

The real value of e-business

A six-page report
on getting the best
from B2B,
e-procurement
and the wonders of XML

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Web sites that will help you with e-business issues

Readers interested in e-business issues may find the following web sites of value.

Barclays B2B – described as the 'UK's first purchase-to-payment portal, with services that will cover the entire business-to-business trading chain' and backed by Barclays, Accenture and Oracle. The site includes a B2B Business Directory searchable by product, name or location. A selection of reports and articles on B2B are also available from the on-line library provided.

www.barclaysb2b.com

Electronic Commerce Europe – on-line B2B trade bulletin board, which provides a detailed industry category approach to trade opportunity notices with an impressive number of buy and sell requests from across Europe and the wider world, covering everything from aircraft parts to cattle feed. The site is marketed with a particular tilt towards the SME market, and aims to reduce the costs for businesses in locating suppliers and customers.

www.eceurope.com

Kompass – a business-to-business search engine with representation in 70 countries, and a comprehensive listing by prod-

uct and location. Details available include office hours, contact numbers, product/service range information and web links. More advanced search facilities are available to fee-paying users.

www.kompass.com

Mondus – on-line business-to-business marketplace which aims to match suppliers with buyers. The system enables you to request on-line quotes and to get suppliers to bid against one another for your business. The site is targeted at SMEs and also includes a range of features, how-to guides and research reports supplied by Business Europe.

www.mondus.co.uk

SmarterWork.com – business-to-business service of three years' standing focusing on key skills needs for business. The site describes itself as a 'managed marketplace for business services' in 11 sectors, ranging from taxation to translation. Users post details of their project brief, and can select an expert from the bids they receive.

www.smarterwork.com

UK On-line Business Guide – useful business portal, with a helpful selection of links including a comprehensive listing of

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B2B networks in the UK.

www.ukonlinebusiness-guide.co.uk

More e-business links are available from the ICAEW web site's links pages at:

www.icaew.co.uk/library.htm

MQOnline

If you have not visited it already, why not take a look at the Faculty's recently-launched initiative, MQOnline – a web-based series of streamed multimedia lectures that cover and expand upon many of the subjects addressed in the much-acclaimed *Management Quarterly* journal.

These 10–30 minute lectures, which cover a wide range of finance, marketing and strategy topics, can be accessed via the Faculty web site at

www.icaew.co.uk/fmfac.

Please try MQOnline and tell us what you think. Comments should be addressed to Chris Jackson at Chris.Jackson@icaew.co.uk.

Beyond the hype that surrounds the possibilities of e-business, what can it really offer any organisation? The Prime Minister has clearly stated his ambition for the UK to be a world leader in the 'knowledge economy'. Businesses themselves would probably be happy for utilisation of e-business simply to improve their performance relative to that of their peers. Fulfilling either goal requires organisations of all sizes in the UK to be aware of – and embrace – the opportunities e-business provides. The following three articles will, we hope, throw some light on just what possibilities e-business offers, at its current stage of evolution.

For example, e-procurement is one of the much-publicised opportunities provided by B2B. But what does the term specifically mean, and how does it operate in practice? Put simply, it is the electronic management of all corporate purchasing activity, often starting with low-value, high-volume non-strategic goods and services that support the business; and this is now also beginning to impact procurement of core trading goods and services. Peter Duschinsky's article not only explores the potential of e-procurement, but provides examples of just how it has benefited specific businesses.

Another significant advance, considerably facilitating the practicalities of carrying out e-business, has been the development of extensible markup language (XML). As Dennis Keeling explains, this offers a much more accessible, less expensive way of inter-business communication than has been available, hitherto. And in an extension of XML, the new extensible business reporting language (XBRL) permits accounting for financial and commercial

INTRODUCTION

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transactions over the internet (as demonstrated late last year when Reuters pioneered its use in Europe, using XBRL to report its 2001 third quarter results).

The first article, by Frits Janssen (*below*), provides an overview of just what the implications of B2B are, and how business leaders should approach this new medium in order to derive the maximum competitive advantage.

Success in the networked economy

Frits Janssen, director of the BuyIT Best Practice Network,



outlines where business leaders must focus to achieve maximum advantage from e-business.

How significant is e-business? Given all the razzmatazz in the past couple of years, business leaders must be wondering how important its impact really is. They may suspect that much fuss is being made of very little, since what is being talked about is still just business, albeit using new technology.

If so, they would be missing an essential point. It is true that e-business does not change the fundamental aims of any high performing organisation. What it can do, however, is to facilitate the accomplishment of these key objectives.

It offers substantive opportunities for an organisation to do its work more efficiently, reducing costs as well as offering new ways of reaching into the market (and hence gaining competitive advantage). An internet-based sales channel, for example, allows access to geographically remote customers without a sales force.

Simply because of the dramatic improvement it can yield in organisa-

tional performance, e-business is here to stay. It can:

- introduce far greater reach (enabling interaction with anyone, down to the individual level, whether they are an employee, customer, prospect, supplier or partner anywhere in the world regardless of where the operation is located);
- enable transfer of greater richness of information;
- help the business run at higher speed; and
- increase visibility and exposure (transparency) of information.

If exploited successfully, e-business will deliver three main types of benefit. It will:

- improve the core business;
- enhance the offering to customers; and
- re-define the business.

Improve the core business
By 'e-enabling' processes, existing operations can be made more

efficient, so a business is protecting and enhancing margins, whilst focusing on the same business. For example Bribex, a UK sign manufacturer, provides on its web site the facility for business customers to design their own signs. This reduces cycle-time and costly errors. Bribex can now penetrate foreign markets economically (www.bribex.co.uk).

Enhance the customer proposition
Using e-business technologies it is possible to expand a business's markets by taking new value propositions through new channels to new customers, still broadly within the same product and services area. McKean Foods, a small family firm with a 140-year tradition of supplying haggis, is a case in point. It increased sales by 100% in a year through using the web as an additional sales channel, and is projecting a 300% increase in year two. McKean is now the holder of the 'Winner-on-the-Web' award (www.scottishhaggis.co.uk).

Re-define the business
Using e-business provides the means to enter new markets and develop new competences. This could mean changing the structure of an entire value chain or market segment, through a revolutionary approach to market. For example, Bolero is automating the financial chain for international trading activities, introducing a service that has hitherto not been available (www.bolero.net). Intrade offers on-line party-to-party betting right 'to the finish line', again a new offering in that market (www.intrade.com).

Best practice – how to respond
Members of the BuyIT Best Practice Network have been working together to identify best practice in planning and implementing e-business. They have concluded that, for e-business success, CEOs and their management teams must think about and make decisions in four key areas:

- **e-strategy and direction** – it is essential to have an e-business strategy to address the threats and opportunities of e-business and to tie it to the business's aims and needs. This will require greater alignment and teamwork than conventional strategic planning to ensure sound foundations for implementation;

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- **relationships and communities** – e-business concerns the interaction of an organisation with its key stakeholders. Traditional businesses have frequently been characterised by fixed corporate roles, linear supply chains and physical distribution. In contrast e-businesses are more strongly characterised as a network of smaller, more flexible organisations that have continually shifting priorities and roles. Thus managements will need to change the trust-model between themselves and stakeholders;
- **information and communications** – two key ingredients in the networked economy are the increased volume of information and the speed and immediacy with which the market expects the organisation to react. e-business offers the communication mechanisms to improve, enrich, change and deepen relationships with your key stakeholders but these depend on standardisation and streamlining to achieve the desired business impact; and
- **process and culture** – changing processes in any way extensive enough to make a substantive difference to an organisation's performance will impact on its current culture. In particular, decision-making in the networked economy requires collaboration amongst members of a community. This can require significant mindset changes at the top of the organisation. What emerges is the importance of the ability of an organisation's culture to accommodate change and adapt.

Thus e-business will have implications for your organisation. The most appropriate response for your organisation may be minimal – for example deciding to watch and wait. If this is your strategy, you should still have gone through the process of understanding how e-business applies to you in order to come to this conclusion. If you have not, then there is risk that a 'do nothing' strategy could

expose you to lost opportunities or threats.

If your response is to take action, your management team may need to challenge its current operating models. It may be necessary to mobilise radical cultural, organisational and operational change within the organisation in response to the challenges of e-business.

Hence the first question facing leaders of both small and large organisations, private and public sector, is whether they are steering their people on a course that is both appropriate and achievable. BuyIT's publication 'Succeeding in the networked economy: the CEO's framework for e-business' provides help with this issue. It offers a plain-English guide, agenda and tools to assist business leaders in deciding their best response to e-business, based on the expertise of members of the BuyIT Best Practice Network (see below), in particular Cap Gemini Ernst & Young, IBM, Oracle, Shell and UK Online for Business, who are working together to identify and set down emerging best practice in e-business.

The clearest message we received from the participating members is that continuous innovation and re-invention will become critical to survival in the networked economy.

Frits Janssen, BSc, FCA, is managing director of IT World Limited and director of the BuyIT Best Practice Network, an independent not-for-profit group with membership from commercial organisations, professional bodies and government. BuyIT describes its mission as: 'to help UK organisations realise the business benefits from information and communications technology by identifying and promoting best practice in e-business'.

The publication 'Succeeding in the networked economy: the CEO's framework for e-business', is available on the BuyIT web site: www.buyitnet.org.

Putting the 'e' into procurement

Peter Duschinsky, secretary of the BuyIT Best Practice Network, explains the opportunities provided by e-procurement.



Essentially, e-procurement automates the internal and external processes associated with buying. Often it starts with purchase of low value, high volume non-strategic goods and services supporting the business. However, e-procurement is now also beginning to be used in purchasing core trading goods and services. Typically, staff are given access to web-based catalogues; goods and services are delivered, often direct to their desk. There is a range of in-house and outsourced solutions available to achieve this.

In some cases the company will wish to provide a private marketplace for selected suppliers to carry out transactions, encouraging collaboration across the supply chain. The company may also join an industry-sponsored electronic exchange – whether sector-focused (vertical marketplaces) or general (horizontal marketplaces) to buy and sell.

In all cases, the budget management, purchase order, requisition authorisation and goods received paperwork (and even payment) is electronic. In many cases, tendering, contracting and opportunities for on-line auctions also feature. Using the web-based technology, buying of low-value high volume

goods and services can be aggregated economically for the first time and management information can be collected and processed centrally, enabling better sourcing and pricing decisions.

According to Michael Templeman, managing director of e-procurement solution provider Elcom: "Forward-thinking organisations are realising that automated procurement saves money and enables the purchasing department to focus on strategic supplier relations. In this way, the corporate purchasing function moves from being a cost centre to becoming a value-adding contributor to the company's bottom line.

"Best practices are the most effective method for bringing about this transformation. Going hand-in-hand with best practices is automation – a powerful tool for increasing efficiency and reducing the costly and tedious processes of handling routine orders with suppliers.

"The stakes are enormous. Meta Group, a leading industry-analysis firm, estimates that £175 billion is spent every year on non-production goods and services. Typical procure-

Some relevant case studies

The following case studies (*here and overleaf*) provide just a sample of the ways in which e-procurement can be used to a company's advantage, be it large or small, and whether purchaser or supplier:

Large companies using hosted market place
Companies such as Visteon and Delphi – respectively, re-named component businesses of Ford and General Motors – have made great progress in employing reverse-auction techniques for direct materials. This employs an organisation as a public auction site to bring pre-qualified suppliers to a bid environment.

The use of organised auctions by FreeMarket, for example saw 28% being cut off the price of a three year contract to supply aluminium die castings, 24% off machined parts and 28% off printed circuit boards.

Medium sized organisation simplifying purchasing
Northampton General Hospital (NGH) has simplified the purchasing of catering supplies and made it more efficient by using one specialist on-line catering sup-

plier, Supply Direct. Instead of dealing with 20 suppliers each providing a different range of foodstuffs, NGH plans a cycle of menus, which is logged on the on-line database and, by placing one order, the system calculates the exact amounts required and delivery is within 24 hours. For NGH this means one fixed-price order and invoice with guaranteed product quality and lower stock levels. The reduction in staff time, stationery and administration in the purchasing process has been considerable.

Small supplier to major company
Congelow Produce, a Canterbury-based supplier of organic produce, employing 50 people, is a supplier to Sainsbury's. As Sainsbury's decided to roll out electronic trading via EDI throughout its supplier base, Congelow dreaded the cost and complexity of a full blown conventional EDI system. It need not have worried; e-commerce over the internet is now a welcome improvement on the previous fax-based system. Congelow gets an order every day from all eight of Sainsbury's fresh produce depots – each order to be turned around within 12 hours. This, thanks to e-commerce, is achievable.

ment costs in organisations using traditional methods can be as high as £110 per purchase order, and a recent survey in Procurement magazine indicates that purchasing managers may spend more than a third of their time on routine paperwork. The potential for decreasing costs and increasing efficiency is significant."

What are the benefits to buyers and suppliers?

Aberdeen Group research finds that "e-procurement solutions and services are significantly increasing purchasing efficiencies and reducing costs for the acquisition and ongoing management of business expenditures." Aberdeen's study of early adopters of e-procure-

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ment shows that "New internet-based service delivery models are speeding the adoption of e-procurement in companies of all sizes" (Aberdeen Group, March 2001).

Benefits to buyers and suppliers
The benefits to buyers include:

- lower prices paid for goods and services;

- reduced administration costs;
- shorter acquisition cycles;
- increased use of preferred suppliers;
- reduced off-contract ('maverick') spending; and
- improved inventory management.

So for big organisations in both industry and the public sector, e-procurement provides a quick, low-risk opportunity to deliver e-commerce capabilities into the organisation, to improve service to end-users and to save money – and savings on support spending potentially go straight to the bottom line and recur year on year.

What about the suppliers to these major purchasing companies? In general, this side of the e-procurement equation has been less adequately addressed, but there are also benefits for the B2B supplier, notably:

- generation of new marketing opportunities;
- significantly higher throughput from 'preferred supplier' contracts;
- lower cost of sales and enquiries handling;
- rapid and efficient changes to product catalogues; and
- opportunities for automated order input and fulfilment leading to lower processing costs.

Suppliers require an e-business strategy

However, the decision to respond to purchaser requirements for electronic trading requires an investment of a supplier's time and money and can have a significant impact on the organisation's processes and technology. For a B2B supplier, agreeing to e-enable aspects of his business in response to a key customer's requirement without an e-business strategy would be short-sighted.

Keys to success

To discover the keys to successful implementation of e-procurement, we asked some of our members for their views. All confirmed the real benefits of 'learning by doing'. In such a new area as e-procurement it does not pay to spend too long analysing since in the first place the market is changing too fast and, secondly, the real lessons are in the 'soft' issues surrounding implementation.

The experience of these companies

More case studies

Small company sourcing components using the internet
Custom Interconnect (CI) is a 40-strong, £25 million electronics company in Whitchurch, Hampshire. Throughout a period of global shortage of common electronic components with lead-times increasing from 10 days to 51 weeks, pricing and availability through traditional distribution channels in the UK soared. International and large players got priority in these times and CI found sourcing extremely difficult. However thanks to the internet and using a number of portals and search engines, CI has moved its sourcing from UK distributors to the worldwide arena. Using on-line marketplaces as well as overseas distributors found on search engines CI has continued to secure components for its manufacturing; without these sourcing methods, it would have been faced with stock outs and potential job losses.

A vertical marketplace working for purchasers and suppliers
The WorldWide Retail Exchange includes 100,000 companies supplying goods to some 22 major retail groups including Tesco, Safeway, M&S, Boots and

Kingfisher in the UK, with others around the world. The site uses catalogues for suppliers to represent their product propositions. Such a public exchange where a number of large companies band together to buy from a group of suppliers individually capable of supplying any of them is working well for aggregate buying and selling, particularly with indirect purchases such as stationery and print, office supplies, cleaning materials, garments and travel etc.

Major purchaser using vertical marketplace and reverse auction facilities

Shell has been using reverse auctions over the internet for some time. Some 300 on-line auctions have been initiated with great success in holding prices at difficult times. Shell is also a founder member of TradeRanger, a sector electronic marketplace, developed with other oil, gas and chemical companies for the purchase of common commodities. This is proving a win-win for buyers and sellers. The reduction in transaction costs in the supply chain becomes a serious benefit for all. The buyers get leverage from a number of pre-qualified suppliers and the suppliers get more visibility of demand and volume customers.

also confirms the importance of quickly undertaking short pilots (eg 90 to 100 days) before moving ahead with a full-scale roll-out. The consensus is that one should: "think big, start small, manage tightly and scale up fast".

On the specifics, their advice included the following:

- **change management** – Chris Miller, group adviser strategic sourcing at Shell, said: "The introduction of e-procurement entails major changes, often apparently running counter to the corporate culture, which in most companies is to empower local business units." He advised that care is needed in managing the 'soft' aspects including:
 - motivating end-users to adopt the new systems;
 - re-engineering internal processes and dealing with cross-company cultural differences; and
 - educating suppliers;
- **metrics** – Gesa Juttner, e-procurement manager at Cable & Wireless said: "There are real cost savings to

be achieved through the implementation of e-procurement. But it is important to observe the basic principles of measuring business and implementation success – what is not measured cannot be controlled or justified. At the commencement of the journey towards e-procurement enablement, specific measurement processes should be put in place. And remember that whilst the primary focus of e-procurement implementation is cost reduction, the most successful implementations of e-procurement projects are those that link directly to the business's strategic imperatives and objectives." (Juttner is leading work on a new BuyIT guideline, 'Measuring the benefits of e-procurement', to help to identify what to measure and how to measure it, in order to build the business case and track actual benefits and ROI); and

- **content** – Adam Jacobs, senior vice president business development and founder of Cataloga, said: "e-procurement is based upon a simple premise; suppliers making their catalogue data available electronically to enable their customers to procure

from them electronically. Yet too often, supplier content is either not available or delivered in a very poor format. For buyers and suppliers to leverage the potential of e-procurement, there must be truly collaborative processes and systems which exist to enable the trading parties to work together. Buyers must provide support tools and software to educate and assist suppliers to populate e-procurement systems with e-catalogue data. Suppliers must enhance their understanding of and offering of e-commerce capabilities to capitalise on the multiple new business opportunities which e-procurement will offer and deliver." (Cataloga led the work to develop the BuyIT guideline, 'Content and catalogue management', available on www.buyitnet.org)

Peter Duschinsky is secretary of the BuyIT Best Practice Network. For more information on best practice in e-procurement, visit BuyIT's web site at www.buyitnet.org.

XML vs EDI – the impact on business

Dennis Keeling, chief executive of the Business Application Software Developers Association (BASDA),



explains the benefits of extensible markup language (XML) for business.

XML is so far the most flexible and practical of the new e-commerce languages, and is already proving a significant advance in financial management.

Looking at the general picture of e-commerce, it is a subject which can be divided up into several subsections – business-to-consumer (B2C); business-to-business (B2B); citizen-to-government (C2G) and business-to-government (B2G) – of which B2C is easily the most popular with the press. However, B2C is not the most rapidly expanding segment.

The 'fastest growing' laurels belong to B2B e-commerce, particularly in the small to medium-sized enterprise (SME) market. Unlike B2C, this is not only about setting up a web page as an advertisement or a sales outlet, but also involves undertaking the typical transactions between businesses in an electronic form.

It is about replacing telephone calls with e-mail messages, and enabling

orders, invoices and payments to be transmitted electronically.

Sadly, until recently this type of electronic communication has been available only through EDI (electronic data interchange), which is far too expensive and complex for any but the very largest organisations.

New opportunities for every size of business

Now, in a quiet revolution which has been taking place over the past two years, the whole concept of electronic commerce has changed, creating new opportunities for all businesses, large and small. Two years ago, BASDA, which represents more than 350 of the world's leading business application software developers, began working on an initiative which was designed to overcome many of the traditional problems associated with electronic commerce and software integration.

After several months of concentrated teamwork from representatives of

companies which, at any other time, are commercial competitors, a new international standard was developed, providing a means of directly linking different business application packages using a simple XML message sent by email or the internet. This development, which is known as the BASDA eBIS-XML standard, is already being used in major applications which are revolutionising both B2B and B2G communications.

Some 95% of business documents, such as orders, invoices or payment advices are computer generated and yet, until this development, there was no easy and inexpensive way to exchange those documents between different computer systems without re-keying. This is time consuming and inefficient. Documents are generated in the system, printed out, put into envelopes and posted to the customer or supplier who must then enter them into their own system.

There are similar issues when businesses communicate with government. Companies must complete dozens of different returns for VAT, Intrastat, Inland Revenue and National Insurance. All the information is generated by their computer systems and yet it must be re-keyed by the agencies concerned, with all the potential for errors and the huge costs associated with thousands of staff entering data into government systems.

EDI: expensive and sophisticated
Until now, the only means of communicating directly between different computer systems has been through EDI. Whilst EDI is an international electronic message standard, it requires expensive configuration and proprietary delivery mechanisms.

EDI was developed 20 years ago as a sequential message that could be sent between computers without human interaction. It required consenting parties to develop expensive and sophisticated interfaces to send, receive and understand the message. Various international EDI standards exist but are used in different ways by participating parties making the messages proprietary.

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EDI: works for hub-spoke supply chain

The EDI message has to cater for a wide range of options from scientific data to delivery acknowledgements – it is therefore verbose and very complicated. It is widely used by large corporations to communicate with their supply chains but its cost and complexity make it unworkable as a general standard for all types of business.

In the retail trade, for example, Tesco, Marks & Spencer and ASDA all use EDI to order goods from their suppliers, but their messages are all subtly different, making life difficult for suppliers to all those organisations. EDI works for the hub-spoke 'one-to-many' supply-chain where the 'hub' insists that its suppliers use its form of EDI.

This form of electronic commerce is of no benefit to the vast number of SMEs trading with each other in a 'many-to-many' sense. BASDA customer research shows that over 60% of businesses want to use e-commerce but less than 15% are able to use it at present.

XML: for those trading in a many-to-many sense

XML, on the other hand, allows every organisation from a one man band to a multi-national to use e-commerce. XML is not just an electronic message but an internet document that can be viewed as a form on the web and printed out as a document – an order or invoice. This means that the internet can be used to send XML documents electronically to organisations that may only be able to read them with a web-browser and print them off – thus saving time and postage.

However, if the receiving organisation can also interpret the XML message and read the data contained in the document directly into its own computer system, then

there is no need for time consuming re-keying, less risk of errors and an opportunity for faster responses.

Already a number of industry forums are working together to develop e-collaboration projects using this new technology. For example, the Housebuilders Forum, which includes some 40 of the leading UK housebuilders, together with their major suppliers and software developers, has created a standard message called eBuild-XML – based on the BASDA eBIS-XML standard – which allows them to exchange orders, invoices and other documents directly by email between their different computer systems.

XBRL for financial reporting

In another development of XML which directly affects financial reporting, a defined taxonomy has been developed to recognise the various aspects of profit and loss and balance sheet reports. The use of extensible business reporting language (XBRL) enables financial data to be exchanged in a pre-defined format, either internally for consolidation and management reporting, or, externally, for company reporting. Reuters recently announced its financial results using this medium.

All these new developments will impact directly on finance departments, almost entirely for their benefit. By transmitting documents electronically there are fewer opportunities for operator error and much less time wasted looking for queries in documents. And that is apart from all the savings in time and postage. While e-commerce standards, and 'XML versus EDI' may be esoteric arguments for the 'techies', for the users these developments can only be welcome.

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STRATEGY

Pulling it all together

In the final article in his series on implementing strategy, **Chris Hughes-Rees** outlines the last four stages in his 14-step



model. He reviews the strategic steps of alignment, measurement, reward structure and communication.

In the three previous articles on the subject (*Finance & Management*, issues 71, 75 and 84), I discussed the strategy steps of vision, stakeholder drivers, portfolio analysis, situation analysis, strategic segments/horizons, risk analysis, gap analysis, critical success factors, implementation plans/enablers and, finally, annual business/project plans. This fourth article aims to pull the process together.

Alignment

A business might appear to have moved smoothly through the process so far described, but eagerness to get to the end state of strategy development may nevertheless have created a few problems. Whatever strategy process model is routinely used, it is hugely important to move back across the entire process to ensure that there is a balance and synchronisation of logic, deliverables, time lines, resources and so forth. There must be a smooth flow across all the steps, no contradictions and no gaps.

Each step has its individual requirements and desired end-point but, until all the steps are satisfactorily aligned, it is difficult to design a logical measurement framework and establish the reward system framework for success.

The key is to focus on and ensure we are in balance for: vision, shareholder value, portfolio analysis, strategy segments/horizons, risk analysis, critical success factors, implementation

plans/enablers and the annual business/project plans.

Measurement

How do you measure strategic progress and success? Well, we have a 14-step model for building and implementing strategy, but some of these steps are strategy building-blocks and do not form part of the measurement framework, eg 'gap analysis'. I have also excluded steps that would be duplicated in the measurement process, eg 'vision' as this is automatically measured as a result of the suggested seven measurement points (see *the chosen steps in Figure 1, below*). The key objective is to drive the entire business via this framework. My suggestion is to use seven measurement points; but behind these are six 'rules' to follow.

Framework rules

Firstly, there should be the correct business framework in place, and an understanding of what each element of the business is supposed to deliver and when. If the framework is not yet in place, a start should be made on developing measurement techniques and measuring the elements that are understood. This will shift the organisation's mindset to one of measurement, which assists in the design of the ideal business framework.

Secondly, the measurement must span the entire business. It will be wholly inadequate for example to focus measurement on purely end-point financial yardsticks. One view with some merit is that if the development and operational aspects of the business are correctly measured, the financials should take care of themselves.

Thirdly, the measurement processes must be aligned with the reward systems. The three reward system levels of individual, team and corporate, must be based on the clear measurement of progress and delivery. It is a major motivator for people to clearly understand what they are being measured against and what the reward process and payout is for success.

Fourthly, the measurement framework must satisfy the management information requirements. There should never be two sets of information and the framework must be the focus for the entire organisation.

FIGURE 1

MEASUREMENT

Balanced scorecard

- Comprehensive framework
- Span the entire business
- Capture all deliverables
- Measure strategic process performance
- Linked to responsibility for delivery
- Linked to reward systems

Measurement points

- Step 2 – Shareholder value
- Step 3 – Portfolio analysis
- Step 5 – Strategy segments and horizons
- Step 6 – Risk analysis process
- Step 7 – Critical success factors
- Step 9 – Action plan
- Step 10 – Annual business and project plans

DELIVERABILITY TIMING

BALANCE/LOGIC CHECK ACROSS ALL POINTS

Fifthly, the performance data generated by the measurement framework must ideally be real-time, or as near to it as you can possibly get. 'Smart' use of technology should be the key.

Sixthly, publish. All measurement data, particularly at the business unit level, must be available to the entire organisation on a timely basis. Everyone must understand data from across the entire organisation, and its dissemination adds a healthy competitive edge between units and teams.

Measure what?

After reviewing ideas on the six ingredients, what exactly should be measured? I suggest starting at the top. There are a number of key strategic goals of the organisation, determined by what it aims to achieve for the period being measured. To throw out some ideas, measurement will be related to growth, cash generation, cost base, tax charge, supply chain, profits, systems platform, people development, e-business development, alliance performance, outsource arrangements and so on. Even at the 'high level' of the organisation, the list is potentially huge.

What steps of the strategic process should be measured? I would suggest considering these: shareholder value, portfolio analysis, strategy segments/horizons, risk analysis, critical success factors, implementation plans/enablers and annual business plan and project plans.

External comparison

Measurement must take account of two aspects of external comparison. Firstly, comparison against the competition. Secondly, and perhaps not always a subject of measurement, comparison against other organisations whose comparable functions are world class and renowned.

Reward structure

This is the glue that pulls the whole performance issue together. The reward structure will be the driver and will attract and motivate excellent people. Today you will never recruit and retain the best without a reward system that provides 'jam today; more jam tomorrow'.

The key is to build a reward system that ensures the strategic goals of the

FIGURE 2

REWARD STRUCTURE

Design framework and consider	DETERMINE REWARD COMPONENTS, VALUE AND PAYOUT TIMING	LINKAGE TO ALL MEASUREMENT POINTS	BALANCE ACROSS CORPORATE/BUSINESS UNIT/TEAMS/INDIVIDUALS
Growth (asset base, etc) Cash Profits Project success ROCE IRR NPV Market(s) success Competitor position Organisation change Value chain shift Cost case reduction			

business are achieved if not soundly beaten. Rewards should typically have four components – individual, team, business unit and corporate. The trick is to balance all four.

A commitment to recruiting the best talent must include bold and innovative reward systems to attract new recruits. There is not a threat here because the correctly constructed and balanced reward system will pay out the super rewards for that world class, competition-beating performance. The prize achieved should dwarf the cost of reward.

Overall, the trick is to align the reward structure with the measurement structure. This is a two-way street, as whatever is measured must have a reward connection so that the payout focus is centred on the key measurement points. Conversely, no payout should exist that is not based on a structured and reliable measurement point (see Figure 2, above).

Communication

An integral part of the leadership process is communication. This will ideally take place via a number of channels and all should be strongly considered as the power of the message is achieved through a combination. Consider developing a focused and punchy strategic document, town hall talks which provide the crucial face-to-face opportunity, use of technology and in-house magazines. Variety takes away the predictability of always using one medium, which

will become a turn-off.

The dangers here are twofold. Firstly, you can do too much. You are creating a culture, not a religion, and there is a clear difference between the two. Too much, and the organisation will tire of hearing the message. Secondly, too little can have even more damaging effects. The message is simply not conveyed. However well conceived the strategy, processes and business/project plans are, without an inspirational rollout of this exciting future vision, it just won't happen.

Remember, communication is a two-way street. Encourage communication from all parts of the organisation but don't expect it to happen openly without providing the communication mechanisms and guidelines. But above all, as I suggested, open communication must be free from fear and penalty. The culture must positively encourage this reverse communication – via surveys, via strategy sessions, via email and so on.

Communication transfers knowledge and experience but above all it is a human instinct and need. Clear articulation of where we want to go, how, when and what the prize will be, will get rapid buy-in. Very straightforward!

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THE PUBLIC SECTOR

NHS finance: a suitable case for treatment?

How is the finance function evolving in the public sector? In the NHS, finance is being modernised at a furious pace, alongside the rapid change in all other areas of the health service. For once, the investment needed to modernise NHS finance is finally available, says **David Bailey**, a specialist in finance development, and



author of a book* on the NHS. Here, he examines the issues involved in this radical reorganisation.

NHS finance is no stranger to significant organisational change. Be it the introduction of general management with the Griffiths Report in the early 1980s or the Conservative health reforms of the early 1990s, NHS finance was always in the vanguard; an enthusiastic proponent of change.

Now, however, NHS finance is no longer merely an agent or a supporter of change, but the subject of it. NHS finance departments are being radically reorganised and rationalised – from 600 of them today to just 12 by 2004, and from 65 different ledger systems to just one common system. The £420 million annual costs of finance are planned to be reduced by 30%. Significant numbers of staff will be relocated outside finance and working practices will be revolutionised.

Whatever the claims for additional funding made by the NHS, the least likely to receive a positive response in the past would be a claim for additional accountants. The Labour government, however, has decided to invest massively in finance's supporting technology, coupled, as with all its Health Service investment, with modernisation, to enable the cultural change necessary for a 21st Century service.

The National Shared Services Initiative (NSSI) was launched in October 1999 with the aim of exploring opportunities to improve the quality and value for money of non-clinical services. At the core of the NSSI is the recognition that new

technology can help NHS finance to: make better use of scarce skills; provide information and services more efficiently; and bring down the cost of administration in the NHS so that more of the Health Service's resources can be devoted to direct patient care.

In the past many NHS organisations have joined forces to share provision of some non-clinical services, bringing improvements to quality and achieving savings through economies of scale. Local examples include laundry, catering and cleaning services being shared by several hospitals. The advent of the internet and the increasing sophistication of computer systems has opened up new opportunities to share a wider range of services across a greater number of NHS organisations. The NSSI intends to take advantage of these to achieve further improvements to quality and value for money in finance. In the longer term, other areas likely to benefit from the NSSI include human resources, procurement of supplies and information services.

Instead of each trust, health authority or primary care trust operating its own individual services, such as creditor payments, the NSSI will see centralised services being established to cover a number of organisations, usually on a geographic basis. The centralised service will link with the customer organisations it serves using modern web-based technology. Centres around the country will use the

* *The NHS Budget Holder's Survival Guide.*

same software and computer systems so that high-quality management information can be easily and quickly collated and shared.

NHS finance past – undernourished and neglected

NHS finance has previously suffered from chronic under-investment. Systems are poor, out of date and ill-supported. Much work is manual and spreadsheet based. Larger NHS organisations have been able to justify some investment in modern technology, but smaller organisations have not and rely upon the expertise of large numbers of highly experienced staff. There are currently 14,500 finance staff across the NHS, split over teaching hospitals, acute hospital trusts, primary care trusts, mental health trusts, health authorities, regional offices, and special health authorities such as the National Blood Authority as well as the Department of Health itself.

Planning in the NHS has often been dysfunctional, disjointed and uncoordinated. Capital plans have been approved without the revenue budgets to support them. Nationally agreed increases in funding for specific projects have been top-sliced and then delayed at each level in the NHS so that each organisation takes advantage of the slippage. Funds have often been redirected into local priorities at the expense of national priorities.

Budgeting in the NHS is a hugely developed practice. Due to the lack of income available to report by department, reporting is done on budget and expenditure rather than income and expenditure. Revenue budgets are set for each category of expense for every ward and department and held by ward and department managers, often clinical staff such as nurses or physiotherapists. Never can so much paper have been so poorly understood by so many. Budgeting varies across the complete range from manual to fully automated. Whilst some organisations have sophisticated systems for pay costing, allowing automated calculation of likely pay costs next year, others are stuck with the manual input into spreadsheet models of the details of thousands of staff.

Almost every NHS organisation has its own ledger system, its own unique chart of accounts and its own finance

department. Monthly budget and expenditure reports are, however, fairly standard across the NHS, but other performance and variance reports are uniquely designed. The level of manual intervention required on a monthly basis just to publish basic financial information is immense. Financial reports are often not available until the middle of the following month.

The NHS has recently built up a monolithic costing system which produces National Reference Costs, published for each NHS trust. These detail the fully absorbed cost of Healthcare Resource Groups (groups of like procedures). The main similarity in practice across the country is that they're not appropriately used. The intention is that Reference Costs should be used to inform local plans and drive value for money by benchmarking local services against others. The system has, however, frequently highlighted the arbitrary nature of cost apportionments and the difficulties in identifying direct costs of such complex processes.

NHS finance present – undergoing new test procedures

The national project currently underway to test the concept of shared services within NHS finance is backed by significant funding from the Department of Health. Two sites, one in the South West of England and one in West Yorkshire, are setting up their own shared service centres for financial services. Project staff, with specific expertise in key areas have been recruited, a new ledger system is in the process of being selected and a standard chart of accounts is under consultation. This year, the new shared service centres will open in Bristol and Leeds and the constituent pilot organisations will transfer their accounting.

The jobs of hundreds of staff in the pilot areas have been put 'at-risk' and a huge human resources initiative is underway to relocate and retrain staff. The locations chosen had the likely costs of relocation and redundancy as part of the decision-making criteria, as well as the potential pool of people to be new recruits.

NHS finance future – a planned rapid recovery

The NSSI has the potential to bring about major beneficial change for the

health service as a whole, for individual NHS organisations and for individual members of staff.

Nationally, information will be consistent and be available much more quickly. Local trusts and health authorities will be able to plan and monitor their services and workforce more effectively in the context of the wider local health community. There will also be cost savings – for example, from reduced duplication of technology – which are expected to deliver £180 million annually.

The future of budgeting includes complete automation of routine processes such as staff costing, pay award calculation and skill-mixes together with 'what-if' high-level choices on the budget setting assumptions. The removal of most manual and spreadsheet-based calculations is a key aim. With reporting, removal of paper-based reporting, replaced by interactive web-based graphical and exception reporting is the intention. Instant access to inquiries and on-screen representations of detailed documents are essential for this to be useful to clinicians. A further advantage will be reporting across multiple organisations on programme budgets and clinical networks (groups of clinicians in the same specialty).

The lessons learnt from the pilot will be quickly applied across the country to inform the decisions on where, how and when to expand the concept. As with all the government's modernisation reforms, the political pressure is on. One thing is for certain – there is very little time in which to show results.

David Bailey is a specialist in finance development and author of The NHS Budget Holder's Survival Guide.

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Further information can be found at: www.doh.gov.uk/sharedservices; and www.swsharedfinancialservices.co.uk.

MARKETING UPDATE

Joining forces on intangibles

The debate on intangibles currently evokes more questions than answers. What is the relationship of cost to resultant benefit? Where does ownership lie? How best to organise and manage them? **Alan Mitchell** argues that marketers and



accountants should admit that they are equally baffled; and join together to find solutions.

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

Leaving aside the well-worn subject of Enron's tribulations for the moment, let's focus on another thorny issue which continues to dog the accountancy profession: intangibles.

The EU, in its recent High Level Experts Group report on the intangible economy, complains that "our economic and business measurement systems are tracking – with ever increasing efficiency – a smaller and smaller proportion of the real economy". Tom Stewart puts it rather more pithily in his latest book, *The Wealth of Knowledge*: "Accounting, long dead, is not yet buried, and the situation stinks."

Strip away the details, and three key uncertainties permeate the intangibles debate. First, the relationship between intangible costs and likely benefits tends to be much hazier than for traditional investments. We have a good idea that £X of labour and raw material costs are needed to create a product of £Y value. But predicting return on investment in research and development, or training, or customer relationship management, advertising or customer satisfaction initiatives is much more of a lottery. As Baruch Lev points out in his recent study, *Intangibles: Management, Measurement and Reporting*, to know the value of past investments we need to know how they turn out in the future, and with intangible investments there is "high uncertainty regarding future outcomes".

Second, intangible assets have a habit of eluding a fundamental assumption of traditional financial reporting, relating to ownership and control. A crucial part of any firm's knowledge assets are at least co-owned and controlled by its employees. Similarly, a crucial part of any firm's brand assets are at least co-owned and controlled by its customers. Such crucial assets reside at least in part in other people's heads. Result: as Lev puts it, their property rights remain "murky". And as Tom Stewart points out, attempts to value such assets end up valuing the assets of "the extended enterprise", not just the firm itself.

The third key uncertainty relates to

the fact that, when it comes to intellectual assets (which, under Stewart's definition include human capital such as knowledge and talent; structural capital such as patents and databases; and customer capital such as relationships and brands) most businesses nowadays are little better than yesterday's discredited conglomerates.

They have assets scattered around all over the place, in a jumble, with no underlying logic, alignment or synergy. What is needed is for these assets to be brought together and managed in "the same thoughtful way" as have been tangible assets in the past.

Stewart outlines a four-step approach for doing this:

- step 1: identify and evaluate the role of intangibles in the business – as input, process and output;
- step 2: match the revenues they produce with the intellectual assets that produce them;
- step 3: develop a strategy for investing in and exploiting these assets; and
- step 4: develop ways to improve the understanding and efficiency of the people creating and using these assets.

Simple, isn't it? Hardly. But the key point is that such attempts to map a business's intangible drivers are unlikely to fit neatly into traditional accounting frameworks. And this has a crucial bearing on the quest for a 'common language' between marketers and accountants. Up till now, most attempts to create such a common language have been driven by the number crunchers. This has made marketers defensive and even exacerbated 'corner fighting'.

In reality, before we can develop a truly common language, we need a common admission of ignorance. Once both sides accept they are at the 'I know (that) I don't know' stage of learning, they can begin a joint journey of discovery.

Right now, such a spirit of co-operative enquiry – to reach the common goal of more efficient, effective marketing – is probably more important than any would-be technical fix.

TREASURY UPDATE

Facing up to cash forecasts

In his latest treasury update column, **Chris Mansell** looks at



cash forecasting, the dangers of off-balance sheet activity, and latest treasury trends.

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

One of the recurrent nightmares for all treasury managers is how to generate accurate cash flow forecasts. However good the systems, the quality of data depends critically on the intelligence, if not the intuition of the person preparing the figures. Timing differences which get smoothed out painlessly in conventional reporting become the critical issue in preparing cash forecasts. Only those treasurers who know their business and indeed the key people in it are likely to produce useful projections.

What are the key benefits of cash flow forecasts? Perhaps they are that:

- treasury management can plan and manage liquidity in both the short and long term;
- risks arising from foreign exchange and interest rate exposures can be identified and managed;
- a debt programme can be properly structured; and
- at a strategic level, credible data can be presented to banks and analysts.

The methodology is nevertheless important and amongst the issues to be considered are:

- should the forecast derive naturally from the profit and loss projections, using in effect the balance sheet approach, or is a straight receipts and payments projection more reliable? Where more than one currency is involved the latter may well be preferred, especially if consolidated positions by currency are required;
- is specialist software necessary? With spreadsheet fluency so widespread, an in-house bespoke system based on a proprietary spreadsheet has much merit, especially since links to formal accounting packages are commonplace and easy to use. Spreadsheet design however is not as easy as it first appears, notably when several users are working on it. Checks and warnings need to be foolproof;
- cash forecasts typically use and refine information from the month end package. There are advantages in scheduling the exercise for the middle of the accounting period, steering clear of the reporting cycle and enabling senior managers to spend time in assessing and reviewing the projections; and

- finally, in dealing with problems, there is no substitute for face-to-face review between those preparing the forecast and central treasury management responsible for consolidating and evaluating the figures. This becomes vital in international businesses faced with language barriers.

Yet again

Treasurers with long memories will recall the enthusiasm with which investment bankers peddled off-balance sheet obscurantism during the 1980s. The heady cocktail on offer normally comprised substantial tax advantages, access to new funds ... and of course some stunning fees and spreads.

Nor was the breed of CEO unheard of who studiously ignored the activities of the treasury function – so long as the news was perceived to be good. And which treasurer has not come across the non-executive director with neither the intellectual capacity nor the attention span to enquire seriously into what the function was doing. If there was any doubt about the ethical dimension to the financial manager's role, surely Enron has banished that doubt forever.

Treasury management moves on. With peer practice always exerting a strong influence on treasury management, the survey undertaken jointly by The Association of Corporate Treasurers and JP Morgan Fleming is especially valuable. Now in its second year there are glimmerings of a trend in certain areas which provide interesting pointers:

- last year a mere 11% of respondents outsourced part or all of their treasury activities. A year later, this had increased to 41%;
- bank relationships are becoming more extended, with two-thirds reporting more than 10 relationships compared with 45% last year;
- there was a significant increase in use of the internet for treasury transactions; and
- the most curious result was the sharp change in perception of the role of the treasury function within a business. Is it a cost or profit centre? Last year the bias was heavily towards the risk-averse, risk-managing cost centre role. This year the result was reversed.

FORTHCOMING FACULTY EVENTS - 2002

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

- 15 April
EVENING
LECTURE
(Chartered
Accountants' Hall,
London) *'STRATEGIC ENTERPRISE MANAGEMENT' – MARTIN FAHY, NATIONAL UNIVERSITY OF IRELAND, GALWAY*
This lecture, in association with CIMA, will focus on strategic enterprise management (SEM), including how to create, manage and nurture it. Martin Fahy of the National University of Ireland, Galway, will consider sensible strategic management accounting decisions necessary for continually increasing shareholder value. Registration 5.45pm; lecture 6.00pm.
- 28 May
LUNCHTIME
LECTURE &
FACULTY AGM
(Chartered
Accountants' Hall,
London) *'PAY FOR PERFORMANCE – DIRECTORS' REMUNERATION' – RUTH BENDER, CRANFIELD SCHOOL OF MANAGEMENT*
Ruth Bender, lecturer in finance and accounting at Cranfield, will discuss the structure of directors' remuneration in the context of creating value for shareholders. She will look at performance-related pay in the long and short term, the choice of performance measures, current UK practice and the implications of the DTT's latest consultation document. Registration 12.15am; lecture 12.30pm, followed by AGM at 1.20pm and then a buffet lunch.
- 11 June
HALF-DAY
INTRODUCTORY
MEETING
(Golden Tulip
Hotel, Manchester) *'BEYOND BUDGETING – HOW MANAGERS CAN BREAK FREE FROM THE ANNUAL PERFORMANCE TRAP' – JEREMY HOPE, CAM-I.*
Adopting 'Beyond Budgeting' has far-reaching implications for employees, customers and shareholders, as well as for the organisation's leadership and management processes. Jeremy Hope, the programme director of CAM-I's Beyond Budgeting Round Table, introduces the BBRT research and discusses its findings and its success. For further details, please refer to the FFM events brochure in this month's mailing. Registration 9.15am; meeting 9.30am to 12.30pm.
- 13 June
MORNING AND
AFTERNOON
SESSIONS
(Sopwell House,
St Albans) *'ENTERPRISE AND INNOVATION – GROWING YOUR OWN BUSINESS'*
This is a series of four master classes, spread over two days, which is being run in the East England region in conjunction with the CIM and the IoD. The sessions are intended to keep you informed about the latest thinking on enterprise and strategic business development and to consider how this may be put into practice within your business. For further information regarding these four half-day sessions (which may be purchased individually), please consult the Faculty Planned Events brochure March – June 2002 in this month's mailing.
- 25 June
MORNING AND
AFTERNOON
SESSIONS
(Hilton Hotel,
Stansted)

RECORDINGS OF FACULTY LECTURES

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

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

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

MANAGING THE CHANGE – PERFORMANCE MEASUREMENT IN THE PUBLIC SECTOR

Anthony Dart of the Highways Agency explains the changes he has made to the planning and implementation system at the agency, and at the future of the finance function.

CUSTOMER RELATIONSHIP MANAGEMENT

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

THE BALANCED SCORECARD

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

VALUEREPORTING – A REVOLUTION?

David Phillips of PricewaterhouseCoopers explains this new technique including how to manage for value and the benefits of greater transparency.

FACULTY OF FINANCE AND MANAGEMENT

NOTICE OF AGM BUSINESS

Notice is hereby given that the eighth Annual Meeting of the Faculty of Finance and Management will be held at **1.20pm on Tuesday 28th May 2002** at Chartered Accountants' Hall, Moorgate Place, London EC2, for the following purposes:

1. To receive the annual report and financial statement of the Faculty of Finance and Management, for the year ended 31 December 2001.
2. To receive a report on Committee membership changes from 12 June 2001 to 27 May 2002.
3. To receive a report of the results of the elections to the Faculty Committee in 2002.
4. To answer questions about the activities of the Faculty of Finance and Management.

A lecture will precede the formal proceedings, and a buffet will be available afterwards to enable members to meet each other and members of the Committee in an informal setting.

CHRISTOPHER D JACKSON**Head of Faculty**

Direct Dial 020 7920 8525

Notes: A member of the Faculty is entitled to attend the meeting and, on a poll, vote in person, or may vote by proxy. The instrument appointing to a proxy must be received by the Head of Faculty of the Faculty of Finance and Management at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ by noon on Friday 24 May 2002. A form of proxy may be obtained from Kirsten Fairhurst at the same address. A member who thereby lodges a form of proxy will not be debarred from attending in person and voting, but must inform the Head of Faculty before the meeting of his or her intention to vote in person.

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