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Britain's new business gurus

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Lecturer Carolyn Haworth of Reuters and Faculty committee member Mark Garratt pictured at Chartered Accountants' Hall (see full lecture report on page 7)

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September conference

Book your place(s) for the Faculty conference in London – seats are selling fast. The conference is being held on the morning of 20 September, in London, followed by a buffet lunch. Full details of the content of the conference can be found on page 11.
Tickets are £50 for Faculty members and £75 for non-members.

AGM report

At the 20 June Faculty AGM, acting chairman Peter Welch welcomed aboard Paul Edwick of Lucy Locket Ltd who was recently elected to join the executive committee team along with re-elected committee members Kevin Bounds of KPMG Management Consultants and Lois Bentley, Bridges Financial Management. They will serve until the 2003 AGM.
He went on to cover the various developments during the preceding year within the Faculty, including the growth of membership to over 10,000.

Diary date

A lecture on 'Shareholder value' will be given on 31 October 2000 by Matt Davies, director of ATC Continuing Professional Development Ltd. Further details will appear in the August issue.

On-line volunteers needed

The Faculty is seeking volunteers to take part in trials for a forthcoming series of on-line lectures, entitled MQ Online.
The lectures, which are paralleled by FFM journal *Management Quarterly*, will deal with corporate strategy, human resources, marketing and finance.
They are due to be trialled as soon as the volunteers are marshalled.

Interested parties should make themselves known to Chris Jackson at tdfmf@icaew.co.uk

Half year membership

We are offering half year membership of the Faculty from July – December at £29. Please recommend membership to friends or colleagues who you feel would benefit from the Faculty's services and publications.
To obtain an application form please call Debbie Came on 020 7920 8486.

Please note that all changes of address and other new details of Faculty members should be notified to the Institute's members' registration department (tel: 01908 248250 or email: finmreg@icaew.co.uk).

Who are Britain's home-grown business gurus?

Are all the worthwhile management experts overpaid and over there? After many years of almost exclusively following the theories of the US gurus, the UK is now producing some thinkers of its own. Business writer **Stuart Crainer** rounds up the not-so-usual suspects.

Cover illustration – ***from left to right***, Gerry Griffin, Costas Markides and Eddie Obeng

Modern management is a thoroughly American phenomenon. American thinkers have led the way since the evolution of modern management techniques and principles at the beginning of the twentieth century. The intellectual driving forces behind contemporary management have been American business schools.

American dominance may be on the wane

The signs are that this may be coming to an end, however. First, business schools are no longer the force they once were. The most influential business ideas of recent years have emerged from consulting firms, and business schools are now struggling to hold off a profusion of new competitors from corporate universities to the likes of Michael Milken's Knowledge Universe and the media group Pearson (which has struck a number of alliances with traditional education providers as well as launching its FT Knowledge offshoot).

The second portent of doom for America as the fount of all managerial wisdom is that American thinking and thinkers are ill equipped to deal with a truly global business world. American experts on managing cultural differences are few and far between.

The major thinkers on managing cultural differences are European – most notably Geert Hofstede and Fons Trompenaars.

Europe – particularly Scandinavia – enters the frame

The final reason for the potential decline of American management thinking is the rise of a new generation – perhaps the first generation – of European-based management thinkers. This movement is particularly strong in Scandinavia, home to gurus including Kjell Nordstrom and Jonas Ridderstrale, authors of 'Funky Business'; intellectual capital guru, Leif Edvinsson; and branding experts Jesper Kunde and Thomas Gad, creator of 4D-branding.

But what about the UK?

The UK is also increasingly influential in guru terms. Admittedly its record in producing management thinkers is surprisingly patchy given its shared language with America. Early thinkers included Lyndall Urwick (an enthusiastic convert to humanistic American thinkers like Mary Parker Follett), but British contributions to the leading edge of management thinking have been at best spasmodic. Recent years, however, have seen something of a renaissance.

The most notable figure in this has been Charles Handy. Handy's books have created a comfortable niche for the former academic, now nearing 70. In his quiet and undemonstrative way, Handy has brought major questions about the future of work and of society onto the corporate and personal agenda. Handy is best known for the books 'The Age of Unreason' and 'The Empty Raincoat'. His work has proved highly prophetic. He was wrestling with the implications of flexible working long before fashionable Californian magazines discovered free agents.

Handy has become a one-man case study of the new world of work on which he so successfully and humanely commentates. At a personal level, he appears to have the answers. Whether these can be translated into answers for others remains the question and the challenge.

Among younger British gurus, a number of names stand out as worthy of attention. Among the strategists there are Andrew Campbell of Ashridge Management College's Strategic Management Centre and London Business School's Costas Markides.

Campbell is co-author of the book 'Break Up', and an acknowledged expert on the role of corporate HQs.

Markides is particularly notable for his ability to demystify strategy. Markides has developed the idea of breakthrough strategy which returns managers to first principles. The entire aim of strategy, says Markides, is to "choose a unique strategic position". This requires answers to three simple questions:

- who should I target as customers?
- what products or services should I offer them?
- how should I do this is an efficient way?

Scase's lifestyle tribes

Also interesting is the work of Richard Scase, one of the select few who spend their entire working day identifying trends and changes in the working world. Scase is author of 'Britain in 2010' which suggests that the near future will see the emergence of 'lifestyle tribes', the growing importance of mobility over stability, and individual creativity rather than manufacturing capacity being the source of national competitiveness.

Scase argues that looking to the future need not be fanciful thinking, but can be conducted on a solid basis of facts and research. "People want to know about the future rather than the past," he says. "Things are changing rapidly but that means there is a greater need to look to the future and to create potential scenarios which can feed into the open-ended strategies companies will need to evolve."

SIX UK GURUS

- Campbell (Andrew) *'expert on the role of corporate HQs'*
- Griffin (Gerry) *'up and coming'*
- Handy (Charles) *'highly prophetic'*
- Markides (Costas) *'ability to demystify strategy'*
- Obeng (Eddie) *'charismatic'*
- Scase (Richard) *'identifying trends and changes'*

Another academic turned futurist is Eddie Obeng. Formerly based at Ashridge Management College, Obeng is founder of Pentacle – The Virtual Business School. The basic premise behind the Virtual Business School is that there needs to be a continuous link between learning and implementation.

According to the charismatic Obeng, such an ongoing relationship can be better served by an organisation built around networks of experts with low fixed overheads (though it does have a base in Beaconsfield) and constant communication with its clients.

"As a strategy moves forward, objectives will change so people need to learn at the right stages. You can't simply despatch them on a week's course beforehand," says Obeng. Course members use Lotus Notes, virtual reality simulations and short modular learning events to continually update their knowledge. This allows them to apply what they have learned directly to their jobs rather than theoretical case studies which don't address real life issues.

Obeng's 'sticky steps' approach to planning

'Making it happen' is Obeng's constant refrain and his books – 'Making Re-engineering Happen', 'All Change!' and 'Putting Strategy to Work' – are an antidote to the dryness of much managerial theorising. They come complete with their lessons in fictional form and implementation techniques such as 'rat-holing', 'blowing bubbles' and the 'sticky steps' approach to planning. Old world they are not.

Griffin's dotcon.com debunking of the e-commerce hype

Finally, among the up and coming British gurus is Gerry Griffin. Griffin was formerly communications director of London Business School. Now based at PR giant Burson Marsteller, the 34-year old Irishman has a growing reputation as a commentator on the new economy. His CV is colourful. Griffin spent four years working with PR firm Fleishman-Hillard on Budweiser beer, biotechnology issues and the UK government's health business. He was responsible for turning Battersea power station into a giant 250 foot cigarette for an anti-smoking campaign – the motto was "Battersea power station has given up smoking – so can you?" – and started a mushroom farm in Ireland. More recently he has created the iconoclastic website dotcon.com in answer to the hype surrounding e-commerce, and written a book 'The Power Game'.

UK gurus 'pass' on the motivational stuff

There are many more. What is notable is that the British gurus tend to come from academic backgrounds. There is no British version of the American motivational guru Anthony Robbins. There is no British equivalent to Stephen Covey (author of the bestselling '7 Habits' series). For this, sceptics might say, we can be truly thankful.

Stuart Crainer is a business writer who contributes to newspapers and magazines worldwide. He writes for The Times, Business Life, *and* Strategy and Business *and is also author of 'The Management Century' and co-author of 'Gravy Training'. He is one of the founders of Suntop Media (visit www.suntopmedia.com) and can be e-mailed at stuartcrainer@suntopmedia.com.*

The art of floating your business

Stephen Bourne, lead partner in BDO Stoy Hayward Corporate Finance, outlines the qualities and qualifications needed for a successful small business IPO.

Since mid 1999 there has been a strong resurgence in the market for initial public offerings (IPOs). There is a constant stream of new companies going public.

Although – at least recently – the IPO market gave the impression that a company could not float without an e-commerce angle, that is clearly not the case. IPOs such as Scipher, the technology development company, and Topnotch, the health club operator, disprove any such assumption.

Indeed, for small and medium sized enterprises, the market is particularly buoyant. A non-internet business with the right attributes can still access the public equity markets, but how do you know whether your business has those attributes?

AIM requirements

If we focus on the London Stock Exchange's Alternative Investment Market (AIM) as the most likely route to market for a smaller to medium sized UK business, we can see that technically the requirements for companies seeking a listing are not very onerous. They are that:

- the issuing company must be properly incorporated and able to offer shares to the public;
- those shares must be generally free from restrictions on transferability;
- accounts must be prepared under UK GAAP, US GAAP or International Accounting Standards;
- an admission document usually referred to as a prospectus – which complies with the 'Public offering of securities regulations' – must be produced;
- a number of announcements have to be made at or around the time of admission to AIM; and
- the company has to appoint a nominated adviser (Nomad) and a nominated broker.

The choice of Nomad is the key. It is the Nomad's job to ensure that the directors understand their responsibilities and obligations under the AIM rules and that they have been complied with. They are the project managers of the flotation process, setting and driving the timetable by co-ordinating the work of all the other advisers. In particular, the Nomad has control of the production of the company's prospectus and has significant influence over the way that a company is presented to potential investors.

Ultimately, the Nomad decides whether a company is suitable for admission to AIM and effectively endorses a company's application to join the market. In forming a view, the Nomad not only ensures that all relevant rules are followed but, far more importantly, he assesses the quality of the company. This can mean many things, but in essence the Nomad is looking for a company with:

- growth prospects;
- strong, ambitious management;
- a differentiated product or service;
- a strong competitive position; and
- well controlled operating and financial systems.

The Nomad works with a team of professional advisers to help him to understand and appraise a company's strengths and weaknesses. These may include:

- reporting accountants;
- lawyers;
- commercial consultants;
- specialist vendors (property, IPR, etc); and
- PR advisers.

A good Nomad can make the whole process go relatively smoothly; a poor Nomad can cause delays and wasted cost.

If you do decide to float, be prepared for several months of very hard work. Key phases are as follows:

Month 1 – meet various advisers and select team.

Month 2 – financial due diligence;

legal due diligence; recruit to fill gaps in the board of directors; prepare detailed financial projections; consider share structure, option schemes, service contracts, re-registration as a PLC etc; drafting the prospectus.

Month 3 – address issues raised in financial and legal due diligence; accountants' review of financial projections; continue drafting the prospectus; finalisation of re-structuring/share capital issues.

Month 4 – finalisation of all due diligence reports; completion of prospectus drafting; marketing presentations to institutions; finalise pricing of the issue; verification meeting; completion meeting.

The whole process generates a mountain of contracts, reports, letters and agreements, each of which requires the careful attention of the company's directors. When you add in the time needed to perhaps deal with an interim audit, personal tax planning, arranging key man insurance, interviewing potential non-executive directors and sitting in prospectus drafting meetings, it is clear that the time commitment is substantial.

Strong management and the right Nomad

A company must ensure two things. First, it must have the senior management capacity to cope with all of the above and still manage its business so that it continues to flourish throughout the period of the float timetable.

Second, it must be certain that its chosen Nomad has experience and an understanding of the specific issues facing SMEs.

The vast majority of companies that start the flotation process do achieve a public quotation, although it frequently takes longer than originally expected. But things can go wrong. The type of factors that can lead to a float being aborted are:

- a downturn in trading during the flotation timetable;
- the appearance of a new competitive threat;
- loss of key people, customers or contracts;
- outstanding exposure to litigation;
- poor financial reporting systems;
- inadequate audit working papers to support past financial statements;
- key legal agreements that have been loosely drafted in the past;
- poor marketing presentations to institutions;
- disagreement over the price at which shares are to be issued; and
- a change in stock market conditions.

Is it worthwhile?

Barring these or similar issues, at the end of a very demanding few months do companies going public believe that it has all been worthwhile? It should be remembered that a public flotation rarely achieves a significant realisation of capital value for its principal shareholders. The main purpose of floating is to raise equity finance to fund further growth. Other benefits are the opportunity to make acquisitions using shares for consideration; the chance to create share option schemes to incentivise key employees; and the additional profile that arises by virtue of being a public company.

Stephen Bourne is the lead corporate finance partner at BDO Stoy Hayward and specialises in advising entrepreneurs on flotation, acquisitions and disposals. He can be contacted on 020 7893 2800.

ANBAR ABSTRACTS

A selection of abstracts from various sources with comments by the abstractor.

29AE101 Demystifying the supplier-customer interface
Wrenall W, *Work Study*, (UK)
2000 Vol 49 No 1: p18 (5 pages)
● *Attempts to clarify the meaning of customer satisfaction, customer loyalty, customer service and service quality, quoting examples of poor performance to illustrate the ongoing satisfaction/loyalty debate and to examine the difference between meeting customer expectations and creating the perception of value. Suggests that companies can attempt to develop customer ties through the adoption of a five-level hierarchy of strategic customer values: transactions; products; solutions; relationships; and mutual benefits. Credits = 2*

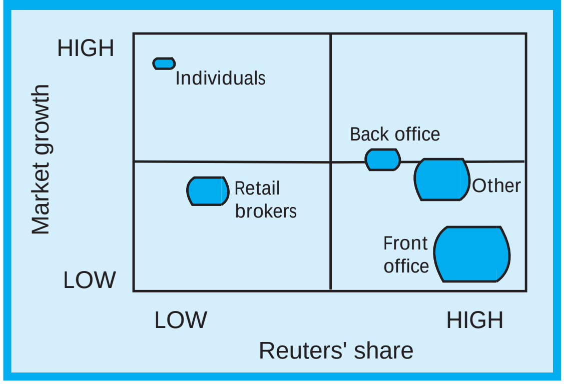
29AK220 'Professionals at work' – transition in a small service firm
Ram M, *Journal of Small Business and Enterprise Development*, (UK)
Spring 2000 Vol 7 No 1: 69 (9 pages)
● *Presents a case study of a small professional service firm, WhitCo, as an insight into the dynamics of managing an organisation during a period of intended growth. Addresses three particular issues: motivations for growth in the small professional service firm; the effect of attempted organisational transition on collegial patterns of work relations; and the importance of interpersonal relations to growth. Credits = 3*

29AK233 **Risk management: the undiscovered dimension of project management**
Royer P S, *Project Management Journal*, (USA)
2000 Vol 31 No 1: p6 (8 pages)
● *Addresses the underlying process of successful risk management, arguing that successful project risk management will enhance the probability of project success. Divides risks into two classes: recognisable risks, which can be identified during planning and engagement contracting activities and may relate to new technology, financial resource constraints, etc; and unmanaged assumptions which are neither visible nor apparent, and are usually introduced by organisational culture. Credits = 3*

How Reuters is meeting and seizing the challenges of e-business

In her well-attended Faculty lecture, **Carolyn Haworth**, finance director of Reuters Information, described the wide-ranging changes her organisation has instigated, to meet the challenges and opportunities arising from the internet.

FIGURE 1 REUTERS' REVENUE POSITIONING TODAY



Speaking to an audience of almost 200, Carolyn Haworth divided her subject matter into four sections:

- Reuters' current business;
- the impact the internet has had on the group;
- the e-strategy it has formulated in response; and
- what these changes will mean for Reuters' finance function.

Current business

The group today, she said, is not only the world's leading international electronic news and information provider, but also a global solutions provider. As well as news and both real-time and historical data, Reuters provides clients with pictures and graphics, analysis of the raw underlying data, and transactional capability.

In terms of current market positioning (Figure 1), she went on, Reuters is strong primarily in the front and back offices of financial institutions, where it has a good market share. But here, growth potential is not particularly high. Consequently, the new Reuters strategy is geared towards creating a strong presence in the top right-hand quadrant of the grid, with a large share in high-growth makets.

Examining the current cost structure, Haworth explained that Reuters divides the value chain into seven segments:

- direction setting;
- developing products;
- creating and sourcing data;
- adding value to that data (eg through analytics);
- storing and distributing data;
- managing customers; and
- servicing and supporting customers.

Out of these segments, the two which traditionally have received the heaviest investment are 'creating and sourcing data' (ie the journalists unearthing and verifying of news stories) and 'storing and distributing data'. But the burning question now is whether these two segments will continue to deliver the same amount of value in the future. Also under review, Haworth said, is the extent to which the group still follows the old defensive market model based on proprietary products and delivery systems; this could usefully be exchanged for a more 'off the shelf' model, in keeping with the growing e-climate.

Summing up Reuters in its present guise, she pointed out that it has a very solid market share, a well-respected brand, unmatched breadth of assets, and strength in its recurring core business. And, although it is not officially regarded as an internet stock, Reuters has already built a strong internet presence through some 900 websites.

However, she went on, Reuters would not ignore the changes that the internet is making to the way business is done, and to the needs of its clients.

Impact of the internet

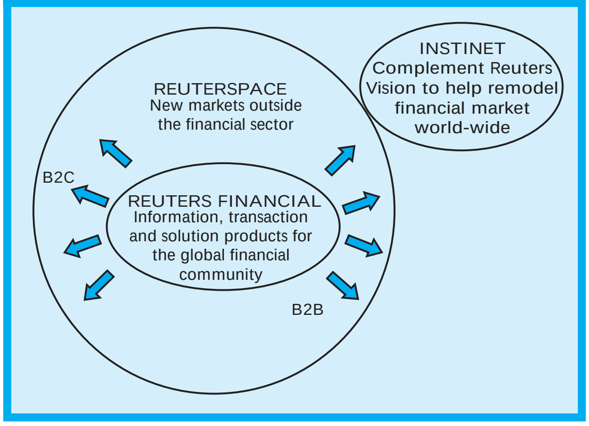
According to the chief executive of Cisco, "in an increasingly networked economy, it is not the big that beat the small, but the fast that beat the slow." Haworth acknowledged the truth of this. "It is tough", she added, "for a big company to be as flexible as two guys working out of a garage on the West Coast, not caring what the market thinks or expects from them".

The new business rules, she said, are to do with flexibility, added value, and rapid time to market. And even to begin playing by them, Reuters has realised it needs to change its focus; in particular, "it needs to become less 'disintermediateable' if it is to avoid being ripped out of the value chain altogether".

So Reuters is at a turning point. Internet technology is breaking down the entry barriers that previously protected its markets. It now faces different competitors who are "nimbler, and capable of slicing off a tranche of a vertical sector in Reuters' markets". The customer base is also changing, necessitating a refocusing on different aspects of the value chain. Also changes in financial markets must be taken into account.

To meet these challenges and capitalise on the opportunities provided, Reuters intends to leverage

FIGURE 2 A NEW COMPANY STRUCTURE



internet technologies so as to reinforce its own presence through the value chain of customers. In doing so, it will create a more cost-effective business model; and reach an infinitely wider customer base.

The Reuters e-strategy

To reshape its business, Reuters has commenced a three-pronged revision of its operating, marketing and organisational strategies.

Operating strategy

For the operating strategy, plans are in place to change product development, delivery architecture, and the sales and support model. Where once Reuters developed proprietary systems, it will now concentrate on developing component products that can be re-used globally throughout the product range, eliminating duplication.

It is also looking at the use of an ASP model for pushing services out to clients on a need-to-use basis. The intention is to become industry 'best of breed', creating a global standard. This, will result in a faster and more effective service to customers, and one which will also turn out to be cheaper for them to operate.

This will involve the establishment of a common technical architecture that has specific facilities (quotes, news, charts, WAP, portal builder) grouped together within it. By extension, it will create a tool box of options that can be combined to meet any client's needs. At the same time, the group's information network is being outsourced. The joint venture with Equant, for example, has been identified as a way of linking into a partner with great expertise in this area, and a means of obtaining economies of scale. Reuters will also share in the value created by the outsourced new company in which it owns 51%.

The operating changes will also involve what Haworth calls "migrating customers to an e-platform". This means that, whereas Reuters currently has a lot of its own hardware with customers, in future it will develop software that dispenses with that proprietary equipment. The software will be usable on any standard PC without the intervening layer. It will open up a whole range of facilities to customers, from access to details of Reuters products and registration with the service (e-access)' to the ability to buy them or take out contracts (e-sales), through the ability at any time to see their own Reuters bill or to bill their own customers (e-billing), to payment of bills by credit card or direct debit (e-settlement).

Summing up, operations will move to common standards, a simplified technical architecture, with customer relationships managed through an e-platform.

Marketing strategy

The planned changes to the marketing strategy arise from Reuters taking a long hard look at the markets in which it now participates, and those in which it desires to have a presence. At the same time, it has examined its pricing structure and product offering.

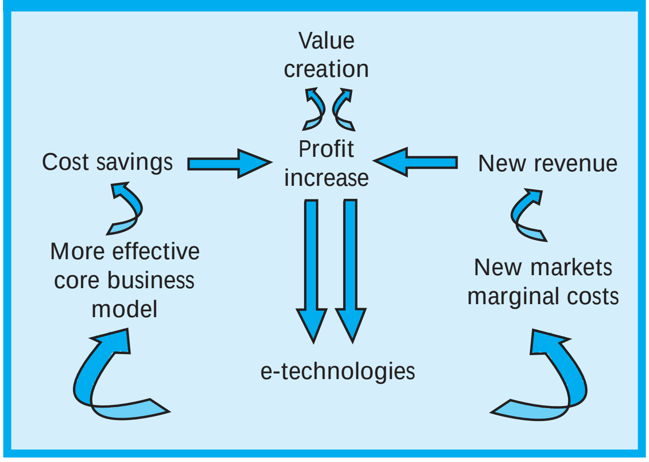
Currently, Reuters has a strong presence and good brand recognition in the professional financial sector. It estimates the total market at 1.1 million users. However, it recognises that there are much larger markets available, which it can now serve. In particular, it reckons there are a potential 65 million users who might be reached in the retail financial sector through intranets and internets. A further 125 million could possibly be tapped through the public internet, in the form of consumers at work and its own customers' customers.

But to reach these markets requires heavy investment in the Reuters brand. The idea, Haworth said, will be to build business communities, linking people in a 'sticky way', so that they come back for more services.

This will be achieved through four different but complementary means:

- *member profiles*: to understand exactly who is being allowed into these business communities, it will be essential to analyse customers existing 'click patterns' to discern how they use the data and transaction facilities: future offerings can then be targeted to meet their workflows;
- *transaction offerings*: providing attractive transaction offerings will attract members to both formal (dealing) and informal (chat rooms) channels;
- *content attractiveness*: offering appealing content will draw more members to the community and enable the content to become more

FIGURE 3 A WIN-WIN STRATEGY



member-based; and
- *member loyalty:* promoting member-to-member interaction will build loyalty to the community.

Organisational strategy
The organisational strategy involves alterations to the structure, process and culture of the group, with even more strenuous efforts directed at staff recruitment and retention.

To succeed in the future, Haworth stressed, Reuters is going to have to hire the right people, and make the organisational culture and rewards attractive enough to retain them. Given the current dotcom culture of equity stakes for staff and the shortage of e-skills, she added, this is likely to be Reuters' biggest challenge.

The structural changes, already announced earlier this year, involve the company dividing into three separate divisions (Figure 2).

Reuters Financial, offering the organisations traditional information, transaction and solution-based products for the global financial community, will grow profit and provide the dividend cover.

Outside those activities will be Reuterspace, venturing into new markets beyond the financial sector, taking greater risks and potentially attracting many new members. It will participate in joint ventures, and be a stake-taker in new ventures.

Standing alone, as a separate entity, will be Instinet, the Reuters share-trading operation. But it is also hoped that Instinet will complement Reuters' efforts to help remodel financial markets worldwide.

This simplified structure is expected to lead to more rapid decision making, a strong brand (ie people knowing they can access accurate, high quality data fast from Reuters), and a business managed for long term value (rather than just looking at the current year's return).

The impact on finance
Looking at the impact that this range of changes will have on finance, Haworth identified two different and potentially conflicting sets of demands. On the one hand, there will

be what she called the "downward push" in terms of requirement to be more efficient, the need for fully integrated financial information, shared service centres, and more efficient transaction processing.

On the other hand, requiring a very different set of skills, is the "upward push" towards providing value-added analysis, and cross-functional international expertise and decision-support. For the former, finance will need to improve transactional efficiency; for the latter, it will need to develop into a capable and trusted business partner.

In Haworth's view, the improvement in finance processes will probably involve a move to shared service centres – one in each of the three time zones in which Reuters operates. The other side of the equation will necessitate recruitment of staff of the highest calibre, who will be offered genuine sharing in the decision-making process.

All this strategic change will also require a new financial model, in which clear customer segmentation and leveraging of technologies will lead to Reuters profitably serving many millions of customers.

This will involve existing content of news and price databases being further segmented, more being spent on the marketing of the planned new business communities, more efficient delivery to customers through existing Reuters links, and the introduction of software allowing internet delivery to customers' own desktops.

In turn, these changes will form a win-win strategy (see Figure 3). A more effective core business model incorporating e-technologies will bring cost savings leading to increased profit.

At the same time, the e-technology base will take Reuters into new markets at marginal cost, bringing new revenue and further increases in profit. And the enhanced profitability will facilitate greater value creation, and enable more investment in new e-technologies.

Conclusion
Since unveiling its new plans on 8 February 2000, Reuters' shares have more than doubled in value.

The headline figures for implementing this strategy are:

- £500 million spent over four years on internet migration, comprising:
  - – £300 million on restructuring the existing business over the next two years; and
  - – £50 million annually to develop e-architecture over the next four years.

This is expected to result in savings of £150 million a year by 2002.

In Haworth's modest assessment, "we do not have all the answers, but we hope we have found a way forward, to help manage our operating costs, and to enhance our revenue potential by tackling the new markets opened up through e-business."

Carolyn Haworth is finance director of Reuters Information. She has been with the group for nearly five years holding a variety of positions including head of business planning.

Leasing rules under review

Chris Mansell looks at the growing debate about finance and operating leases; and suggests that the euro may still have further problems.

Finance people have been conditioned for years to distinguish between finance and operating leases. The former transfers to the lessee substantially all the risks and rewards of ownership. Assets under operating leases, where the transfer value of such risks is lower, normally have a substantial residual value at the termination of the lease. This is retained by the lessor. Finance leases are treated like capital items on the balance sheet whereas operating leases are treated just like any other service contract and are expensed as they go.

This distinction may not last for much longer. Work undertaken by a group of standard-setters for the UK, USA, Canada, Australia and New Zealand, and reinforced by the International Accounting Standards Committee (know collectively but paradoxically as G4+1) has concluded that the categories should be merged. Now the UK's Accounting Standards Board has issued a discussion paper.

The rationale for this rethink is understandable. The dividing line between whether the lease should go on or off the balance sheet is arbitrary and does indeed lead to abuse. Under some accounting standards, the key term 'substantially' has a cut-off at 90% of the risks and rewards. If (say) only 89% can be demonstrated then the lease cost is expensed year-by-year.

The proposals allow for some finessing. For example rentals flowing from (i) the exercise of a future option to renew the lease or (ii) higher usage, are excluded from the calculation of initial assets and liabilities. The precise figures are determined by the fair value of the rights and obligations in the lease. This will vary according to the nature and period of the lease, thus shorter leases attract lower values.

The potential increase in gearing that would arise if these changes were given effect would be reduced by restricting fair values to the initial lease period only. For example, an asset with an eight year life and an initial term of two years but with an option to renew, would only be capitalised to the extent of the first two years. Since this would be a general principle, applicable to current finance leases as well, there would be opportunities for a company actually to reduce the value of leased assets and their corresponding liabilities. The ramifications go further. This would represent a transfer of residual value risk back to the lessor who would seek compensation through a higher leasing charge.

Leasing has always been encumbered with artificiality, not least from a taxation viewpoint. The tax regime is favourable, although the Inland Revenue is seeking to restrict the incentives. The political and economic imperatives to encourage investment by smaller companies remain however as strong as ever and this is where leasing usually offers greatest benefits.

If new accounting rules were introduced, the wrinkles and distortions would probably continue but in a different form. What is certain is that the impact of any changes would not be equal across industries and companies. Organisations would need to be considering the precise impact on their particular accounting, taxation and funding arrangements. For organisations entering into loan covenants there will be a special requirement to discuss and clarify with their lenders how any changes would be viewed. It's all worth keeping an eye on.

Euro wobbles may persist

Supporters of the euro have been enduring a hard time from the currency's performance in the market. Change is certainly in the air (at the end of May) as sterling weakens against both the dollar and the euro, but even if sterling/euro becomes more realistically aligned, this will not necessarily improve sentiment in the UK towards the currency.

Feelings are welling up amongst both commentators and politicians that the management of the euro has not been alert, flexible or aware of the wider scene outside Europe. The apparent weakness of the institutions is becoming a factor. These sentiments go deeper than market movement and may take some time to dispel. Financial managers have been gradually learning to operate within the European economy without the benefit of a currency peg and this experience may be valuable for the long term. Thoughtful planning and intelligent use of the market can mitigate a lot. It's the kind of thing that treasurers are paid to do.

FORTHCOMING FACULTY EVENTS

Please note that due to the holiday season there will be no lectures in July and August.

CONFERENCE PROGRAMME 2000

20 September
LONDON

29 November
SOLIHULL

The Faculty is holding a series of half-day conferences, with a range of speakers. The timetable will be the same for these events (the first was in Huddersfield in April):

9.00	Registration and coffee.
9.25	Welcome and introduction.
9.30	'The development of strategic performance measurement' *Kevin Bounds, director of world class finance – insurance, KPMG Consulting.*
10.30	'The balanced scorecard – what and why?' *John McKenzie, director, Armstrong Laing.*
11.30	Tea/coffee.
11.45	'The inner business of creativity and innovation' *Marian Moriarty and Dave Smith, Inner Business.*
1.00	Buffet lunch.

Kevin Bounds is director of world class finance – insurance at KPMG Consulting, after a line career in financial services, which included being finance director for NatWest Life and then Nationwide Life. Kevin also sits on the executive committee of the Faculty. John McKenzie is director of sales and marketing at Armstrong Laing. He is a member of the Finance Faculty of the Management Centre of Europe, based in Brussels, where he teaches on performance measurement and financial planning and control courses. Dave Smith spent 15 years working in R&D: amongst other qualifications, he has a degree in applied biology. Dave has a deep interest in metaphysics, which led to him create Inner Business with his partner Marian Moriarty. Marian Moriarty, a founder of Inner Business, works as facilitative consultant, trainer and coach in the fields of creativity, innovation and change management. She spent eight years as a marketeer with an American multinational.

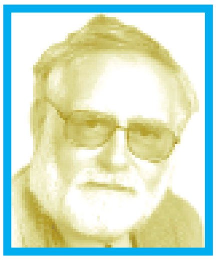
From left to right: **Kevin Bounds, John McKenzie, Marian Moriarty and Dave Smith – pictured at the April Huddersfield conference**

30 October
LECTURE
LONDON

Matt Davies, director of ATC Continuing Professional Development Ltd, will speak on 'Shareholder value'. Details will appear in the next issue (August) of *Finance & Management.*

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 DEBBIE CAME AT THE FACULTY'S ADDRESS GIVEN ON THE BOTTOM OF THE FORM

Revised ACA training scheme kicks off in September



The ICAEW Education and Training Directorate – led by executive director **Brian Chiplin –** has unveiled a new training scheme to bring the ACA qualification in line with the requirements of modern business practice. Helen Fearnley reports.

The ICAEW's new improved syllabus for its ACA qualification, due to be implemented from September this year, comes not a moment too soon. Revelations earlier this year that Ernst & Young is planning to train its new students through the Institute of Chartered Accountants of Scotland, were a worrying reminder that the Institute needed to revise the existing training regime.

At the same time, the new syllabus is not simply a reaction to the ICAS defections. The Institute's ACA qualification has long been the gold standard for the profession. To preserve this benchmark in today's business world, there is a need to constantly reappraise it. The Institute's Education and Training Directorate, under executive director Professor Brian Chiplin, is confident that it has produced a winning proposition.

New elements

The new elements to be introduced include:

- a Professional Stage, which means that the technical exams will now be taken earlier in the training;
- an Advanced Stage, comprising an advanced technical paper and a major multidisciplinary business case study;
- more reliance on firms' own development programmes to provide the required experience;
- reduced study leave (as case studies do not lend themselves to cramming);
- the Institute undertaking to provide the necessary study materials; and
- the use of internet technology to deliver learning materials.

To elaborate a little, the new syllabus allows front-loading of the exams such that students can sit all of the exams for the Professional Stage plus the technical paper for the Advanced Stage, within the first 15 months. The Advanced Stage, in turn, will be holistic, in that tax, audit and financial reporting will all be taught in tandem, as applicable in real business situations, rather than studied as standalone subjects. This second stage will also have a much stronger emphasis on business management and advice.

Also, the move towards the Institute – rather than tutorial organisations – providing the necessary study materials, means that these will be tailored to take a specific (ie shorter) period of study time. As a result, study leave will be reduced by a third to 22 weeks.

Meanwhile the use of internet technology will provide extra information such as details of previous papers, sample answers, and examiners comments, as well as flagging current news stories which happen to exemplify a particular element of the material being studied.

There has been widespread approval for the proposed reforms. The start date of September 2000 (rather than 2001, as had been previously expected) reflects how seriously the Institute is taking the matter.

One of the aspects that, it is hoped, will cause the influential Big Five firms to rethink the removal of their new students to study with other institutes is the lowered cost of training under the new ICAEW syllabus, given the reduced need for study leave.

It is unlikely that Ernst & Young will switch back in the immediate future, as it would have had to commit for a set period of time to the ICAS. Nevertheless, the Institute is now putting up a good fight for its qualification and for its future membership.

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