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The monthly newsletter for members, with news, views and updates on current topics.



Faculty of Finance
and Management

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Top performers on value added

We report on the Department of Trade and Industry's publication of the first value added scoreboard. See page 16

FORTHCOMING EVENT ...

Intangibles

18 September – Don't miss the Faculty conference to be held at Chartered Accountants' Hall, London, on 'Measuring and managing intangibles'. Speakers include David Phillips of PricewaterhouseCoopers; Dr Robert Shaw of Marketing Best Practice Ltd; consultant Andrew Mayo; and Keith McMillan, professor at Henley Management College.

For further details and booking form – see page 15

IN THIS MONTH'S MAILING ...

Good Practice Guideline

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How to control marketing

Dr Robert Shaw of MBPI Management Consultants looks at the relationship between finance and marketing.

STRATEGIC ENTERPRISE MANAGEMENT

The keys to success

In his recent Faculty lecture entitled 'Strategic enterprise management – delivering strategic finance and leveraging the ERP investment', **Martin Fahy** of the National University of Ireland described a path to better decision-making. Helen Fearnley reports.

Martin Fahy's lecture, staged jointly by the Faculty and The Chartered Institute of Management Accountants (CIMA), examined the renewed relevance of strategic enterprise management (SEM). One reason for SEM's popularity is that companies see it as – and enterprise resource planning (ERP) vendors promote it as – a way to maximise return on ERP investment.

Although financial managers have been bombarded with management tools and techniques in the past 15 years, Fahy said, these innovations have been more written-about than understood, with more sellers than buyers. SEM, though, stands out as one technique with the relatively rare advantages of being self-administered (rather than requiring expensive 'experts'), and not reliant on any particular technology.

The drivers of the SEM approach Fahy enumerated the many demands with which CFOs struggle today:

- too much reporting and scant time for analysis;
- a manually intense process (despite huge new technology spends);

- unavailable or unstandardised data;
- user-unfriendly systems;
- lack of data integration and integrity;
- organisational communication challenges;
- an unstable technological environment;
- tools incapable of handling a dynamic environment; and
- Excel and calculators remaining the standard for getting and conveying information.

New technology still causes integration/separation problems whenever a company changes structurally – eg through acquisition, spin-off or changed product range. Hence the humble spreadsheet remains the crucial software.

There is also a different emphasis now, Fahy explained, in that management is expected to be able to link strategy to action in real time, formulating and executing that strategy almost continuously. With shorter product life cycles, the changing nature of the market place, and

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Keys to success – from page 1

uncertain futures, the emphasis is on strategy formulation and maintaining operational excellence. Meanwhile the amount of effort in support activities has been driven down through automation and outsourcing.

Life is now more difficult for group finance controllers, decision support systems managers and finance managers trying to retrieve and integrate all the relevant information needed for strategy setting.

Twenty years of unfulfilled promises According to Fahy, finance's response to the continuous strategy setting challenge has been "twenty years of unfulfilled promises to management". Proposed solutions such as activity

based costing (ABC), strategic management accounting, the balanced scorecard (BSC), ERP, shareholder value management (SVM), benchmarking, low value purchase cards and the AP process, shared services, fast-close and, latterly, e-finance and the e-CFO, all share similar flaws. They lack scalability and robustness, and are difficult to integrate with core systems. As a result, as CIMA research shows, they have achieved relatively low levels of penetration, with 35% or less of companies adopting them fully.

What is needed now, he ventured, is a new approach to finance systems, and a recognition that an organisation's real 'killer application' is the effectiveness and capability of its finance staff.

In a strategic context, an organisation creates value for shareholders through designing and building a sustainable business model to deliver customer value. It manages the levers of the business to create shareholder value.

Successful decision-making

Particular companies win because they are smarter and better at decision-making. This excellence is partly informed by a set of useful techniques such as ABC, the BSC, and SVM, which become the overriding feature of the decision-making.

But essentially, such companies are just good at managing their own skills, culture, and decision-making process – and this may be vital for long-term survival. Indeed, there is ample evidence of companies failing despite the right brand, the money, the staff and the installed base.

Successful shareholder value creation is about better decisions, not better systems. It also requires sufficient time to think about how best to manage the organisation at the strategic level.

What is SEM trying to do?

Strategic activity falls into four main categories:

- 1) business guidance and control;
- 2) business problem analysis;
- 3) business learning; and
- 4) business direction-setting.

Business guidance and control concerns everything that has happened in the last month or quarter, and



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looks at the outcomes of particular decisions. Sometimes this monitoring reveals business problems – eg falling profits – which have to be analysed and dealt with. Hence the first two categories of strategic activity take up a large amount of management time.

As a result, the business learning and business direction-setting tend to be starved of attention. Yet these two are crucial to successful strategy.

Business learning – ie understanding the business levers – enables management to predict the outcome of specific decisions. And with proportionately more investment in the complex areas at the front end of the value chain – customers, brand-building, distribution, markets – it is increasingly important to understand these outcomes. Only when that mental model is grasped and shared, is it possible to engage in direction setting activities.

Hence strategic enterprise management – decision-taking and resource allocation – has been carried out for decades. First it was undertaken with slide rules, then with Excel spread sheets, and now a new generation of tools has emerged for use with Excel.

Systems like spaghetti

The problem is that, in reality, most organisation's systems look like spaghetti. There are different operational systems running on different platforms (resulting from acquisitions, or alliances), and other sources of diversity.

Traditionally, this is 'solved' by putting in extra programmes, prac-

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For full details of the Faculty
committee, please see page 9

tices and manual intervention to convert this tangle into useful information for people elsewhere in the organisation.

Fahy painted a familiar picture of what then happens every month:

"Everybody extracts all the information they have and e-mails it in. Intra-group differences are eliminated, totals are checked, the entries for last month's figures are scrutinised in case they have subsequently been amended and checks are also made for any movement in inventory. Someone then puts all this data in a spreadsheet and presents it to the executive committee.

"All that works fairly well. But then the questions come back. The CEO asks 'Can we get information on 'Y' out of our system', whereupon a group of people turn to each other and wonder 'What system is that?'"

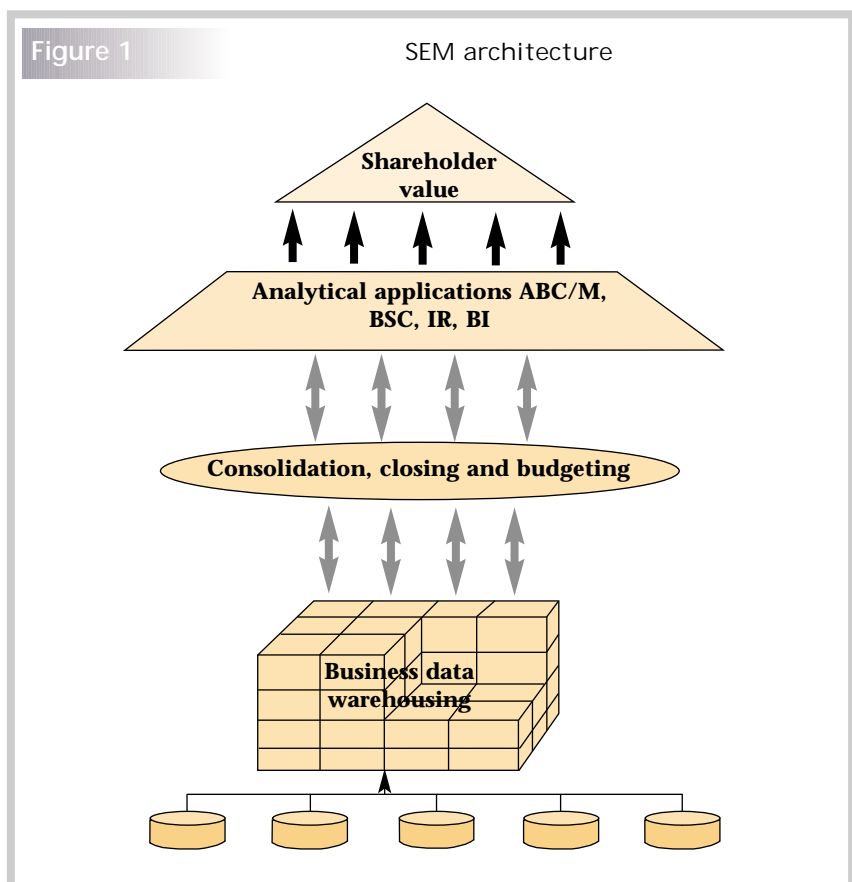
The oracle-like 'system' exists only in the CEO's imagination. Those responsible for providing the answers are struggling to support an unsatisfactory regime, while the questions come in thicker and faster. So nobody goes on holiday at the quarter-end, nobody touches the spreadsheet, and everybody has to leave a 'cheat sheet' for understanding their own figures.

The set up is miserable, said Fahy, and cannot continue.

The 'typical' systems scenario
The 'typical' systems scenario is varied. Some organisations have no ERP in place, relying purely on Excel or, in some cases, also using an integrating tool like Frango or Hyperion. This works – Excel is incredibly robust, and the natural tool of choice for last minute adjustments – but requires a lot of intervention.

Others have an ERP system, have put in SAP all over the place, but are still not using SAP's consolidation solution and rarely use its planning solution. Instead they rely on Excel.

Yet others rely on a 'best of breed' solution, taking ERP and dumping it into Hyperion, even dumping it into data warehousing, then feeding it into Hyperion's vehicle for consolidation,



then into Excel, and, finally, into Powerpoint for presentation.

Traditional reporting methods
Meanwhile, Fahy revealed, research by CIMA into traditional management reporting systems in organisations has produced some key findings:

- inefficiency is creating more work, involving more people;
- finance tends to be a small team (and few within it are invited to discuss 'big ticket' issues);
- there is a gap between the shareholder value rhetoric and its delivery. Organisations still live on a diet of earnings, despite fund managers' declared preference for cash flow as the basis for their assessments;
- finance – the putative 'business partner' – spends its time on accountability, conformance and performance;
- organisations are 'technology constrained', every innovation introducing a new constraint;
- there is technique and technology fatigue;
- 'strategic finance' exists, but in unexpected areas – eg to make

something happen a budget is required, hence budgets are a way of moving an organisation in a certain direction. (Capital expenditure proposals, mergers, acquisitions and, increasingly, investment in brand-building and intangibles are similarly strategic);

- people are working with systems while trying to change them; and
- the concept of 'thinking like outsiders' is a struggle.

The last item is particularly tough. The finance culture has traditionally favoured a 'heads down' approach to extracting and presenting the figures, yet what is needed is a 'heads up' outward-looking attitude. Finance is failing to recognise that CEOs want strategic, external, balanced information from their systems, and continues to give them summarised, internal, financial data.

The emerging SEM approach

The problem, Fahy continued, is that many SEM solutions on offer make things worse. They tend to be about looking down, using corporate performance monitoring, data mining and

data warehousing tools to pull information up. They bombard people with more and more of what is essentially irrelevant information from an executive committee point of view.

Instead SEM – looked at from a very non-proprietary point of view – ought to be about giving finance professionals better tools and approaches to leverage any ERP investment, become more effective at decision support, meet the continuous stream of requests for analysis and information from senior executives, and participate in better decision-making.

Figure 1 (page 3) is a sort of generic architecture of what SEM might look like technologically. At the bottom sit the organisation's underlying systems, including the inevitable 'spaghetti' discussed above. These feed into some sort of data warehouse or finance warehouse in which information can be manipulated, ie 'sliced and diced'. That, in turn, will feed very structural applications – things like consolidation, the monthly and quarterly closing, the annual budget.

Above that are more analytical applications such as ABC, the BSC and investor relations (IR) plus newer things – like workforce analytics, environmental performance, triple bottomlining.

At the top is shareholder value creation – the overriding informing principle of SEM.

Unfortunately, this model cannot be delivered as quite such a neat technological solution. 'Glue' – ie the inevitable spreadsheet – is required to hold it together. However, what the model does offer is a cerebral system for improved efficiency, in which Excel and other end-user technologies can be employed for thinking with, rather than for processing.

Finance needs a more holistic approach

Most organisations have all the information, and the necessary technology exists. But what is ultimately going to make it work are their SEM processes and their SEM people.

Who's in this space?

In terms of who is providing SEM advice, the ERP providers (SAP, Oracle, PeopleSoft) are active, the Big Four all have SEM service offerings (in the UK Deloitte is particularly active), point solutions such as ABC and the BSC also exist to assist SEM, and then there are also second tier solution providers such as Armstrong Laing, Hyperion, Prodacapo.

The relevant techniques for effective SEM – performance management, activity based management, and shareholder value management – have all been available for some time, though unfortunately in the SVM area there tends to be far greater awareness than understanding. Many companies are still unwittingly destroying value.

What is SEM going to do?

Using tools and techniques from the above range of providers, organisations should be enabled to make better decisions. Decisions such as which customers and products deliver the bulk of profits, and why? What parts of the business are creating shareholder value, and how? What are the levers of the business model, so that we can configure it better? The answers will let the board concentrate on the decisions that matter.

This 'learning through doing' – not purchasable in any all-encompassing solution – is part of the SEM procedure out of which come the right people, processes and mental models.

Important lessons

Certain lessons are important:

- get the technology right for what you want (and that will require investment);
- there are no new techniques, only good management and good finance;
- successful SEM should enable you to answer big ticket questions – to think like an MBA, not an FD;
- the biggest challenge – making the concept 'stick' – won't happen if you treat it as a project. You have to know that you have the right people, who understand the business – accountants or not; and
- the learning is in the doing.

Conclusion

SEM is about asking 'what do we want the finance function to look like in 2006?', and technology is only ever going to be a partial solution. A more holistic approach is required if finance, as a profession, is to survive.

Finance needs to be a value added partner of strategic finance, Fahy warned. "If we don't do it, someone else will." **F&M**

Useful web sites

CIMA Strategic Enterprise

Management – dedicated information portal on SEM from the Chartered Institute of Management Accountants featuring the full text of the first SEM survey (13 pages, PDF) and useful listings of online/offline SEM resources. It also provides two overview documents on ERP and SEM in PDF.
www.cimasem.com

Strategic Enterprise Management

(mySAP Financials) – the SEM homepage from SAP which includes an overview of the system alongside solution briefs and case studies.
www.sap.com/solutions/financials/key_capabilities/sem/

Enterprise Strategies – resource centre from PeopleSoft, an ERP vendor which supports SEM through its

Enterprise Warehouse product. It features white papers and case studies with an emphasis on its system.

www.peoplesoft.com/corp/en/ent_strat/index.asp

Enterprise Resource Planning (ERP)

Research Center – information rich web site from CIO magazine with a useful ABC of ERPs, articles, metrics and a listing of ERP web sites/vendors.
www.cio.com/research/erp/index.htm

ERP Central – an ERP news web site, featuring an ERP directory and ERP forums alongside a newsfeed on ERP developments.

www.erpcentral.com

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

The outsiders



Regina Herzlinger is a CIMA visiting professor from Harvard Business School.

Management accountants have yet to make an impact on non-profit and government organisations. In her award-winning* article, **Regina Herzlinger** of Harvard Business School explains.

My past experience as a board member of nine large public companies and many small private ones has shown me, at first hand, the importance of managerial accountants in helping overseers to understand, evaluate and guide their organisations. And yet managerial accountants are largely missing in action when it comes to non-profit and government organisations.

Their absence is unfortunate. Non-profit and government organisations require the assistance of management accountants even more than business organisations. Because they lack the innate oversight mechanisms of businesses (ie paying customers and owners), non-profits and governments need managerial accounting information to help them plan and evaluate their activities more intensely than businesses. Managerial accountants can play a critical effective oversight role.

After all, many of the clients of non-profit and government organisations are hardly in a position to press for accountability. Picture the homeless as the embodiment of the helplessness of non-profit and government clients. Like them, other clients are often poor and/or in a debilitated physical and emotional state. Nor can they increase

accountability by taking their business elsewhere. They frequently do not pay the full cost of the services they receive and the organisation providing the services is typically a monopoly.

Although the ability of voters for government officials to hold managers accountable for their actions is somewhat akin to that of the owners of a publicly traded corporation, the voters have substantially lower power than shareholders. The feedback of owners of a public corporation can be as

Many clients are hardly in a position to press for accountability

quick and specific as a stock trade, in response to specific management actions. But voters' feedback is limited by the calendar to election day and cannot be tied to any one specific action. (The growing popularity of referenda is attributable to the voters' desire to provide more specific feedback to the government.)

All the oversight groups involved with non-profit organisations acutely understand this accountability shortcoming.

Three-quarters of non-profit executives noted 'a problem of openness and accountability' in the non-profit sector and more than half predicted that 'public confidence in non-profits will continue to erode'. Non-profit board members and volunteers understand the problem too. All too many of them feel that their efforts do not yield commensurate results.

The importance of this problem becomes apparent in view of the high level of involvement overseers have with non-profit organisations. For example, virtually all US Fortune 500 CEOs serve on non-profit boards – 36% of them serve on six boards. Nearly that percentage spend a whopping 10 or more hours a month on board service. And more than a sixth of the US population serve as volunteers in non-profits.

A primary reason for their discomfort is that non-profit organisations lack even the most primitive information about the results they achieve. Consider, for example, the estimable non-profit organisations that rehabilitate injured people. Their intent is surely noble. But their theory that every dollar produces corresponding social benefits had 'nothing to back that up', in the opinion of *The Chronicle of Philanthropy* (see References page 8). It took a major study to reveal that many of their trainees were not employable even after completing the programme.

* The International Federation of Accountants' (IFAC) Financial and Management Accounting Committee selected this article as the winner of its Articles of Merit 2001 Competition, an award programme for distinguished contribution to management accounting.

TABLE 1

Four questions

- Have we achieved our goals effectively, efficiently, and in relationship to our resources?
- Have we been fair to different generations and types of people or have we favoured one group at the expense of another?
- Have we appropriately matched the organisation's activities and the resources they use?
- Have we diversified sufficiently to sustain our activities?

Government organisations, too, suffer from the absence of the accountability information produced through managerial accounting. As a result, the trust in governmental organisations has steadily eroded, from a high of 80% in the halcyon days of the Kennedy presidency in the US to the low of 20% 30 years later.

The lack of accountability surely contributes to the precipitous drop in voter turnout. In the US, only 33% of eligible voters turned out for the 1998 Congressional elections, down from 59% in 1960. Contrast this with the growth in the percentage of American households that own stock – from 19% in 1983 to a staggering 48% in 1999. Why the difference? Surely one

reason is the absence of information in the governmental sector and the deluge of information in the financial one.

Does accountability information make a difference in the performance of non-profits and government organisations?

It is impossible to provide a definitive answer because of general absence of accountability data; but two case studies indicate the possibilities. In New York State, the publication of data about the success of providers who performed open-heart surgery caused substantial decreases in death rates from the procedure and increases in the volume of the more successful

providers. Similarly, in New York City, simple counts of crime cases and of the success of local police officials in solving them are generally credited as the leading causes of the sharp decreases in crime rates.

Why then, given the intense need for their services, are management accountants notable for their absence in non-profit and government organisations?

I believe one reason lies in the absence of a generally accepted framework for accountability in these organisations. While businesses use widely adopted frameworks such as economic value added, the balanced scorecard, or the dashboard as instruments of accountability, non-profits and governments have none. Attempts to adapt business accountability mechanisms to the non-business sector are awkward at best because the purpose of non-profit and government organisations is so different from the business sector. For example, while economic value added is an important tool for measuring the financial results of a business, it is virtually meaningless for organisations whose purpose is not to generate economic returns from the capital invested in them.

On the basis of the 35 years I have spent researching and working with non-profit and government organisations, I have developed the *Four by Four Report* to serve as such an accountability instrument. It addresses the *four questions* that are of particular importance to the *four constituencies* (clients, donors, staff and society) of non-profit and government organisations (see Table 1 page 5).

The answers to the questions present multiple dimensions with which to measure the organisation's success and to develop new courses of action.

The *four constituencies* each require different answers to these questions.

The *donors* want the organisation to achieve the purposes for which they gave funds, either as donors or taxpayers, in an effective and efficient way.

The *clients* want the best quality services, and as many of them as possible.

TABLE 2 The 'Four by Four Report'

Clients' report

1. *Goals?* Have we achieved clients' goals in a manner that is effective, efficient, and appropriate to our resources?
2. *Distributional equity?* Are we fair to different generations and types of clients?
3. *Match?* Have we matched long-term clients' goals with long-term resources?
4. *Diversification?* Do we use sufficiently diverse resources to achieve our clients' goals?

Donors' report

1. *Goals?* Have we achieved donors' goals in a manner that is effective, efficient, and appropriate to their donated resources?
2. *Distributional equity?* Are we fair to different generations and types of donors?
3. *Match?* Have we matched long-term donor goals with long-term resources?
4. *Diversification?* Do we use sufficiently diverse resources to achieve the donors' goals?

Staff's report

1. *Goals?* Have we achieved staff's goals in a manner that is effective, efficient, and appropriate to our resources?
2. *Distributional equity?* Are we fair to different generations and types of staff members?
3. *Match?* Have we matched long-term staff goals with long-term resources?
4. *Diversification?* Do we use sufficiently diverse resources to achieve the staff's goals?

Society's report

1. *Goals?* Have we achieved our goals in a manner that society considers effective, efficient, and appropriate for our resources?
2. *Distributional equity?* Are we fair to different generations and members of society?
3. *Match?* Have we matched society's long-term goals with long-term resources?
4. *Diversification?* Do we use sufficiently diverse resources to meet society's goals?

The *staff* members want to feel that their work is appreciated, rewarded, and used in helpful ways.

And let us not forget about the other major constituency: *society*. Society grants non-profit organisations a tax-exempt status and funds government organisations so that they can achieve socially important goals. The taxpayers that effectively subsidise these organisations have every right to inquire about the effects of their subsidy.

Most of the time, society lacks the voice, but when it is thwarted its voice becomes powerful indeed. Think about the front page of the *New York Times* or a *60 Minutes* story as the voice for society's concerns.

As shown in Table 2 (see page 6), they each want to know if the organisation has done the right thing for them.

THE FOUR BY FOUR REPORT

- To illustrate the accountability effect of the four questions in the *Four by Four Report*, let us examine the case of the US government's social security programme. As shown in Table 3 (right), the social security administration fares poorly on all four questions.
- To illustrate the accountability aspect of the four constituencies in the *Four by Four Report*, consider the case of a controversial 1999 exhibition by the Brooklyn Museum of Art of a collection owned by the UK's Charles Saatchi (Table 4).

The 'Sensation' exhibition caused a raging fire-storm. New York City's popular Mayor Rudolph (Rudy) Giuliani objected not only to the subject matter of the exhibition, which included a Madonna smeared with elephant dung, but also to the secrecy surrounding contributions to defray the expenses of the exhibition. Giuliani contended that Saatchi planned to sell some of the art objects in his collection and was using the exhibition to inflate the value of his holdings. The Mayor cited a contribution by Sotheby's, a major art gallery affiliated with prior sales of Saatchi's art, as evidence of his thesis. He had every right to object because the

TABLE 3 The four questions

A government example: social security

1. *Mission v resources?* Poor, as shown by huge deficit.
2. *Equity?* Poor, current payers finance past generations, and low-income current payers finance high-income past generations.
3. *Match?* Poor, long-term needs are financed by short-term pay-roll tax.
4. *Diversification?* Poor, taxes are sole source of funds and government securities sole investment.

Brooklyn Museum is a tax-supported organisation.

On the other hand, one purpose of a museum is to enhance people's visions of the world. Displaying cutting edge art is surely one way to achieve that purpose. As the director of New York's Metropolitan Museum of Art notes, "Our obligation is to broaden appetites... [We must] have the integrity and the independence to present things that are not obvious subjects for the public." Further, the museum argued that the Madonna picture was not offensive if it were viewed in the cultural context of the African artist who produced it. Dung is not an unknown material in that culture. As for the Saatchi and Sotheby contributions, they were legitimate ways to defray the substantial expenses of mounting a special exhibition.

Like other professionals, their loyalty was split

These costs are barely dented by the admission fees that are usually charged for these exhibitions. Notes the director of New York's Salomon R. Guggenheim Museum, "It's absolutely for sure that museums cannot survive on admission alone. If you were to look at... our budgets and divide by the number of visitors, the average price would have to be around \$75."

But, just as the Brooklyn Museum was

TABLE 4 Responding to the four constituencies

Example: The Brooklyn Museum's Sensation Exhibition – the Saatchi Collection

Clients?

- Cutting-edge art, including a Virgin Mary portrait smeared with dung.

Donors?

- Charles Saatchi donated \$160,000 and was given considerable control over the exhibition.
- The art gallery Sotheby's contributed too, perhaps in anticipation of selling some of the works in the exhibition.

Staff?

- Their role was diminished by donor. Employees 'fretted that Mr Saatchi was taking over'.

Society?

- New York City Mayor withdrew government support.
- *New York Times* printed many unfavourable stories.
- Saatchi planned to sell some of his collection after the exhibition.

gaining ground in these defences, a new source of complaint arose from its professional curatorial employees. They groused publicly about interference by Mr Saatchi in their display of his art objects. In retrospect, the public airing of their views was not surprising. Like other professionals, their loyalty was split between the mores of their profession and the institution for which they worked. In this case, their professional norms won out.

How could the *Four by Four Report* have helped this unfortunate situation?

To answer this question, consider the *Four by Four Report* in Table 4 (above). Had it been available to the overseers, they could have contemplated the costs and benefits of the exhibition more clearly, including the apparently unanticipated negative response from the staff and from society, in the form of Mayor Giuliani. The *Four by Four Report* could also have served as a useful accountability mechanism to the public. After all, the complaints about

the Saatchi and Sotheby donations focused more on the secrecy of the donations than on their nature.

As *The New York Times* noted, "The public was surprised, during the 'Sensation' show... at how museums raise money from people who have commercial interests in the art being shown... Is disclosure the answer?"

● A complete example is provided by Williams College. When Williams College announced in 1999 that its record endowment level, swollen to over a billion dollars by the buoyant US stock market, would enable it to maintain current prices for education in the forthcoming year, it expected plaudits. And, indeed, the move was hailed by some college administrators as bold, novel and appropriate.

But, to its surprise, the announcement was greeted with criticism too. Some complained that the funds should have been used to increase the diversity of students; to provide more financial aid; or to increase the programmes or faculty.

In the *Four by Four Report* terms, Williams was making an inter-genera-

TABLE 5 **The *Four by Four Report* – Williams College**
Decision not to increase tuition

	Donors	Students	Faculty and staff	Society
Missions v resources	?	?	?	?
Equity?	?	Future generations: OK Other students: ?	?	?
Match?	?	?	?	?
Sustainability	?	?	?	?

tional transfer by using current gains in the endowment to benefit future students. But the move was viewed as inadequate. As one current student noted, "I don't think it's any act of generosity... to make the college more affordable, it's just a fact of the American boom. A more extraordinary announcement would have been that they're hiring more faculty, or they're giving a free ride to... students from Appalachia, or South Africa, or inner-city blacks... that's the school's challenge."

As indicated by the many question marks in Table 5 (above), a complete *Four by Four Report* would have

enabled the college overseers to forecast these responses.

The *four questions* would have raised the issues of whether these funds should be used to change the resources devoted to programmes (question 1) and whether more long-term funds should be allotted to the long-term goals of faculty or financial aid expansion (question 2) or to diversify the student body (question 4). Similarly, the four constituencies' analogies would have revealed that donors, students, staff, and society may see more important uses for the money than freezing tuition and fees.

As a result, Williams College could have better anticipated the responses. For example, it could have used the increased endowment to benefit all four constituent groups in ways that responded to more than one need. And if it had determined that freezing educational fees was the best and only use for the endowment, a *Four by Four Report* would have better prepared the college to respond to its critics. Non-profit and government organisations must become more accountable to their constituents.

The *Four by Four Report* is a tool that managerial accountants can use to fulfil this important function. **F&M**

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The Faculty committee

The Faculty committee exists to allow members to be democratically involved in the management and development of the Faculty. It works with the Faculty team – headed by Chris Jackson – in setting strategy, setting the work programme, and reviewing the output of material for quality and relevance. The committee members, who are elected for three-year terms, meet quarterly, but carry out much additional work by e-mail and phone. They come from a broad range of backgrounds and include financial directors and managers (of organisations ranging from Plcs to SMEs and owner-managed businesses), interim managers, management consultants, those in practice and in academia. Over the next three pages we provide a brief guide to each current member of your committee.



Christopher Pearce – chairman

Christopher Pearce, the newly elected chairman of the committee, recently retired as group finance director of Rentokil Initial. During his 13 year period there group profits grew from £37.5 million to over £400 million. Christopher was also chairman of the Hundred Group of Finance Directors (representing the FTSE 100 companies) from 1997 to 1999.

Previously he had spent 10 years in the profession, including five years with Cooper Bros, and then 17 years in merchant banking.

Christopher retains non-executive directorships, both as chairman of the audit committee for Debenhams plc and as a Rentokil Initial pension trustee, and he is also a trustee of the Booker Prize for literature.

He feels that, as managing a business and, particularly, managing a finance function becomes more and more demanding, both with business demands and with increasing regulation, it is crucial that the Faculty continues to provide whatever service members need to keep ahead.



Charles Bartholomew

Charles Bartholomew, most recently financial strategy director for Consignia, has taken early retirement to choose a new direction.

At Consignia he initially had responsibility for the accounts, management reporting and treasury of Royal Mail. He was then asked to set up and be a director of the first joint venture, in catering, and to provide the finance input to the Postal Services Bill, the group financial framework and balance sheet structure and management and, recently, regulatory accounting.

His career also includes finance directorships in vending, housing and metal trading businesses, corporate finance for GKN, and the Stock Exchange case at the OFT.



Ruth Bender

Ruth Bender is a lecturer at Cranfield School of Management. She specialises in finance and corporate financial strategy, teaching a wide variety of subjects on the MBA, short courses and in-company programmes. Prior to joining Cranfield in 1994, she was a partner in Grant Thornton, and also worked as a venture capitalist.

Ruth is completing a PhD, researching the way in which FTSE companies set their executive directors' remuneration. She is the co-author of *Corporate Financial Strategy*, Butterworth Heinemann, 2002.

She believes the Faculty is fulfilling its role of providing useful, practical information that either has immediate use in members' work, or keeps them abreast of leading edge thinking in relevant areas.



Lois Bentley

Lois has her own firm, Bridges Freelance Management, undertaking a mixture of interim management and consulting work. After qualifying in 1983 with Finnie Ross Allfield (now part of Stoy Hayward) she moved to KPMG.

Between the two, she gained widespread experience of both consultancy and mainstream audit business, in small and larger companies – one of the most exciting (KPMG) projects was the flotation of Yorkshire Television.

The Faculty, she believes, plays an important role in “enabling finance people to contribute to other business issues, be they strategic, marketing, human resources or operational”.



Kevin Bounds

Kevin Bounds is a director in KPMG's consulting practice, specialising in financial management in retail financial services. He also has substantial line experience, having been CFO at a number of financial service companies.

Kevin joined the committee after discovering the Faculty's 'mission' matched his own views of how the finance profession needs to develop. He believes passionately that finance has to make a difference and that to do so, it needs new skills, new outlooks and new approaches.



Mark Garratt

Mark is UK managing director and group finance director of Cater Barnard plc.

Since qualifying with Grant Thornton he has worked exclusively in commerce and has been a finance director since 1995. Since 1999 he has been working in mixed roles continuing as finance director but also acting as the principal corporate finance adviser for first a West End boutique and, since July 2001, for Aim-quoted Cater Barnard.

He would like the Faculty to eventually be seen as the premier voice and centre of knowledge for all accountants in commerce.



Peter Franklin

Peter Franklin currently undertakes interim management roles in the financial services sector and has held both finance

and operations directorships in major financial institutions. Also he has had responsibility for strategic planning, compliance, risk, disaster recovery, company secretarial and IT.

Since 2000 he has undertaken interim management assignments including: ING Barings, Nationwide Treasury, TCA, Black Sea Trade and Development Bank.

Peter was previously director of operations, EBRD; finance director, Rea Brothers; director of operations and finance, NatWest Markets; vice president, Prudential-Bache; and head of international control, Salomon Brothers.

He feels strongly that the Faculty must embrace all those in business who can benefit from the quality of the product provided.



Helen Jesson

Helen Jesson joined the committee in May, with extensive experience in both practice and industry.

She spent nine years with KPMG, predominantly working

on one-off projects including flotations, disposals and due diligence for clients including BAe, Carpetright, EDS, and Johnson Matthey.

Helen moved into industry in 1995, first with the Hilton Group, later joining United Biscuits (UB). She became finance director UB Belgium, overseeing a challenging integration of a substantial new acquisition, including introducing a new transaction system and a data warehouse.

Helen left UB shortly before the birth of her daughter last September and intends to return to finance work very soon. She feels the Faculty is ideal for connecting both with management experts, to learn about current theories, and with other finance directors and executives, to share experiences.



Geoff Seeff

After qualifying in 1970, Geoff undertook doctoral research into the relationship between accounting

information and non-financial measures of effectiveness. He then joined Coopers & Lybrand in corporate finance and management consultancy, moving to the consultancy of Stoy Hayward as a director in 1978.

At Stoy Hayward he gradually began to specialise in property, construction and urban regeneration. He was seconded to the Department of Environment in 1987/88 as head of the grants appraisal unit of the Inner Cities Division.

In 1990 Geoff formed a specialist regeneration consultancy in partnership with Widnell, an international firm of quantity surveyors and project managers. Since its merger with Currie & Brown in 2000 Geoff remains as a director of the consulting division.

Geoff is keen for the Faculty to continue its focus on the interests and concerns of non-auditing chartered accountants, to ensure that their financial management skills are valued above those of any others in that field.



Douglas Shanks

Douglas is sales director at Numerica – an evolution of his previous role as 'new business' partner at Levy

Gee, the cornerstone firm of the newly floated Numerica business services group.

Douglas' years as a director of AZTEC, South West London's Training and Enterprise Council, where he was chairman of the audit committee, have left him firmly believing that business needs to invest and to be seen to invest heavily in its people. Numerica expresses this ethos by its support of the web-based sports sponsorship programme Going For Gold, of which Douglas has been a director since its 1998 launch.

He believes that "the Faculty's quality output provides real practical value to business members". He also feels the success of the Faculty "will materially add to the modernisation of the Institute's image, and to branding FCA as the pre-eminent cross discipline business qualification".



Bob Sweeting

Professor Bob Sweeting is executive head of accounting and finance at Manchester

Metropolitan University Business School and is in charge of the Business Development Centre.

His interests include the strategic development of organisations, accounting innovations and adaptations, venture capital provision, performance management and integrated business risk management.

The work is international and includes collaborative research with, for example, the American Institute of Certified Public Accountants into the changing work and role of accountants in industry and commerce.

He is actively involved with new business development initiatives, which involve the partnering of national and local government,

business groups and academic institutions.

Bob hopes his role on the committee helps "to provide a bridge between the worlds of business and academe".



John Tranter

John Tranter is finance and information director for Eaton-Williams a £45 million turnover air conditioning company.

He was active in the management buy-out of Eaton-Williams in 1995 and its subsequent successful exit via a trade sale to Nortek Inc in 2000. In June 2001 he was involved in the acquisition of Colman Moducel and was responsible for its assimilation into Eaton-Williams. John has recently completed an MBA at Cranfield School of Management.

John's interest is in the Faculty making relevant, leading-edge knowledge and techniques more accessible to the members, particularly those in SMEs.



Colin Whipp

Colin Whipp qualified with BDO Stoy Hayward and is currently chief financial officer with Eckoh

Technologies plc (formerly 365 plc), in an interim manager capacity. His previous interim management appointments have included European CFO for the media division, Omnicom Inc (2001); CFO, Travelselect.com (2000); and finance director business services division, Telewest Communications plc (1999).

Colin has also previously been finance director of Scholl plc, Bertelsmann GMBH-Book Club Associates, and Bacardi Europe (within Bacardi Martini). Colin sees the Faculty's role as "adding value to membership of the Institute, and providing members with a better understanding of finance and management". F&M

Time for CFOs to step up

As investors home in on business fundamentals and credible accounting, the CFO's traditional oversight of planning and performance takes on new urgency. **Timothy Koller** and **Jonathan Peacock** of McKinsey explain the issues and suggest four key principles.*

The chief financial officer's job has become more complex in recent years as mergers and acquisitions, financial structuring, and managing relations with investors and analysts have demanded increasing amounts of time and attention. At the same time, the potential value that the CFO adds in a more traditional role – as guardian and leader of good planning and performance management – has lapsed into neglect. Today, as business fundamentals and credible accounting become the new touchstones by which investors judge corporate quality, many companies would benefit if their CFOs gave renewed attention to helping chief executive officers understand the performance of their businesses and to evaluating critical strategic decisions.

There is no question that mergers, financial dealings, and investor relations are important. Mergers can add significant value under the right circumstances, as can innovative financing. Good communications with investors and analysts can help companies avoid unnecessary market volatility and ensure that they get credit for the strategies they pursue. But for most companies, shareholder value comes from internally generated growth, through new products or services, new business, or cost and capital efficiencies.

One characteristic of today's business climate is a seemingly endless stream of advice about shortcuts that promise

to create value without much hard work. In just the past few years, executives have been exposed to value-based management (VBM); economic value added (EVA), also known as economic profit; the balanced scorecard; cash flow return on investment (CFROI); and a flurry of other performance measures. More recently, intangibles such as brands and knowledge have captured attention. Most of these ideas are good, and largely common sense, but none is perfect. And certainly none of them is a magic bullet that would make improving a company's performance easy.

Instead, the hard work of designing and implementing a successful planning and performance-management approach involves developing a method that works for your company. Even the most sophisticated financial measures will fail if they aren't adapted to your situation; a less sophisticated approach can create significant value if it is tailored to your industry and your company's needs.

With that in mind, here are four principles that CFOs can rely on to keep themselves – and their companies – on track.

1 Understand how your company creates value

It is surprising how many executives don't know exactly how their business units create value (by such measures as profits and cash flow). In our research we found that half the retailers in the US don't earn their cost of capital. Yet managers at many of these companies demonstrate an obsession with growth that will destroy value until such managers can figure out how to improve their returns on capital. In the pharmaceuticals industry, for example, where the leading com-

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panies manage to earn after-tax returns on capital in excess of 30%, growth has a much larger impact on value than do increasing returns. Yet many pharmaceuticals companies don't effectively measure or manage the value of their research, development, and product launch activities. This process need not be overly complex, but it must give management transparency on cash flow and on risk and returns on capital invested.

In the absence of authoritative planning leadership, it is easy for executives to focus on the wrong value creation measures. At one company, top managers agreed to vote on performance measures. Product innovation was popular with the management team. Analysis of the way the company really created value, however, demonstrated that product innovation was not nearly as important as customer service and process management. Focusing on product innovation was distracting top management from real opportunities to create value. The bottom line: understanding how your company creates value isn't conceptually difficult, but it does require a disciplined approach.

② Integrate financial and operational measures

Most planning- and performance-management systems are based entirely on short-term financial measures. Even a sophisticated financial measure such as economic profit, which calculates the return a company earns over its cost of capital, tells only where it has been – not where it is going. Nor do most systems identify the value drivers behind financial performance. These value drivers need to be easily conveyed to line management and also to be periodically reviewed and updated. Shorter-term metrics such as economic profit should be used in conjunction with indicators of longer-term performance – market share, for example – to avoid decisions that may improve value temporarily but destroy it in the long run.

The story of one leading consumer packaged-goods company illustrates the flaw of focusing solely on financial measures. One of this company's most successful business units reported substantial operating-profit growth year after year, consistently meeting or beating targets. As long as the unit

appeared to be doing well, senior management did not question its performance. Only later was it revealed that the unit achieved its profit growth by raising prices. In itself, this would not be a bad move, but over several years the effect of the price increases was to create an umbrella for competitors to take market share. Declines in market share eventually reached the point where operating-profit growth could not be sustained. The crisis that resulted led financial markets to lose confidence, forcing a major reorganisation.

The CFO is the guardian of good planning

For the CFO, creating the best performance-measurement system entails seamlessly integrating financial and non-financial measures. With such a system in place, managers can understand what drives financial results and have access to leading indicators that help them understand where the business is going.

③ Keep the measurement system transparent and uniform

Performance-measurement systems can take on a life of their own. One company created a corporate staff of dozens to calculate sophisticated financial measures accurately. As one might expect, the business units didn't believe, understand, or utilise these measures to run their businesses – largely because their managers were not involved in developing or adapting the system. At another company, the calculations were so complex that business unit managers had difficulty understanding exactly how their decisions would affect the results.

Another common problem stems from implementing parallel or even competing measures. Typically, only one measure is taken seriously, while others get lost in the system. One company prominently introduced economic profit as a novel performance measure but only as a supplement to traditional income-statement and balance-sheet metrics. Economic profit had no official status in planning and reporting sessions and never made its way into the compensation system. Despite all the effort, the new measure was ignored.

Measuring financial performance is an imprecise discipline, but any system should focus on the true drivers of growth and return on investment. Companies should start with a simple, directionally correct measurement, with figures from standard financial statements, as those are typically more useful than complex, theoretically correct systems. Further, companies should use only one system and language for budgeting, performance measurement, capital budgeting, and incentive compensation in an effort to avoid sending conflicting signals to managers.

④ Focus on the dialogue

The real purpose of planning and performance management is to help a company make better strategic and operational decisions. The best decisions are based on a superior understanding of the business – an understanding that comes from an effective dialogue within the management team or between business unit managers and corporate managers.

The best numbers will not replace judgment, nor should they. But performance-measurement systems will give senior managers a better understanding of the business units they oversee and help them to understand the overall business and to negotiate aspirational but realistic targets. And precise metrics will help them understand why business units do or do not meet performance targets and what should be done as a result.

The CFO is the guardian and the leader of good planning and performance management; he or she must not lose sight of the control dimension that the CFO role has traditionally included. By going back to basics, CFOs can bring to bear the capabilities, people, processes, and systems to deliver on the principles outlined here, and they can more effectively answer the critical questions investors are asking today about fundamental performance. The process may be less exciting than M&A and other higher-profile elements of the CFO's job, but it is the bedrock through which the creation of value is managed.

Tim Koller is a principal in McKinsey's New York office, and Jonathan Peacock is a principal in the London office.

LEGAL

Intelligent downsizing

Cutting staff costs requires careful consideration of all the implications. **Emma Peacock** of law firm Stephenson Harwood explains that inexpert execution of job cuts can give rise to at least three possible forms of extra liability, and that there are alternatives such as internal redeployment.

Many industries, including the Financial Services Industry have been affected by the economic climate and this uncertainty has led many organisations to 'downsize' their business. It is likely that more will follow in the near future. When downsizing includes the shedding of staff (as it usually does) it is vital that the 'need for speed' does not overwhelm the need for a fair redundancy process. In the absence of a fair process the additional liabilities created could be a severe blow to a business already in difficulty.

What are the potential liabilities? The major risks are compensation for unfair dismissal, a protective award and discrimination.

Unfair dismissal

Employees with 12 months' service are protected from unfair dismissal. A dismissal will be unfair unless it is for one of the five reasons in the Employment Rights Act 1996 (capability, conduct, redundancy, illegality or some other substantial reason) and it is carried out in a fair manner. Redundancy only applies if the business is closing, if the work carried out by the employee is ceasing or diminishing or if the business is ceasing to do business at the employee's place of work.

A fair redundancy process will involve fair selection and individual consultation and requires the employer to demonstrate (using objective evidence) that the employee chosen for dismissal is the most appropriate.

If employee performance is to be used as a selection criteria, it is essential to have a 'paper-trail' to back it up; it's no good trying to rely on under-per-

formance when past appraisals tell a different story. Other popular selection criteria include LIFO/FIFO but whilst seen by tribunals as fair, this is a blunt tool and may mean the loss of skills the business would rather retain.

Consultation means meeting with the employee to inform them that they are 'at risk' and to discuss possible alternatives to redundancy. Even if the company does not believe there are any alternatives the employee's views should nevertheless be sought during consultation. Employers can get caught out when under pressure to cut costs and employees are 'ear-marked' by them for redundancy before the process has started!

Offering an employee the statutory minimum will not engender goodwill

In the absence of proper selection and consultation an employee could claim compensation for unfair dismissal up to a maximum of £52,600.

Protective award

Further obligations exist if more than 20 employees at 'one establishment' are made redundant within 90 days.

Consultation must be carried out with either a recognised trade union or elected employee representatives. Failure to do so means that a tribunal could make a 'protective award' of up to 13 week's pay per employee.

Discrimination

If selection criteria have the effect of directly or indirectly disadvantaging

any group on the grounds of race, sex or disability, then this could give rise to claims of discrimination. Compensation for discrimination is not subject to any upper limit and may include damages for injury to feelings.

In essence, the more flexibility shown before the final decision to dismiss is taken to select for redundancy the better.

Are there any other choices?

There is always voluntary redundancy, as an alternative method of downsizing. On the other hand, what about trying to keep staff wherever possible? Internal redeployment, sabbaticals or even an agreed temporary cut in the working week are all measures recently used to avoid redundancies and can keep valuable employees with knowledge and skills 'on side' to avoid the time and expense of re-recruiting when business picks up again.

If severance packages are negotiated for employees, often the level of consultation expected by them is related to the size of the package on offer. Offering an employee the statutory minimum will not engender goodwill and is more likely to result in the employee receiving a tribunal claim.

Conclusion

The key has got to be getting the process right in the first place and this can include exploring alternatives to redundancy. The development at an early stage of a rigorous selection and consultation process will go a long way towards avoiding liabilities without deflecting the business from its objectives. **F&M**



Emma Peacock is a solicitor in the employment, pensions and benefits group at Stephenson Harwood. E-mail emma.peacock@shlegal.com

HUMAN FACTORS

Coaching the best out of your business



*Vicki Espin is a founding director of the Corporate and Executive Coaching Organisation Limited (CECO).
Tel: 0115 933 6100*

Many companies are turning to corporate coaching to give them an extra competitive 'edge'. **Vicki Espin**, an experienced corporate coach, explains its applications.

Corporate and executive coaching has been gaining popularity in UK organisations over the last few years for its ability to meet senior management development needs; spanning business, functional and personal skills, attitudes and behaviours.

In 1997 International Personnel Management Association (IPMA) research showed that stand-alone training increased productivity by 22.4% whereas training supported by coaching increased it by 88%. The right coach can give any organisation, small or large, major competitive advantage, and leading edge companies seeking innovative ways to develop their people are hiring professional corporate and executive coaches for leaders and for top teams.

What is coaching?

Coaching is a totally results-oriented approach. However, it is a completely different skill area from those of training, mentoring, counselling or consulting, in that it is goal-centric. It involves dynamic interaction through which the coach enables the client – and hence the relevant employees – to identify options and commit to taking actions that move them closer to achieving the ultimate goal.

The result is that the group 'mission' is not only driven down through the organisation, but also driven back up again by very focused employees at all levels. The documented results are quite remarkable and also tend to be sustained over a longer time period.

Why is corporate and executive coaching growing?

There are some clear organisational trends prompting business leaders to look for alternative ways to enhance

their own performance. These are:

- the increasing importance now placed on organisational culture as a way to retain good staff;
- increased time pressures;
- focus by business leaders on the impact of emotional intelligence;
- increased pressure to perform;
- focus by organisations not only on the need for people to perform but also on how they do so; and
- the emphasis that is being placed on the psychological contract.

What are the benefits of coaching to the organisation?

Coaches work in many different parts of the organisation, coaching individ-

uals and teams at all levels helping to improve performance dramatically in key areas such as:

- communication;
- leadership behaviours;
- business relationships;
- performance management;
- organisational change;
- career management; and
- succession planning.

Specifically, coaching adds value in a number of scenarios. It can:

- support formal classroom based training giving individuals the opportunity to explore how to integrate new skills and/or behaviours into the workplace as well as having a positive impact on performance;
- accelerate the personal development of individuals defined as 'high potential';
- underpin the effective implementation of organisational change, through supporting teams and individuals;
- support the induction of a senior person into a different role;
- act as a critical friend, motivator or independent sounding board to individual senior managers; and
- support senior people engaged in wider management development programmes including 360-degree feedback or assessment/development centres.

One constant in coaching is that it is focused purely on enabling people to consistently improve their performance. It creates the opportunity for each client to bring more of their potential into reality for the benefit of both the individual and the organisation. **F&M**

Survey support

A recent study of a number of Fortune 100 companies, showed that as a result of coaching they experienced improvements in:

- productivity (53%);
- customer service (39%);
- retention of senior people who received coaching (32%);
- cost reductions (23%); and
- bottom line profitability (22%).

In the same organisations the recipients of coaching reported the benefits to be improvements in:

- working relationships with direct reports (77%);
- working relationship with the boss (71%);
- teamwork (67%);
- conflict reduction (52%); and
- working relationships with clients (37%).

FORTHCOMING FACULTY EVENTS

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
HALF-DAY
CONFERENCE
(Chartered
Accountants' Hall,
London)

'MEASURING AND MANAGING INTANGIBLES' – VARIOUS SPEAKERS
This conference examines from several angles the growing interest in intangibles. David Phillips of PricewaterhouseCoopers discusses 'Finance'; Dr Robert Shaw of Marketing Best Practice Ltd, speaks about 'Marketing'; consultant Andrew Mayo looks at 'Human capital'; and Keith McMillan, professor at Henley Management College, speaks on 'Reputation'. Chairman of the conference is Tony Powell, director of Intellectual Capital Services. Registration is at 9.00am; the conference begins at 9.30am; summing up is at 12.45pm; and buffet lunch 1.00pm.
- 23 September
HALF-DAY
SEMINAR
(SFEU, Castle
Business Park,
Stirling)

'BEYOND BUDGETING' – JEREMY HOPE, CAM-I BBRT
This seminar looks at the case for moving away from traditional budgeting, which can be a handicap in today's evolving and turbulent markets. Companies must move from forecasting to real-time responsiveness and from centralised decision-making to devolved power and responsibility. Jeremy Hope, a BBRT programme director with CAM-I, explores this topic from various angles. Registration is at 9.00am; the seminar begins at 9.30am; and buffet lunch 1.00pm.
- 8 October
EVENING
LECTURE
(Chartered
Accountants' Hall,
London)

'ENTERPRISE PLANNING (ERP) SYSTEMS – DO THEY MEASURE UP?' – DENNIS KEELING, BASDA
How does one measure the return on investment in enterprise planning systems? Dennis Keeling, business software analyst and chief executive of BASDA, the international software standards body, outlines the pros and cons of these systems, and looks at software industry trends, including those which improve productivity and reduce costs. Registration is at 5.45pm; the lecture begins at 6.00pm; followed by drinks and networking at 7.00pm.
- 7 November
EVENING
LECTURE
(Chartered
Accountants' Hall,
London)

'LEADERSHIP UNPLUGGED – A NEW ROLE FOR FINANCE DIRECTORS?' – STEVEN SONSINO, LONDON BUSINESS SCHOOL
How can finance directors, who are usually the most knowledgeable individuals, become more persuasive and even more influential within an organisation? Steven Sonsino, a fellow of the Centre for Management Development at London Business School, provides some ideas. Registration is at 5.45pm; the lecture is at 6.00pm; the buffet and networking start at 7.00pm.

RECORDINGS OF FACULTY LECTURES

The following lectures and conferences held by the Faculty in 2002 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.

- 28 JAN **MANAGING THE CHANGE – PERFORMANCE MEASUREMENT IN THE PUBLIC SECTOR**
Tony Dart of the Highways Agency explains the changes he has made to the planning and implementation system at the agency, and looks at the future of the finance function.
- 18 FEB **VALUEREPORTING – A REVOLUTION?**
David Phillips of PricewaterhouseCoopers explains this new technique including how to manage for value and the benefits of greater transparency.
- 15 APR **STRATEGIC ENTERPRISE MANAGEMENT**
Martin Fahy of the National University of Ireland, Galway, discusses strategic management accounting decisions aimed at increasing shareholder value.
- 28 MAY **PAY FOR PERFORMANCE – DIRECTORS' REMUNERATION**
Ruth Bender of Cranfield School of Management discusses the structure of directors' remuneration in the context of creating value for shareholders.

Top performers on the value added scoreboard

The Department of Trade and Industry's publication of the first value added scoreboard shows the wealth created by each of the top 500 UK and top 300 European companies in terms of value added in 2001. **Helen Fearnley** reports on the winners and losers.

For the first time, companies can easily benchmark their value added performance against that of their nearest competitors, the average for their industry, and themselves.

In its newly established tables showing individual companies' 2001 wealth creation through value added the Department of Trade and Industry (DTI) has used information from the companies' audited published annual reports. Value added is taken to be 'sales, less bought-in components and services', and can be calculated from profit before interest and tax by adding back employee costs, depreciation and amortisation. The tables also show value added per employee, and as a percentage of sales.

The DTI is punctilious in pointing out that value added is not the only – nor even the best – measure of company performance. The tables are not comprehensive, it adds, only those UK companies with over £100 million of value added being included in the UK top 500, and similarly only companies with some £950 million value added qualifying for the European top 300.

Japanese and US companies are excluded as their published accounts

do not include the necessary information on employee numbers and costs.

Nevertheless, for those companies featured, the tables provide a fascinating insight:

- total value for the UK 500 was £427 billion, for the European top 300 £1081 billion, up 17% in each case. On average, a company's value added was 35% of total sales;
- the top 10 UK companies by value added accounted for 29% of value added by all 500 top UK companies. They comprised four banks, two oil and gas, two telecomms and two manufacturing companies;
- the top 10 European companies by value added (three of which were UK companies) represented 17% of the total for that grouping. The constituents included three banks, three oil and gas, and three manufacturing companies;
- listed companies predominated in both categories, accounting for 79% of value added by the UK top 500 and 91% of the value added by the European top 300;
- the sectors' relative contributions to value added differed between the UK top 500 and the European top 300. Both the UK and the European

THE TOP 10 COMPANIES FOR OVERALL VALUE ADDED CONTRIBUTION IN 2001 (£bn)

- 1 Shell – 25.66
- 2 BP Amoco (now BP) – 22.96
- 3 HSBC – 13.41
- 4 GlaxoSmithKline – 11.86
- 5 BT – 11.33
- 6 Vodafone – 8.34
- 7 Royal Bank of Scotland – 8.15
- 8 Unilever – 7.23
- 9 Barclays – 6.91
- 10 Lloyds TSB – 6.27

categories showed manufacturing to be the biggest contributor of value added (31.6% and 40.2% respectively), but in the UK this was followed, in descending order, by retail and services (19.1%), resources (18.3%), finance (15.8%) and infrastructure (15.2%). For the European top 300 manufacturing was followed by finance (21.6%), infrastructure (16.2%), retail and services (11.1%) and resources (10.9%); and

- value added as a percentage of sales – a measure of vertical integration – varied from 75% for banks, 50% to 60% for mining, telecomms and pharmaceuticals, to 18% to 25% for retail. Most other categories fell in the range 25% to 40%. **F&M**

To order a hard copy of the value added scoreboard call 0870 150 2500.

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