The Institute of Chartered Accountants in England & Wales

Faculty of Finance and Management

Finance & Management

MAY 2000 Issue 63

formerly FINANCIAL FOCUS

The fashion thing...

Lucy Kellaway on the sense and nonsense of management theory

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THE FINANCE FUNCTION

What does your CEO really think of it?

page **3**

ISSN 1467-5498

Feedback

Comments and suggestions about FINANCE & MANAGEMENT should be addressed to Chris Jackson BA FCA, head of the Faculty, at the address on the back page.

Faculty contacts are:

Chris Jackson
(Head of Faculty)
Jacqui Newell
(Services manager)
Judith Shackleton
(Technical manager)
Debbie Came/
Maria Carlstrom
(Administrators)

FINANCE & MANAGEMENT is edited and produced on behalf of the Faculty by Silverdart Ltd, Unit 211, Linton House, 164-180 Union Street, London SE1 0LH.
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Contact: Alex Murray, Claire Norman or Helen Fearnley.

Notice of annual meeting

Please see the 1999 annual report on pages 7 to 10 for the notice of business for the AGM, set for Tuesday 20 June at Chartered Accountants' Hall at 6.15pm

Northern members wanted

We would like to hear from members in the northern area who would be willing to act as a representative between the Faculty and the Northern Society of Chartered Accountants. The workload would not be too demanding. Please contact Jacqui Newell, services manager of the Faculty (020 7920 8508) for arm-twisting and further details.

Directory of Expertise

It is time for the annual revision of the Directory of Expertise. The directory is a searchable database on our website.

With the growth of Faculty membership, there are many new members who may wish to add their names to the directory. You don't have to be an authority to be included, simply willing and able to talk to fellow Faculty members on areas where you have practical experience. This way, we can all help one another, rather than re-inventing the wheel. To participate, please complete the application form included in this mailing and fax it or mail it back to us. Access to the database is restricted to Faculty members only, so you will not be exposed to nuisance calls. If you are already in the directory and your data are still correct you need do nothing. Please note that the address data is not linked to the Institute Database. Many members use a work address for the directory and home address for Institute mailings. If you want to see how it works, log onto the website at www.icaewmembers.co.uk and click on the directory link.

Benchmarking programme

We will be discontinuing the current benchmarking programme in June and are considering offering a benchmarking service through the website. This would allow members to participate at their own convenience rather than waiting for the three launches per year. The service would offer individual modules rather than the current fixed menu of 27 modules. There would be a charge for each module. We will provide you with further details in due course. We would welcome your views on this proposal. Please contact Maria Carlstrom on 020 7920 8486.

Technical programme

A team from the Faculty met with representatives of the business and academic community to debate the Faculty's technical work programme. We were encouraged by the confirmation that intellectual capital is a major issue for companies. As a subject, it conjures up images of ivory-towered irrelevance, but in reality it describes the need to measure and manage the increasing value of businesses, which may not be fully reflected in the balance sheet.

The Faculty hopes to make a contribution to this debate, to which members are well equipped to contribute.

Do let us know if you would like to help with this project – please contact Chris Jackson on: cdjackson@icaew.co.uk

May 2000 Issue 63

Welcome to *Finance & Management* – the new-look monthly Faculty publication (formerly known as *Financial Focus*).

Members will notice that both this publication and the May issue of *Manager Update* have been redesigned, while the mixture of contents remains broadly the same.

Please let us know your views on this redesign as well as on any other aspect of these publications (see back page for contact details).

So what does your CEO really think of the finance function?

Faculty member **Colin Kunz** discusses his own survey into how the finance department's contribution is rated by those outside the department itself.

Over recent years a large number of surveys into the changing role of finance have concluded that finance must become less of a transaction-focused operation. Buzzwords such as added-value, strategy development and internal customer facing are frequently used.

However, most of these surveys have been directed at finance people, who duly confirmed that their role has changed, or is in the process of doing so. Not one survey sought the chief executive's more objective view of how much value is being added by the finance department. Yet there is plenty of anecdotal evidence that non-finance members of any organisation generally have a less than flattering opinion of finance. (How many of us have been called 'beancounters' or 'the finance mafia', for example?)

FIGURE 1 DEMOGRAPHICS OF SURVEY RESPONDENTS

	Large companies	Small companies
Non-finance people	15	19
Finance people	22	23
Overall summary	**37**	**42**

The non-finance view of the finance department

To address this unexplored issue of the outsider's view of finance departments, I developed a questionnaire that would take minimal time to complete (to avoid the tendency to bin anything too labour intensive), and that could easily be answered by finance and non-finance managers alike.

Sent to almost 200 people, split equally between chief executives and financial directors in both large and small companies, this questionnaire achieved a response rate of 41%, with the demographics as shown in Figure 1. Among those who responded were the chief executives and finance directors of BP Amoco, Hanson, Glaxo Smithkline, BAA and Smiths Industries.

The questionnaire addressed *inter alia* the issues:

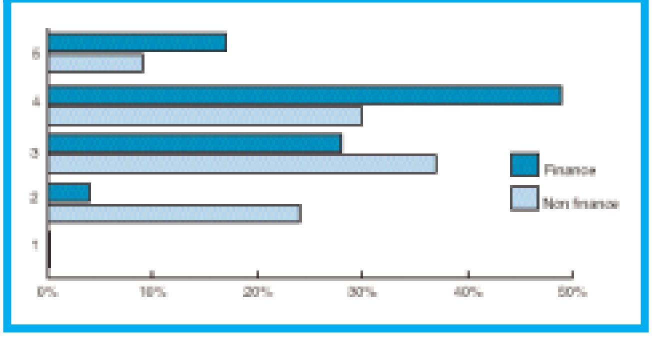
- does the finance function add value to the business; and
- what inter-group issues arise?

It elicited the following results.

Adding value to the business

To discern whether finance thinks it is doing better in adding value to the business than it actually is, the first

FIGURE 2 DOES YOUR FINANCE FUNCTION ADD VALUE TO THE BUSINESS?



question of my survey – to CEOs as well as finance directors – was a direct 'Does your finance function add value?'. The results are shown in Figure 2.

There is a clear difference in the scores given by finance managers as opposed to their non-finance counterparts. With the option of scoring from one (low) to five (high) for finance's performance in adding value, 70% of finance managers score themselves a four or more and less than 5% put a score of two.

This compares with the non-finance respondents, who weight their answers more towards scores of three and two (63% of non-finance directors scored finance in these categories; almost twice the proportion of finance directors ranking themselves at this level {32%}).

Possible explanations for the differences in scores can be drawn from the results to the other questions in this part of the survey. In general, it emerged that non-finance managers believe finance does not understand the business within which it operates.

So, whilst it may not be necessary to undertake a chemistry or biology degree when working for a pharmaceutical company, the survey findings suggest finance directors would gain a lot from spending more time looking at the value chain of the business.

Finance, it emerged, is also perceived as largely a control function, ie one that provides day to day security over the assets of the business and transactional processing etc. Finance managers viewed their function as much more of a support role to the business.

Inter group working

This part of the survey looked at how finance integrates with the rest of the business, and in particular at how senior members of the finance team are recruited. In the majority of companies, most senior finance positions are recruited externally. This compares dramatically with, for example, the more evolutionary progress towards the production manager's role.

In fact, most companies recruit all of their finance members from external sources, rather than from other departments of the organisation.

For senior finance members, this practice can be explained by the nature of the training required. However, the survey results suggest that even junior positions are filled from outside, rather than by people within the company. What this achieves is an isolated department, where the flow of staff is only one-way – into other departments. Over 60% of respondents indicated they transferred people out of finance into operational roles, compared with only 10% going the other way.

Other key areas of inter group working between finance and operations are in the provision of key business information by finance. How strong is finance at providing additional information to operational managers, and how involved is finance in project or investment appraisals?

Here finance scores highly as the majority of respondents, both finance and non-finance took the view that their finance department does provide them with what they require and becomes involved in making project and investment decisions (70% of the more objective non-finance respondents rating finance four or five, and 80% of finance directors doing so).

However, the responses by the finance managers are more favourable than their non-finance counterparts. There is still a significant number of non-finance managers who feel that their finance department does not provide them with the necessary data.

Additionally, and perhaps more worryingly, in some companies the chief executives do not believe that their finance function plays any role in investment decisions.

Why is this so? For both questions, smaller company managers posted all of the lower scores. This can be explained by the fact that in many large companies there are dedicated business support and analysis departments, as well as dedicated investment appraisal functions. In smaller companies, the finance department is constrained by limited resources and may just not have the time to address the requests from other departments.

If finance is to become a more value-focused function, the above is not satisfactory. Smaller company finance departments should look at what they produce each month and ask themselves, for example, whether it is necessary to produce management accounts, based on the statutory accounts format? Is it not possible, instead, to produce a set of business-focused accounts, that say the same things, but add more value to the day to day running of the business?

Conclusion

To summarise, it can be acknowledged that finance has made progress in its attempts at becoming a valued member of the business. However, it is also clear that the finance managers feel they are further along this process than their non-finance colleagues' evaluation.

Colin Kunz is a Faculty member, and has recently completed an MBA at Henley Management College. His survey into the finance function's image was the basis of his MBA dissertation. Tel: 01428 609639.

Dedicated followers of fashion...

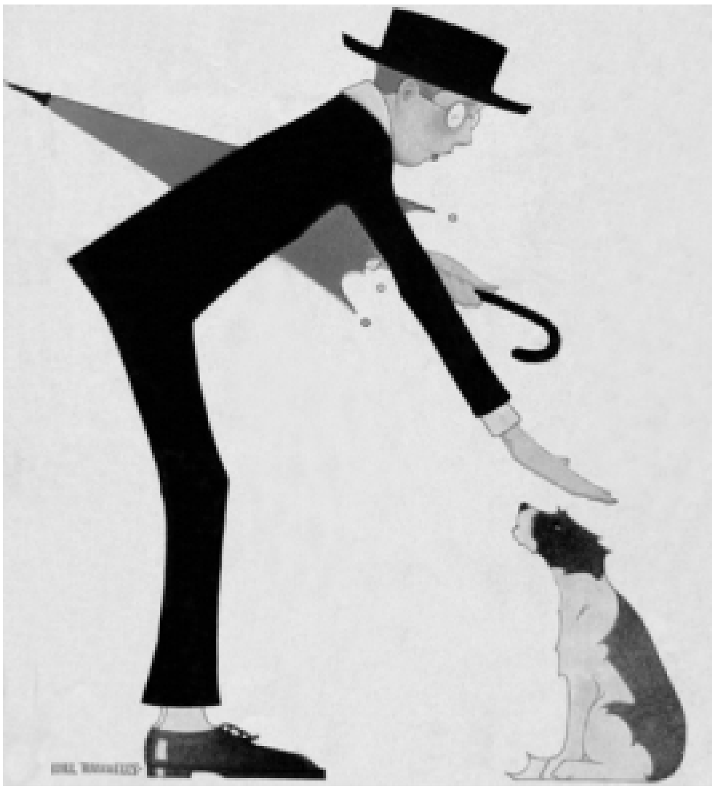
Are companies mere fashion victims when it comes to new management techniques? *Financial Times* columnist **Lucy Kellaway** argues that they

show many of the signs... but they may also be learning something, in pursuit of the latest must-do discipline.

The pattern is always the same. Somebody comes up with a management idea. A few companies try it out, and great claims are made for it. Packed conferences are held and specialist consultants multiply and prosper. More companies follow until everyone is doing it and swearing by it.

Then some clever dick at a business school or consultancy does research showing this marvellous practice is not delivering the goods. Surveys start to be published showing that the majority of companies using this practice are enjoying no benefits at all. The believers behave as if an act of sacrilege has been committed, yet the fall from grace has begun. Nature abhors a vacuum, and before long, a new idea comes along to replace the old one, and the process starts all over again.

We have seen this pattern work itself out time and again. We saw it with total quality management which took the world by storm in the 1980s. We have seen it with Japanese lean production techniques such as just in time. Re-engineering, the must-have fad of the early 1990s, has gone the way of the rest. Even benchmarking is looking a bit yellow around the edges. In time the same will happen to the other crazes. Knowledge management reigns supreme now. But the first tell tale signs are showing, and I suspect it may have already peaked. I give it another year at most.



The predictable way in which these fads come and go inevitably raises the question: why are companies such helpless victims of fashion? I suspect they cannot help themselves when faced with the latest craze, any more than the average teenage girl can help herself when confronted by a sequinned boob-tube. Both managers and teenagers inhabit worlds in which they are outcasts if they are not doing the same as everyone else.

Another similarity between these two groups is the temptation they are put under to part with their money. Teenagers are bombarded with advertising, magazines and images, while managers are equally exposed to armies of consultants who are only too happy to sell them the particular fad in question.

However one should not push the manager/teenager analogy too far. Managers deserve to be given a bit more credit for judgement than teenage shoppers. And most of the fads which they are buying are, in theory at least, robust, and at the outset appear like a no-brainer. Which is more than can be said for the sequinned boob-tube.

Take knowledge management. Stripped down to its essence, knowledge management says that companies should pool all the information and ideas that are shut away in employees' heads, in filing cabinets and databases, and assemble the knowledge in a way that makes it easily available to anyone in the company who wants it. Expressed thus, the idea is impossible to disagree with. And now that knowledge is a source of competitive advantage, it has become more important than ever to manage it properly.

But there the good sense ends and the faddy bit begins. The IT industry has had a field day selling knowledge management systems, and there is now a whole new management discipline springing up in many big companies – headed up by someone with the grand title of chief knowledge officer. Thus armed, companies will tell you that they are actively managing knowledge.

Yet already there are some early signs that all that has happened as a result of these efforts is that the amount of knowledge within companies has proliferated, but nobody knows where to find anything and they are no better off than they were before.

What has gone wrong? The problem both with knowledge management and with most other fads is that companies are applying off-the-peg solutions to what are usually an individual set of circumstances. The resulting mismatch is predictable.

Does it matter that all this energy is being spent by companies on management fads that come to nothing? You could say that there is another important difference between the seasoned manager and the fashion conscious teenager. It is of no consequence that the sequinned boob-tubes are a one-season wonder. Oxfam simply gets more cast-offs than would otherwise have been the case. But when one management fad is dumped you might think that the waste in management time and energy would be a serious issue.

Yet I suspect that it may not be a damaging as it sounds. Most fads have something to be said for them, and at the very least they concentrate the minds of managers on a problem, which is preferable to ignoring it altogether.

Although it is tiring for managers and employees to do so much lurching around to follow one fad after another, some experience is almost certainly gained as a result. And in the meantime think how much profitable work has been created for the management industry.

Lucy Kellaway is a columnist on the Financial Times newspaper. The book based on her FT columns, 'Sense and Nonsense in the Office', is published by Financial Times/Prentice Hall, price £12.99.

ANBAR ABSTRACTS

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

29AE579 Bottom-up profit planning
Northridge R, *Management Accounting*, (UK)
Jan 2000 Vol 78 No 1: p18 (2 pages)
● *Argues that many UK firms accept lower profit than they should and uses a numerical example to discuss what target contribution and return on capital employed should be, taking risk into account. Looks at some strategies for increasing inadequate profits (eg overhead reduction, competitive pricing, etc.), reminds readers that good human relations must not be forgotten; and urges companies to ensure that their management information systems are fast enough to allow swift corrective action to be taken where managers overspend or fail to reach revenue targets. Claims that this method of profit planning has been successfully applied by the author. Credits = 1.*

29AE581 Outsourcing: to do or not to do, that is the question
Bromage N, *Management Accounting*, (UK)
Jan 2000 Vol 78 No 1: p22 (2 pages)
● *Reminds readers of the growing importance of outsourcing and briefly describes its successful use by two very different UK businesses. Puts forward two questions to identify core competences and lists the factors which enable firms to derive the full benefits from outsourcing. Predicts that it will continue to grow rapidly in the UK. Credits = 1.*

29AF123 Assessment of facilities management performance – what next?
Amaratunga D, Baldry D, Sarshar M, *Facilities*, (UK)
Jan 2000 Vol 18 No 1/2: p66 (10 pages)
● *Argues the importance of being able to measure facilities management (FM) performance, contending that the emphasis of assessment of facilities management will have to move towards a measurement and management system. Discusses the general concept of FM performance assessment, and illustrates the need for a performance management system for FM, before offering the balanced scorecard (BSC) as an alternative approach to assessing FM performance, that seeks to incorporate the valuation of an organisation's intangible and intellectual assets in the form of high quality products and services, motivated and skilled employees, responsive and robust internal processes, and satisfied and loyal customers. Provides empirical evidence of the successful application of BSC across diverse industries. Credits = 1.*

29AE454 Short-term liquidity management
Emmins N, Bullock A, Nicholson M, Henney G, Harris-Jones J, Christopher M, Lovett D, Hodgkinson R, *The Treasurer*, (UK)
Jan 2000: p25 (17 pages)
● *Describes the options available for short-term liquidity management. Suggests that United Kingdom money market funds may follow US patterns, reducing diversification and credit risk, increasing liquidity flexibility, reducing costs in a simple and easy way. Looks at short-term cash flow techniques, which have to be customized for each firm, and at the factors that make short-term liquidity important for venture capitalists. Recommends small firms open accounts with smaller banks, cheaper than the big four, and gives some recipes for corporate recovery. Credits = 2*

29AF099 Human capital (statements of personnel practices)
Horn C, *Personnel Today*, (UK)
25 Jan 2000: p20 (2 pages)
● *Discusses an increasing recognition of the importance of including information about human resource (HR) practices in a company's report and accounts to reflect the relationship between business performance and HR policy. Suggests that HR departments need to investigate ways of measuring HR practices; and describes a tool – the Human Capital Index (HCI) – developed by a consultancy in the US. Offers two case study examples of companies that include HR information in their reports, namely Boots and Peugeot. Credits = 1.*

ANNUAL MEETING
and
REPORT

Notice is hereby given that the seventh Annual Meeting of the Faculty of Finance and Management will be held at **6.15pm** on **Tuesday 20 June 2000** in the Great Hall 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 1999.

2. To receive a report on Committee membership changes from 3 June 1999 to 19 June 2000.

3. To receive a report of the results of the elections to the Faculty Committee in 2000.

4. To answer questions about the activities of the Faculty of Finance and Management.

The evening lecture will follow the formal proceedings, and a buffet with wine will be available after the lecture 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 8486

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 a proxy must be received by the Executive Secretary of the Faculty of Finance and Management at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ by noon on Friday 16 June 2000. A form of proxy may be obtained from Jacqui Newell 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 Executive Secretary before the meeting of his or her intention to vote in person.

CHAIRMAN'S STATEMENT

Growth
The eighth year of the Faculty has seen us reach 10,000 members, 3,000 more than last year. We are very proud of this continuing high growth rate, which now makes us the largest faculty and the first to reach 10,000 members. Feedback told us that we were providing what existing members wanted; in fact 88% of respondents rated us seven or higher out of 10. By allowing potential members to sample our services through free trial membership offers we have shown them that we are alert to their needs and that we offer unmatched value for money. We will continue our marketing efforts in 2000; we are convinced there are many more Institute members who could benefit from what we have to offer.

Finances
Our aim is to break even, taking one year with the next, while maintaining two to three months' income in reserves. We are achieving this objective. The extra income in 2000 and onwards from the growth in membership will ensure we are well placed to improve existing products and launch new ones. We also aim to be self-sufficient and not rely on the level of Institute funding we have enjoyed in the past.

Activities
Management Quarterly, Manager Update and Good Practice Guideline were all produced on a quarterly cycle. Financial Focus (now Finance & Management) was produced monthly. Management Quarterly is our most popular publication and is now half way through its planned life. We obtained copies for all our members of 'Inside Out' on better reporting of value-creation, and 'Practical insights into Boardroom Governance'. These retailed for £10 and £15 respectively.

In response to members' requests we scheduled many more events away from London. We organised events, of which 11 were in London and 32 outside, but achieved only mixed success in terms of attendance. For 2000 we are planning a smaller number of bigger events. We are also hoping to put lectures on our website, and to attend relevant regional events organised by other groups.

We worked with the Institute to launch the members-only website and our section is now one of the most popular parts of the Institute's site. The website is an important part of our future plans.

The Institute
The Institute is going through a period of change with new groups emerging. The Institute is also changing the basis on which faculties will be funded. We will work with the Members Directorate, The Centre for Business Performance, the other faculties, the focuses and other parts of the Institute to achieve our objectives while supporting their development. In addition we will maintain existing contacts with like-minded organisations in the UK and overseas.

People
I would like to thank all committee members who have given their time and expertise to make the Faculty the success that it has become. I would also like to thank Chris Jackson, Judith Shackleton, Jacqui Newell, Debbie Came and Maria Carlstrom for their enthusiasm and commitment. Members of the Faculty are unfailingly complimentary of the service they receive when they contact Chris and his team. They have responded incredibly well to the challenge of high growth.

The Future
1999 was an excellent year for the Faculty. We will maintain the quality of our output. We will continue to develop our activities. We will continue to provide value for money. I believe the Faculty has a great future.

JOHN EDWARDS
March 2000

FINANCIAL STATEMENT

Year ended 31 December 1999

	Note	1999 £	1998 £
Income			
Faculty subscriptions		395,479	255,528
Notional interest on funds held		18,748	17,766
Miscellaneous income		23,314	1,258
Total Income		437,541	274,552
Expenditure			
Employment costs		55,749	26,423
Publications	1	156,904	128,776
Costs of mailing		83,879	47,203
Marketing and PR		35,080	29,020
Internal recharges	2	36,658	29,527
Events		41,042	19,615
Miscellaneous		9,257	9,412
Total Expenditure		418,569	289,976
Surplus/(Deficit) for the year		18,972	(15,424)
Surplus brought forward from previous year		133,049	148,473
Surplus carried forward		152,021	133,049

J R Edwards
Chairman
21 March 2000

The Institute has funded Faculty activities in the year, to a sum of £154,108 (1998 £135,453) including Faculty staff employment and overhead costs.

Notes: 1 - Ruth Bender is a co-opted member of the Faculty committee. The Faculty pays her for her work on *Management Quarterly*. In 1999, this amounted to £1,625 (1998 £1,875).
2 - Institute recharges for accommodation and common office services.

ACCOUNTANTS' REPORT TO THE MEMBERS OF THE FINANCE AND MANAGEMENT FACULTY

We have examined the financial information for the year ended 31 December 1999 set out above and tested, on a sample basis, items of income and expenditure shown therein.

This financial information has been properly extracted from the books and records of the Institute of Chartered Accountants in England and Wales, of which we are auditors and on whose financial statements we have issued an unqualified audit opinion on 21 March 2000.

Robson Rhodes
Chartered Accountants and Registered Auditor
21 March 2000

REPORT ON ACTIVITIES 1999

Publications

Financial Focus:	12 issues published during the year	
Management Quarterly:	Issues 2-5	
Manager Update:	Issues 8-11	
Case Study:	Issue 6	Creating Shareholder Value in Unquoted Businesses
Good Practice Guideline:	Issue 24	Shared Service Centres
	Issue 25	Balanced Business Scorecard
	Issue 26	Business Planning
	Issue 27	Employment Law Update
	Issue 28	Managing Intellectual Capital

Events

Title	*Place*
Activity Based Cost Management	London
A Forum Group	Edinburgh
Balanced Business Scorecard	High Wycombe
The Value of Benchmarking	Thames Valley
Change Management Workshop	Sheffield
The Euro - for and against	Manchester
Financial Management in a Global Corporation	London
Intellectual Capital & Shareholder Value Creation	London
Non-Financial Directors	London
Outsourcing the Finance Function	London
Overhead Cost Reduction	London
Planning & Innovation	London
Practical Strategic Planning	East Anglia
Quality Leadership (Conference)	London
Running Board Meetings	St. Albans
Structured Approaches to Cost Reduction	Birmingham & Leeds
Strategy: The Theory	London

plus 24 half-day events on Activity Based Cost Management at various locations throughout England.

Faculty Membership

Number at 31st December 1999 12,133 – including 4,993 free trial members (1998 6,958 – including 2,177 free trial members).

International Activities

Representation on the International Federation of Accountants' Financial & Management Accounting Committee.

FACULTY COMMITTEE

Executive Committee Members
(at 31 December 1999)

John Edwards
(Chairman) (c)*
T.I. Group Plc

Charles Bartholomew
The Post Office

Ruth Bender*
Cranfield School of Management

Lois Bentley
Bridges Financial Management

Anthony Blackstock
British Museum

Kevin Bounds
KPMG Management Consultants

Mark Garratt
Aspirite Plc

Martin Kimber
(Deputy Chairman)
Kimbers Practical Business Strategies

Elaine Oddie (c)*
Morrison Stoneham

Kiran Parmar
British Telecom Plc

Douglas Shanks
Levy Gee

Ken Sutherland
Universe Foods Ltd

Professor Bob Sweeting*
Manchester Metropolitan University

John Tranter
Eaton Williams Group Ltd

Peter Welch *
Various directorships

Colin Whipp
Telewest Communications Plc

* Co-opted
(c) Member of Council

FACULTY STAFF

Chris Jackson – *Head of the Faculty*
Judith Shackleton – *Technical manager*
Jacqui Newell – *Services manager*
Debbie Came – *Administrator*
Maria Carlstrom – *Administrator*

How intangibles contribute to the value of a business

In her address to the Faculty's annual conference, **Margareta Barchan**, president and chief executive officer of Celemi, described her company's five year transformation to one which prioritises the capture and utilisation of knowledge.

Margareta Barchan first explained something of Celemi's history. The company was founded 14 years ago with the aim of "being part of changing the philosophy of a business at a global level, so that it is based on trusting the human being". Although small, with a 1998 turnover of £8 million and only 80 people on its payroll (although 200 more earn their living using Celemi's tools), it has a presence not only in Malmo and Stockholm in Sweden, but also in the US, the UK and Belgium, plus franchises in Australia, New Zealand, and Finland. The business focuses on two areas, namely:

1. helping clients with operations development; and
2. launching and branding new products.

Examples of UK clients include NatWest, Barclays, and ICL.

A common mistake

Margareta went on to recall the familiar business scenario of trying to convey a new business plan, only to find that employees just don't 'get' it.

This is quite common, she explained, and happens because those who have gone through the learning process of creating the final plan tend to leave out some of the vital – and, to them, now obvious – things they came to understand in the process, when presenting it to others.

The remedy, she said, is to try to recreate our own learning process for each individual in the company. Celemi encourages clients to do this for their own employees, so that everybody can see how they fit into the big picture and can support it for the overall good.

Celemi's own conversion to knowledge management

However, it was not until 1994 that Celemi decided to take its own advice, and started to focus on its own intangible assets and the capturing and management of knowledge. This happened, Margareta revealed, shortly after its being approached that year by Karl Erik Sveiby, visiting professor at University of Brisbane, Australia.

Sveiby had just completed a thesis conceptualising what is entailed in managing a knowledge company, and wanted to enlist Celemi's help in instrumentalising his concept so that he could share it with more people.

So together they started to develop a simulation called Tango, based on six teams of management competing for the same people and clients during a fixed period, the winner being the team whose company ends up with the highest market value (ie combination of equity and intangible assets).

However, in the process of developing the Tango simulation, Celemi realised that as a knowledge company itself, it really ought also to be operating in this way it was trying to get its clients to adopt and understand.

So it was at this point that Celemi began to monitor more diligently its own intangibles.

The progress

Describing how Celemi set about this task, Margareta outlined the initial two-step procedure. In the first instance Celemi had to decide what it was appropriate to measure, and decided on:

1. customers – the external structure and how relationships with clients impact revenue, growth, competence and image;
2. people – the internal structure, ie the value of everyone's combined competence, how well these competences match customers needs and how they drive internal development; and
3. the organisation – the value and impact of internal systems and processes, patents, trademarks, and company culture.

Then, it went on to consider each of those three areas impact on:

a. growth and renewal;
b. efficiency in using Celemi resources; and
c. stability in retaining both the client and knowledge bases.

The resulting detailed picture, for the three years to end-1998, can be seen in Figure 1 (overleaf).

So for that period the data show:

1. Customers (external structure)

a. *Growth and renewal* – As Margareta conceded, earlier rapid revenue growth slowed dramatically in 1998 as a result of Celemi concentrating on focusing internally, with new developments aimed at building the right structure. Meanwhile, the proportion of image-enhancing customers has improved, since 1996, to now form the major part of the client base, at 59% (although not as high a figure as the 70% for 1997). Such clients tend, she said, to be Fortune 500 or FTSE100 companies, but to fully qualify they needed also to have spoken positively about, or recommended, Celemi's services.

b. *Efficiency* – In the two years since end-1996 revenue per customer has increased by almost 25% to 306 TSEK (thousand Swedish Kroner).

c. *Stability* – This also seems to have improved, with marginally less dependence on the five largest customers (33%), and almost two third of clients making repeat orders. On the satisfaction index, only introduced in 1998, Celemi rates what it considers a very satisfactory 5.18 out of a possible 6.

2. The organisation (internal structure)

a. *Growth and renewal* – Celemi defines what it calls organisation-enhancing customers, as those providing challenging assignments which enable Celemi to develop some skill or knowledge it did not already have. This leads to a solution, model, or system useable in a new situation. Again, the majority of Celemi's clients (51%) fell into this category by 1998.

b. *Efficiency* – The proportion of administrative staff has remained constant for the last two years recorded. And although revenues per administrative staff dropped over the period, this is explained by Celemi's concentration on building up its marketing companies, necessarily causing an increase in total administrative staff.

c. *Stability* – Although the turnover of staff has increased, it is only by one person, and is explained by the increasing emphasis on having more experienced staff (as demonstrated by both the increasing seniority of administrative staff, and the falling 'rookie' ratio).

3. The people (competence)

a. *Growth and renewal* – The average experience of the professionals within Celemi has increased, and the proportion of competence-enhancing customers has improved since end 1996 to form a majority of 59%.

b. *Efficiency* – Both value added per expert and per employee have steadily increased over the period.

c. *Stability* – The people satisfaction index is healthy, and the expert turnover has steadied since 1996, while the experts' seniority has risen.

As a result of this monitoring, Margareta was able to show that over the four years from 1995 to the end-1998 figures, despite the recent slackening of revenue growth, the value added in the company has risen 150% from £20 million to £50 million.

She explained the apparent anomaly of slowing growth by observing that in 1995 and 1996 the company brought in a lot of new people. In turn, this

FIGURE 1 — CELEMI MONITOR 1998

Our customers (external structure)

	1998	1997	1996
Growth renewal			
Revenue growth	8%	22%	50%
Image-enhancing customers	59%	70%	46%
Efficiency			
Revenues per customer TSEK	306	269	245
Stability			
Customer satisfaction Index	5.18		
Repeat orders	66%	54%	46%
5 largest customerrs	33%	40%	34%

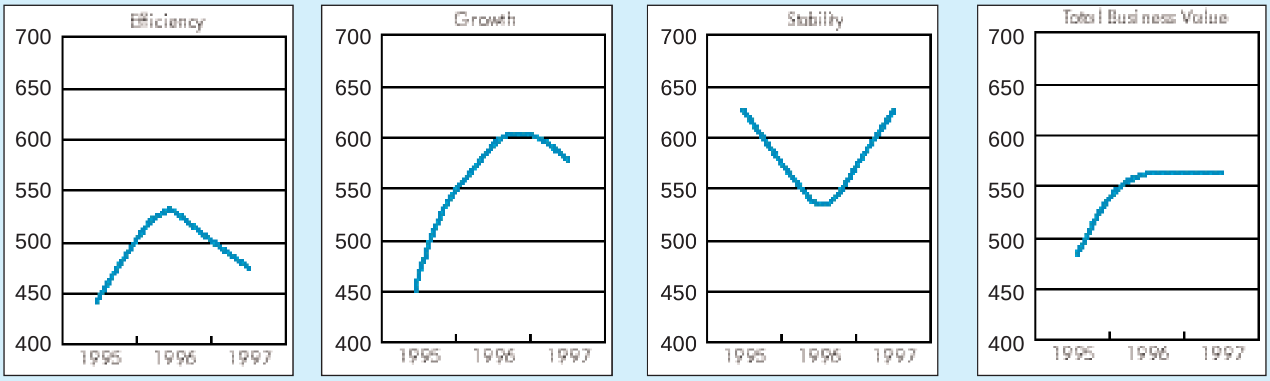
Our organisation (internal structure)

	1998	1997	1996
Growth/renewal			
Organisation enhancing customers	51%	49%	44%
Revenues from new products	49%	71%	70%
R&D/revenues	12%	7%	5%
Intangible investments % value added	42%	42%	34%
Efficiency			
Proportion of admin. staff	25%	25%	16%
Revenues per admin. staff TSEK	6774	8478	12246
Stability			
Admin. staff turnover	13%	0%	0%
Admin. staff seniority years	2.6	2.0	1.9
Rookie ratio	41%	53%	64%

Our people (competence)

	1998	1997	1996
Growth renewal			
Average professional experience	8.3	8.2	7.0
Competence-enhancing customers	59%	65%	46%
Growth in professional competence	8%	49%	61%
Experts with tertiary degree	67%	68%	66%
Efficiency			
Value added per expert, TSEK	802	759	713
Value added per employee, TSEK	641	625	617
Stability			
People satisafction Index	4.62		
Expert turnover	13%	6%	19%
Expert, seniority years	3.3	2.8	2.7
Median age all employees, years	37	36	35

FIGURE 2 CELEMI'S BUSINESS TRENDS OVER THREE YEARS



influx meant more senior staff taking time out from client meetings to train the newcomers, while at the same time the new people were perhaps not making the most efficient use of company resources. This was, she emphasised, a side effect of a deliberate effort to build the structure of the company and improve the competence of those within it.

As she further explained, every fast growing company can be categorised into one of two stages - chaotic or bureaucratic. Celemi, she suggested, had been in the chaos stage in 1995 and 1996, in the bureaucratic stage after that, and is now in the position of expanding its business without being chaotic.

Figure 1, she said, provides a good overview of what is needed to build intangible assets, and shows the value of measuring key indicators, all the time, for each individual within the organisation.

Assigning values for strategic applications

Celemi went further though, said Margareta, and added the third step of assigning values to the strategic applications, "as a way of guiding us to the future rather than just monitoring the past". In effect this meant:

- assigning value to each area being measured, evaluating each area in relation to the company strategy and goals;
- creating an intangible assets monitor to serve as a lead indicator; and
- using trends identified for the business over time to confirm (or reassess) strategic business decisions and plans, and make timely assessments of business performance.

Thus growth, efficiency and stability values were individually measured for the organisation, its competence, its financial capital, and its customers. These growth/efficiency/stability values could then be combined (eg competence growth+competence efficiency+competence stability) to provide an overall value total for any one of the four business areas.

Additionally, it was possible to measure one element of value across all four business areas (eg organisation efficiency+competence efficiency+ financial capital efficiency+customer efficiency) for a total measure of that quality within the business.

The result for Celemi in 1997 (it did not do this exercise for 1998, having been involved in absorbing a new acquisition), is as shown in Figure 2. It provides the total picture - efficiency, stability, growth, and, ultimately, total business value. As the figure shows, the total business value is flattening out after a growth period.

Conclusion

In conclusion, Margareta said, Celemi had been prompted by the work on Tango to try to build a framework for its own organisation, using a common language understood by all. Thus individuals can relate, for example, to the wider considerations about taking on a job which seems to offer little profit but might raise the company's profile or help it develop new competences or add new depth areas.

She pondered, also, the proliferation of fast-growing companies such as those involving the internet, suggesting that they have perhaps not sufficiently captured the knowledge within them to sustain the operation in the event of significant staff departures.

Finally, she said she would really like to see a redressed balance between intangible and tangible assets. Looking at Celemi's own most recent figures, the value of intangibles is roughly 75% of the whole, so managements should be aware that for every pound put into intangible assets, the potential outcome is huge.

Margareta Barchan is president and chief executive officer of Celemi, which she co-founded in 1985. Celemi is now a global organisation creating learning processes to support large scale change and improve business performance. Margareta was named businesswoman of the year for Sweden in 1997, and also holds a masters degree in business administration from Lund University, Sweden. Tel: 0046 40 660 2719; fax: 0046 40 660 2701.

The dollar leads the way

Chris Mansell assesses the strength of the US currency; offers some advice to exporters; and points out that accountants are not playing their part in the internet boom.

By the time you read this, it may already have happened – the decline in the US dollar after a long period of strength. But then, maybe not: the benign combination of continued US economic expansion, growing world trade and passive inflation will be ploughing on regardless, with the UK economy and sterling bobbing along in its wake.

Why might the dollar subside... and why should we care? A vital prop of the dollar's strength has been the profit performance of the corporate sector. Investment funds have been pouring in from all over the world. Even now, corporate earnings are expected to rise by around 10% and upwards for the foreseeable future. Despite this, corporate debt in the US remain historically high.

Investors will be sensitive to attempts by the US Federal Reserve to dampen down growth. Of course higher interest rates still exert an upward pull on a currency, so switching from equities to bonds may leave the dollar high until expectations of lower interest rates prevail.

If the dollar did fall, sterling would probably go with it. Certainly the performance of the UK economy is highly regarded by overseas investors, although government spending plans will have moderated that view. Whether UK exchange rates will slip back from their current highs for other reasons, such as a lower oil price or political problems for the government, must be doubtful. Higher interest rates are probable, which is an upward pointer for the currency, at least in the short term.

So treasury managers will need to be charting the course of both the dollar and sentiment about interest rate prospects. There would be great delight amongst UK exporters if sterling did fall. A stronger euro would both make the selling effort more competitive and resurrect credible discussion on the UK joining the single currency.

Getting paid for exports

Having, despite the strength of the pound, achieved an order, exporters will be especially concerned about payment. Successful trading always hinges on mutual trust, but this prerequisite is subject to special strains when dealing with overseas transactions. The problem is rarely out-and-out deception, although there are one or two territories that have elevated this to an art form. Business cultures run deep, and among SMEs the world over, attitudes are much influenced by the conventional national stereotypes. Moreover smaller organisations are much more vulnerable to customer failure.

Where open account trading (as conducted for the major part in a home market) is not acceptable, a common mechanism for ensuring payment is the documentary collection. Typically the exporter will present, via his bank, a bill of exchange (the payment mechanism) and shipping documents (title to ownership) to the importer's bank, who will only release the documents once the terms of payment have been met. The importer has the security of inspecting the documents before settling the debt. The exporter has some comfort – eg established legal procedures for enforcing collection – and when goods are sea-freighted, retains the bill of lading.

More expensive, but more secure for both parties, is the letter of credit. This sets out precise delivery requirements (protection for the buyer) and offers a bank guarantee of payment to the exporter, provided always that the terms and conditions of the credit issued by the importer's bank are met. Accurate response to the letter of credit, and each document required by it, is critical. The slightest deviation, be it spelling or an omission, will result in the seller's claim being rejected. Nor is it possible to rely on the shipping agent getting his documents correct. There are also time limits which have to be adhered to. Confirmation of a letter of credit by a bank (for a fee) results in the bank becoming principal to the transaction.

Accountants lagging in dot.com dash

Recruitment of financial managers among the dot.coms remains a low priority apparently. As Tim Rice's immortal put-down had it 'accountants only get in the way' (Evita). Surely the bean-counters' time will come. Only a minority of overexcitement.coms will become longtermviability.coms. Oops.com is the more likely future for many of the recent new issues. The need for finance skills may well suddenly become pressing.

FORTHCOMING FACULTY EVENTS

17 May
LECTURE
LONDON

Carolyn Haworth of Reuters Information will talk about 'E-business', including the profound impact that internet technology and e-business are having on Reuters. She will discuss the challenges for the business and implications for the finance function. Registration at 6.00pm; lecture 6.30pm; and buffet 7.30pm.

Carolyn Haworth is finance director of Reuters Information. This global division of Reuters has nearly 10,000 employees, a turnover of more than £1.6 billion and represents some 60% of Reuters Group PLC revenue. She has been with Reuters for nearly five years, holding a variety of roles in corporate headquarters including head of business planning. Before joining Reuters she was chief financial officer of Blenheim Group PLC's operations based in New York. Previously, she held several roles with Blenheim in London and was international finance director responsible for setting up new business across Asia. She trained at PwC and qualified as an ACA in 1990, following a physics degree at Imperial College, London University.

20 June
AGM &
LECTURE
LONDON

Dr Veronica Hope Hailey of the Cranfield School of Management discusses 'Human capital - human performance - human resources - what's happening to people in our organisations today?' Registration 6.00pm; AGM 6.15pm; lecture 6.30pm and buffet 7.30pm.

Dr Veronica Hope Hailey BA MSc PhD MIPD, is senior lecturer in strategic human resource management at Cranfield School of Management. As a visiting fellow at London Business School, she is part of the research team working for the Leading Edge Forum, a multi-sector consortium of companies funding a large nine-year research project examining HRM and change management in their own companies. Her previous appointments include a Fellowship at the University of Cambridge. She is consultant to a number of major corporations and has written various books and articles.

CONFERENCE PROGRAMME 2000

20 September
LONDON

29 November
SOILIHULL

The Faculty is holding a series of half-day conferences, with a range of speakers. The timetable will be the same for these events in Huddersfield (*see page 16*), London and Solihull:

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, 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 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.

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

A positive start to the new conference programme

Helen Fearnley reports from Huddersfield on the first of the Faculty's new half-day conferences on topical management subjects. The next two will follow the same pattern (see details on page 15).

The first of the Faculty's planned series of non-London conferences achieved an excellent attendance, with almost 100 members gathering at the Huddersfield venue to hear speakers Kevin Bounds, John McKenzie, Marian Moriarty and Dave Smith.

Speaking first, Kevin Bounds – a director of world class finance at KPMG and a Faculty committee member – said that in both these roles he was convinced of the pressing need for finance to take a central role in the organisation, helping to move the business forward. Addressing his subject matter – 'The development of strategic performance measurement' – he first established his hands-on credentials, revealing that although a management consultant for the past three years he had also had a succession of 'proper' jobs, with experience of turn-rounds and start-ups.

He proceeded to analyse how the balanced scorecard (BSC) had evolved, and where it was going. In his experience, he said, it was (in conjunction with the re-engineering of the finance function), capable of making a big impact on a business in a fairly short time. However, he cautioned, it is by no means a perfect tool, requiring judgement and balance, constant dialogue and the setting of targets.

John McKenzie, a director of Armstrong Laing, agreed that the scorecard is not a perfect solution. In his talk on 'The balanced scorecard – what & why?' he suggested that one reason the BSC fails in some companies is that they haven't done the work to find out what drives the business.

The BSC, he contended, should be used to implement the organisational strategy. Yet in too many cases, the management had not looked at what drives performance, and hence were operating with an unbalanced scorecard. Activity based management (ABM), he said, can help restore that balance by identifying the customers, products, and distribution channels which are actually profitable; where value is added in the business and where there is waste; how to identify and allocate true overheads; and how to improve budgeting.

The final speakers, Dave Smith and Marian Moriarty of Inner Business, provided an altogether more interactive session. Discussing 'Innovation and creativity', they encouraged their audience in all sorts of exercises to demonstrate how to stimulate creative thought and new ideas "when you want to have them, rather than when you are in the shower in Bermuda". At the same time, however, the speakers provided serious pointers on the best ways to harness the skills and abilities that lead to innovation, as well as listing (as warning, rather than recommendation) 17 ways in which to kill an idea.

The speakers at the Faculty's Huddersfield conference: (*l to r*) Kevin Bounds, John McKenzie, Marian Moriarty and Dave Smith

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