' etc. However, these are not the claims or intentions of NLP.

Personal and business excellence

In its true form NLP is simply a set of tools and techniques to achieve personal and business excellence. It is built on theories and models of psychology and linguistics. A key underlying concept is identifying and modelling excellence. If we understand the thoughts, language and behavioural patterns of someone who performs something brilliantly we can then model our thinking, behaving and communication accordingly.

An early example of modelling is Erickson, a famous therapist, excellent at putting his clients at ease by naturally mirroring their body language – their posture, voice tone and language patterns. NLP practitioners have learnt to model this 'mirroring' to enhance rapport-building, which in turn improves ability to communicate, to resolve conflict and to influence others.

How can NLP be used?

NLP's tools can be used at all levels of a business. At the organisational level, they can establish values; align values and strategy; integrate customer expectations; set corporate goals; and improve customer service.

At the group, team or departmental level, NLP techniques can enhance: management skills; approaches to training; specialist coaching skills; communication and co-operation; motivation; sales effectiveness; presentation skills; and customer service skills – both face to face and telephone based.

At the individual level, specialist NLP techniques are used to achieve personal effectiveness, motivation, confidence, communication, stress management and other attributes.

Who uses NLP?

NLP is used by an ever-growing number of organisations – though some do not know it. NLP techniques are often introduced within the context of courses and HR projects and are never billed as NLP. Consequently, NLP is often referred to by clients as 'that interesting approach you taught us'. Examples include:

- a strategic values project with the board of the insurance arm of a bank – this set values and adjusted the communication, co-working and decision-making processes of the board to be in line with values;
- a cohesion initiative with one department of a city law firm in which partners were developed in recognising different behaviour and communication styles, adapting to different styles to achieve win-win communication/negotiation and also using rapport-building techniques to manage teams and clients;
- development of senior managers in a global accountancy firm to improve the skills of managing teams and to increase personal effectiveness by managing stress and their own development; and
- shifting the culture of a banking call centre from emphasis on call volume to call quality by training supervisors in NLP techniques for people development and training agents in rapport-building.

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