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Feedback

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Conference sell-out!

All tickets for the September London conference have now been sold. However, seats are available for the 29 November Solihull conference.
Full details of the conference can be found on page 11.
Tickets are £50 for Faculty members and £75 for non-members.

STOP PRESS!

There is a late change to the London conference line-up. Faculty committee member Kevin Bounds has to be in the US on the day of the London conference and consequently will not be able to present his talk. However his colleague Andrew Hall from KPMG Management Consultants is experienced in this area and recently made a similar presentation to a conference in Switzerland. We look forward to welcoming Andrew. Kevin will be back for the Solihull conference in November.

Guidelines from Canada

In our quest for high quality information, we have arranged for Faculty members to receive selected *Management Accounting Guidelines* produced by the Chartered Management Accountants of Canada.

We will be working with the Canadians in the development of new titles.
The first fruit of this co-operation is the *Good Practice Guideline* in this month's mailing, on 'Product life cycle management'.

A welcome to our Irish members

Members of the ICAI and ICAS are entitled to membership of the Faculty.
Following a small article in the ICAI's *Business Matters* newsletter we have had a number of new members from the Irish body.
The Faculty is pleased to welcome them.

Questionnaire results

We are always looking for ways to improve our service.
A recent survey of members indicated:

- there are no serious weaknesses in the services the Faculty is offering;
- publications are at the right technical level;
- some events may not be technical enough; and
- we should avoid information overload.

We welcome correspondence on these suggestions. Do let us know whether you agree or disagree – contact Chris Jackson by e-mail at cdjackson@icaew.co.uk

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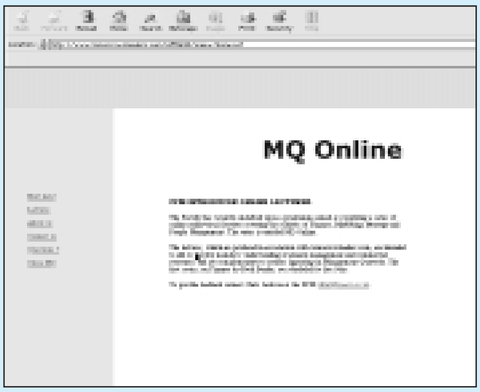


MQ Online is now available

MQ Online is a series of short web-based lectures supplementing the *Management Quarterly* articles.
The first five lectures, covering MQ's finance articles 3, 4, 5, 6 and 7 are now available for you to trial on the web site.
A PDF of the related article is also available for download. We have started with finance, but we are already planning for the marketing lectures.
Do visit the site and let us know what you think – contact Chris Jackson by e-mail at cdjackson@icaew.co.uk

Sharing knowledge can be painful

Adrian Patch, a research psychologist at Birkbeck College, reveals the emergence of a worryingly guarded employee perspective on the new knowledge economy.

It should be of no surprise that with increasing talk in the business world of the emerging 'knowledge economy' – alternatively, the 'new economy' – knowledge management (KM) has steadily grown in respect as a discipline or approach.

One of the central tenets of organisational interventions concerned with KM is that employees should be encouraged to share knowledge freely. This in itself is nothing new, with such themes addressed in earlier management ideas concerning organisational learning and the learning organisation.

However, research conducted here at Birkbeck College suggests that employees might not always buy into the idea that they should share knowledge and expertise with their employers and colleagues. With results showing that as many as one in five employees feel it is not in their best interests to share their good ideas freely in the new economy, the old saying that 'knowledge is power' takes on new significance.

In this article I will draw upon evidence from our research to consider what might lie behind employees' reticence to share their specialist knowledge and expertise. I will then outline how our current research sets out to explore more thoroughly those tensions in the employment relationship concerning the ownership and exploitation of knowledge and broader aspects of human capital. But first, what is the evidence that employees might be adopting a guarded approach to knowledge?

How prevalent is knowledge-hoarding?

The evidence for a guarded approach towards knowledge comes from two separate studies. The first involved a national survey of IT professionals (members of the British Computer Society – 446 respondents), examining their attitudes towards careers, knowledge and expertise. The second, part of the Economic and Social Research Council's Innovation Programme, included surveys of two organisations, with questionnaires containing the same KM attitudinal items. The survey of Media Co focused upon professional and technical staff, such as camera operators, lighting technicians and directors (227 respondents) and that in Healthcare Co targeted the IT department (205 respondents).

In each case, significant proportions of survey respondents were employed on non-permanent

FIGURE 1 'GUARDING MY SPECIALIST KNOWLEDGE WILL HELP ME GET AHEAD'

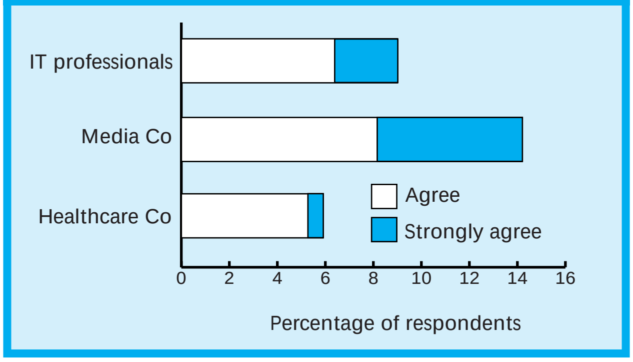
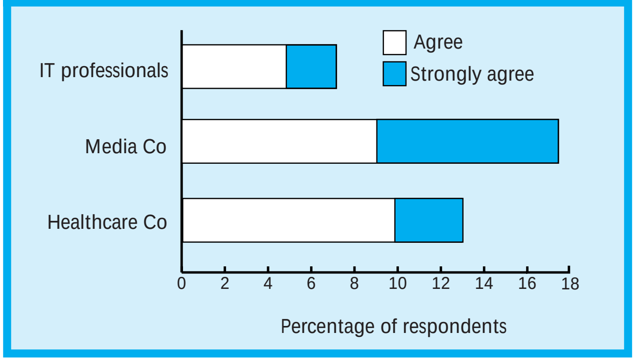


FIGURE 2 'IT IS NOT IN MY BEST INTERESTS TO SHARE MY GOOD IDEAS FREELY'



employment contracts of various types – ranging from 24% of those responding to the IT professionals survey, to 30% of those in Media Co and 48% of those in Healthcare Co.*

Patterns of response across the three surveys for two of the knowledge-sharing items are shown in Figures 1 and 2. The first thing to note is the degree of variation between surveys. Respondents in the Media Co survey, for instance, were more than twice as likely as those from Healthcare Co to report the view that guarding their specialist knowledge will help them to get ahead. Similarly, whereas a relatively lowly 7% of respondents to the IT professionals survey felt that it was not in their best interests to share their good ideas freely, the figure rises to approaching one in five of those from Media Co. Of course, sharing ideas is not quite the same thing as sharing knowledge, and the broadening of the general thesis from knowledge to other aspects of human capital is discussed below, where I set out the direction of our current research.

What might account for these levels of reticence to share knowledge and good ideas? A common statistical method (multiple regression analysis) was used to try to uncover patterns of association between the variation in these scores and several individual and organisational background factors. Two different hypotheses are discussed here. The first considers whether hoarding knowledge might be associated with a more strategic approach towards furthering one's career, the second considers the impact of perceived violations of the psychological contract.

A strategic individual approach

The fact that most readers will have been familiar with the expression 'knowledge is power', even prior to popularisation of the knowledge economy thesis, perhaps speaks volumes about human nature. Long before the current interest in KM, there will have been those who jealously guarded their knowledge or expertise. With increasing talk in organisations of KM though, and of managing human and intellectual capital, it should perhaps be of no surprise that individuals are becoming switched on to the opportunities afforded by guarding their knowledge.

This might be further exacerbated where individuals have taken on board the rhetoric surrounding self-managed careers – particularly in professions characterised by tight labour markets and opportunities for lucrative freelance working, such as has been the case in IT for several years now. Could an individual approach to KM be part of a broader, more strategic, approach towards managing one's career?

Unfortunately, regression analysis of the survey data failed to lend very much direct support to this hypothesis. Having a strategic approach towards furthering one's career and being open to changing one's employer were the factors found to be most strongly associated with positive knowledge acquisition attitudes in the IT professionals survey, but were not found to be associated with knowledge sharing. Similarly, being an agency contractor or having taken the current job for advancement/development were the two factors most strongly associated with acquisition of knowledge in Healthcare Co, but with no such relationship found with sharing knowledge.

The sole proactive/strategic individual factor found to be associated with knowledge sharing concerned the employment contract: not being on the desired type of contract in Healthcare Co was associated with a more positive approach towards knowledge sharing. This might be interpreted as a tendency amongst some non-permanent employees to make a case for a permanent contract, or equally, as permanent employees demonstrating their suitability for contracting work to those with the contacts to facilitate such a move.

It seems, therefore, that aspects of a more proactive approach towards career management – including exposure to, or an awareness of, labour market opportunities – are related more to being open to acquiring knowledge than to adopting a defensive approach towards sharing knowledge and expertise.

What else then, if anything, was found to be associated with attitudes favouring knowledge-sharing or hoarding?

A more reactive approach – violation of the psychological contract

An alternative to considering strategic or proactive determinants of employee attitudes and behaviour is to look for more reactive influences. One such approach is Professor David Guest's measure of the state of the psychological contract. This is a three-pronged measure of the quality of the employment relationship from the employee's perspective. It consists of perceptions of the extent to which work-related promises and commitments have been kept, perceived fairness of the employment contract, and levels of trust in the employer to keep promises and commitments in the future.

Although the state of the psychological contract was not found to be associated with knowledge acquisition attitudes in any of the surveys, it was the factor most strongly associated with knowledge sharing in Healthcare Co – individuals reporting a healthier psychological contract were less likely to report a guarded approach towards knowledge and expertise.

Variations in knowledge-sharing attitudes amongst employees, then, might be better explained in terms of reactions to their treatment at work (or perceptions of treatment), rather than as part of a broader proactive approach toward career management.

Current research: the employment relationship for knowledge workers

Of course, a criticism of single-shot survey research is the difficulty in demonstrating causal relationships, with the data in this respect left largely open to interpretation. For example, might it be the case that knowledge-hoarding behaviour amongst certain employees leads to them being treated in a manner perceived as unfair? It is possible.

Furthermore, although survey questionnaires are efficient data-gathering tools, they limit the range of information that can be gathered about a phenomenon – perhaps a significant disadvantage when considering an emergent issue like individual KM.

Our current research, again funded by the Economic and Social Research Council, is exploring these issues in more depth. Focused semi-structured interviews with knowledge workers in three industries – IT/communications, finance, and pharmaceuticals – are being conducted in tandem with interviews with senior management having responsibility for KM and related policy. This strategy is allowing us to consider the role of the organisational context in shaping employees' views about KM and their careers. It is also allowing us to broaden the analysis from the narrow focus upon knowledge to other aspects of employee talent and contribution, or human capital.

With the growth of intellectual and human capital management as strategic disciplines, there is recognition that the hackneyed phrase 'people are our most important asset' might be worth some serious attention. So far, the research suggests that if employees do not feel as if they are treated as valuable assets, they will be less likely to share their knowledge and good ideas.

Adrian Patch is a research psychologist at the University of London's Birkbeck College. Together with Professor David Guest, he is researching a range of issues on the employment of knowledge workers.
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** The paper summarising the Birkbeck College team's findings 'What will encourage employees to acquire and share knowledge at work?' can be downloaded from www.bbk.ac.uk/manop/man/mgesrc.htm*

ABSTRACTS FROM LIBCAT

This is *F&M*'s first selection of abstracts from the ICAEW's on-line catalogue LibCat (for further details, see below).

Cecil R – At your service
Management Accounting (CIMA), Vol.78. No. 7. July/August 2000: p32-33 (2 pages)
● *US companies have long embraced shared service centres and the rest of the world is catching on. The author finds out how to make them work.*

White S – Do you know what you know?
Tax Adviser – Tax Software Supplement, June 2000: p18-19, 22 (3 pages)
● *In an age of fierce competitive pressure, the efficiency gains that good knowledge management provides can't be ignored. The author looks at the knowledge-based business and discusses effective knowledge management.*

Tissen R, Andriessen D, and Deprez EL – The knowledge dividend: creating high-performance companies through value-based knowledge management.
Pearson Education, London 2000, x, 272 pages, 1 CD-ROM, (Price: £24.99)
● *On title page: Financial Times Prentice Hall. In four parts covering the questions: what is value-based management?; why do we need value-based knowledge management?; how do we approach value-based knowledge management?, covering 'smart strategies', 'smart organisations', 'smart professionals', and 'smart knowledge'; and how do we implement value-based knowledge management?; covering three steps towards operational knowledge management, and 'the value enhancer'. (ISBN: 0273645102)*

Wood D, Barrar P, and Jones J – Heading for a breakdown?
Wood D, *Banker* – Supplement March 2000: p21-24 (4 pages)
● *Small businesses are facing fresh challenges with their banks as they fight to keep their accounting heads above water, according to the article. The authors report on Manchester Business School research findings which show that efficiency scores of the average SME in processing standard transactions, are roughly half that of the average*

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

These abstracts are taken from the ICAEW Library catalogue, LibCat, which is accessible from the Library's web site. Books can be lent (by post) to ICAEW members and photocopies can be supplied, at a reasonable charge, within the limits of the copyright laws. Further information about Library services (including access for non-members) can also be found on the web site.

What's happening to people in our companies today?

In her summer Faculty lecture**, Dr Veronica Hope Hailey**, of Cranfield School of Management's Strategic Management Group, discussed the growing importance of a successful human resources management (HRM) strategy.

Veronica's talk was designed to do three things:

- share the experiences she had gained through working with companies on HR;
- highlight some hot topics (ie things that concern CEOs); and
- suggest the three questions managements need to ask themselves, to address the key HR issues.

First she examined why HRM should be seen as a strategic issue for companies now, coming up with a variety of reasons including that it can become a source of competitive advantage; that in service or knowledge industries the person is actually part of the product; and that HRM capabilities take a long time to develop, so ignoring them until they are needed is disastrous.

Then she described the basis on which her research had been conducted as a result of The Leading Edge Research Consortium (LERC)* offering its members' HR functions for long-term academic research. This exercise, initiated in 1993 for a three year period, is now being repeated for the second time.

Things that keep CEOs awake at night

These researches show that the LERC members' CEOs worry most about specific people issues such as:

- how to attract and retain quality staff;
- how to develop leaders;
- how to maintain employee trust while squeezing headcount;
- building inimitable resources such as culture or agility to change;
- managing expectations amongst diverse employee populations;
- delivering in the short term whilst preparing for the long; and
- doing all of the above in an increasingly virtual and global world.

At the same time, these LERC businesses are also experiencing increasing incidences of burn-out.

As well as trying to minimise such burn-out, the consortium members are faced with the challenge of retaining talent in the face of the new climate of e-commerce, in which start-up companies offer talented people the chance of early responsibility (and equity). They recognise the need to think about offering a work-life balance, providing creative compensation for loyalty, and treating employees as shareholders. They are also starting to consider the concept of employer branding, by which a company demonstrates – and becomes known for – the fairness of its contract with employees.

To achieve a respected brand name in this regard, the company has to show procedural justice. Fair-minded interpersonal treatment meted out by line managers on a day-to-day basis is also essential, and employees must feel they have both a voice and a choice.

Another dilemma occupying these LERC companies is whether, in the increasingly virtual world, large companies will continue to exist, and how they will maintain such things as image, culture and brand.

How to become 'leading edge' in HRM

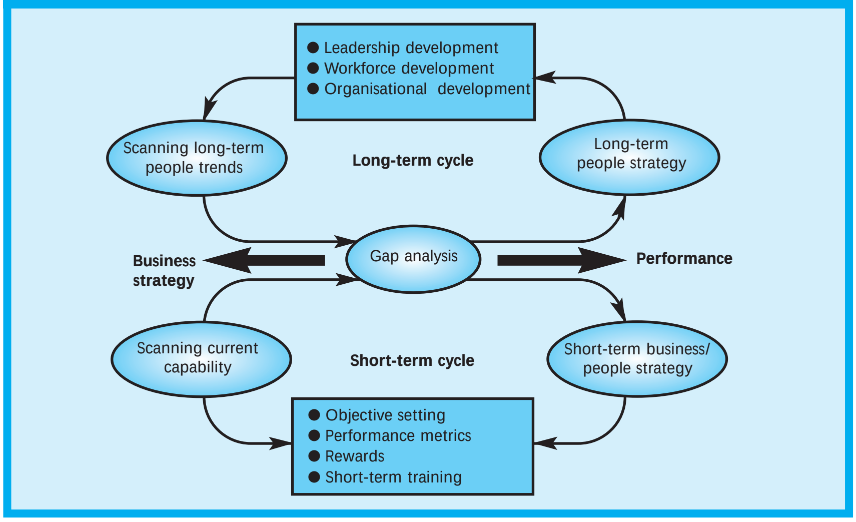
As promised, Veronica revealed the three questions other companies need to ask, to follow the example of the LERC. These are:

1. do I align HRM strategy with business strategy or do I create a flexible, enduring and high value HR;
2. does our HRM strategy deliver in both the short and long term; and
3. who takes responsibility for the various activities within an HRM system?

Align HR with business strategy or best practice?

Veronica pointed out that aligning HRM policies and strategy with the

FIGURE 1 THE PEOPLE PROCESS MAP: EMBEDDING TRANSFORMATIONAL CHANGE



business strategy runs the risk – if the business strategy turns out to be inappropriate – of having taken all your employees down the wrong path.

Creating a flexible human resource, on the other hand, would enable a swifter adaptation to any necessary change in business strategy. However, she did not rule out the benefits, at a time of crisis, of having HRM and business strategy tightly linked.

How to achieve an HRM strategy which delivers: short and long term?

An HRM strategy delivering both short- and long-term satisfaction requires that the strategy itself (cultural change, organisational restructuring etc), plus its systems (recruitment, reward systems etc) and process (day-to-day managerial style, coaching etc), all be aligned (ie horizontal alignment, in which HR follows best practice and is able to adapt to required changes), or else must be dovetailed to fit the business plan (vertical alignment). In either case the HRM strategy, systems and process must be adjustable over time.

The route to achieving a strategy successful both immediately and in the future (*see Figure 1*) is complex. To negotiate it, HR must both deliver people solutions to meet the immediate business needs and also examine the gap between the long term vision of the company and the current capabilities – making interventions to close the gap.

Who takes managerial responsibility?

Veronica stressed that for this to be successful, managerial responsibility for the necessary HRM must be devolved to individuals, the candidates (according to the company's size and nature) being senior managers, line managers, the HR function, consultants, and outsourced capability.

According to the US-based HR expert Dave Ulrich (*see his grid, Figure 2*), she said, there are four key activities needed in a perfectly functioning HRM system. These are:

- the strategic partner, responsible for management of the human resources operating under this strategy;
- the change agent, whose job is to manage the changes required under the HRM strategy;
- an employee champion, managing the employee input within the change; and
- an administrative expert, responsible for the management of the firm's infrastructure.

FIGURE 2 KEY ACTIVITIES

How is this done by LERC companies?

To illustrate these four recommended types of HR activity, Veronica chose examples from four LERC companies.

Lloyds TSB, for example, effected a fundamental shift in the role of HR during the 1990s, making its HR function much more of a strategic partner. During that time it made being world class in people management part of its business strategy with the HR group director becoming a powerful member of the management team.

GlaxoWellcome UK (GWUK), on the other hand, is a good example of HR becoming a change agent. In the late 1980s, when the imminent expiry of its Zantac licence threatened the group, an employee survey showing that the workforce placed great confidence and trust in management set off warning bells, said Veronica. As she explained, such confidence was bordering on complacency. As a result, a whole series of management changes occurred, including the abandonment of scheduled appraisals in favour of 360 degree appraisals on employees' own time frame, more coaching and counselling.

Veronica also took Kraft Jacob Suchard (KJS) as an example of HR as administration expert. Although KJS's policy is one of being hard-nosed, taking a tough line with employees and being results-driven, the company measured up well on issues such as trust and justice. It seemed that the work force appreciated being given, upfront, a tough but clear contract which was then enforced fairly. KJS also has a managing and appraising performance (MAP) programme, aimed at linking KJS's strategic direction to the goals of each individual employee.

Finally Hewlett Packard (HP) was invoked as the example of HR as employee champion. HP has a well-deserved reputation as a good employer, and indeed puts such an emphasis on people management skills that people's performance is measured 50% on business results, 50% on people management. If they are inadequate in the latter, they are not promoted.

Lessons from the LERC

From these researches, Veronica lists eight essentials for good HRM:

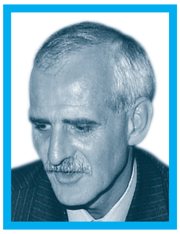
1. agility – the importance of each HR activity fluctuating according to the needs of the business strategy;
2. competence – HR maintaining administrative excellence so as to participate strategically;
3. legitimacy – HR being increasingly valued by CEOs and directors;
4. intimacy – HR being consulted on main business decisions;
5. consistency – line managers being accountable for implementing HR;
6. rigour – making performance management a key activity;
7. value – HR's worth being measured in terms of contribution and output rather than department size; and
8. innovation – HR designing new approaches to work.

Dr Veronica Hope Hailey is senior lecturer in strategic human resource management at Cranfield School of Management. Tel: 01234 751122; fax: 01234 751806; email: v.hope-hailey@cranfield.ac.uk

* *Organisations researched: GlaxoWellcome, Hewlett Packard UK, Citibank, WH Smith, Lloyds TSB, Kraft Jacob Suchard, Chelsea & Westminster Hospital Trust, British Telecom, Post Office. Sponsoring organisations: Investors in People, Arthur D.Little, British Petroleum, General Motors. Three phases: 1993-96, 1996-98, 1998-2001.*

Why banks are back in favour with small businesses

In the latest of its series of biennial 'British Enterprise' surveys, the Centre for Business Research at Cambridge University has been looking at the behaviour of small firms needing external finance. As the Centre's Andy Cosh (right) and Alan Hughes report, these firms are once again turning to the banks for help.



For the last 10 years, the Centre for Business Research (CBR) has been conducting a pioneering study of the UK's small and medium-sized enterprises (SMEs). Through a series of biennial surveys, sponsored by the Economic and Social Research Council (ESRC), each polling over 2,000 small businesses, it has built up a uniquely systematic and detailed profile of this highly important sector of the British economy.

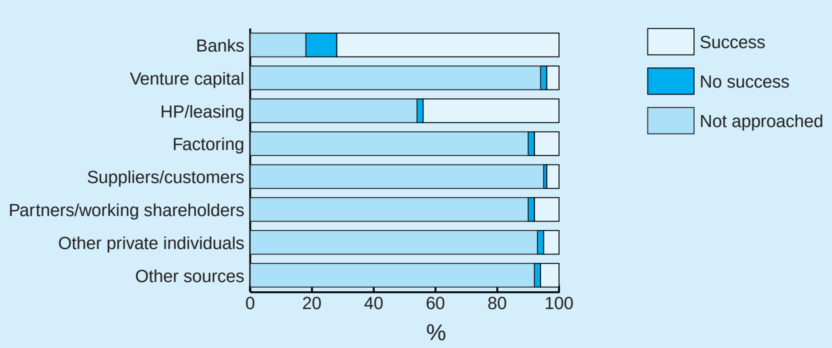
The CBR has been researching everything from how these firms set up in the first place, and how and why they innovate, to the North-South divide that exists between them, and the problems posed by the strong pound and increasing foreign competition.

The results of the fifth and latest such survey – carried out in 1999, and entitled British Enterprise in Transition – will be published on 29 September and launched at a one-day conference in Cambridge. Like the previous surveys, it contains research into the financial condition of small firms.

It looks into the profitability of small businesses and the sources of finance they approach when they need external funding (including their success – or otherwise – in trying to raise this money). And this year, by far the most striking of findings is the way in which the banks have returned to dominance as providers of finance.

For the last few years, banks had been declining in importance as a direct source of funding relative to HP/leasing finance. Indeed, only two years ago there was a significant shift away from direct bank finance. But this year, the banks have bounced back, while all other sources of external funding have declined in comparison.

FIGURE 1 SOURCES OF FINANCE APPROACHED AND SUCCESS RATE (1997-99)



Profitability

It is important to study changes in the pattern of SMEs' profitability and their external fund raising as this is at the heart of the debate over the role of financial constraints on their growth and survival. It is already well documented that SMEs rely on internal funds for expansion. As a result, declines in profitability are likely to be associated with increased pressures to seek access to external finance.

And profits have been declining. Profit margins fell slightly at the sample firms between the surveys in 1997 and 1999. Margins overall were down from an average 11.3% to 10.5%. The only group of firms with improved margins were those in the service sector.

Another finding – consistent with the previous surveys – is that non-innovating firms are significantly more profitable than the innovating ones. Since retained profits are a key source of finance, these results must be borne in mind when examining the external finance of the sample firms.

New finance and capital expenditure

Which companies were seeking finance? In 1999, 39% of these sample firms were looking for about £189 million of new finance (up slightly, from 36.4% of firms in 1997).

They obtained about 90% of the money they were seeking. This was better than the average 80% success rate in 1997. The improved success of raising finance benefited all types of firm. Although older firms (formed in 1985 or earlier) continued to obtain a significantly higher proportion of the funds they sought than newer firms (established in 1986 or later), the latter group raised its success rate from 80% to 87%.

How much were they looking for? On average, the amount of new finance sought was £100,000, an amount that approximately equalled the level of capital expenditure carried out by those seeking external finance.

Studying our results, we can see that older firms were, on average, applying for more finance. And they were more successful in obtaining it than newer firms. The innovating and growing firms were more likely to be seeking external finance, and they also applied for larger amounts. But interestingly, they were not significantly more successful in obtaining it than non-innovators and stable/declining firms.

It also appears that less profitable firms – which have less internally generated finance – sought more funding from outside sources. But their success in obtaining it was not significantly different from that of their more profitable counterparts.

Sources of finance

Whom did they approach for external finance? This year, the overwhelming answer was the banks. Of those firms seeking funding, 84% approached their bank. The only other source approached by a significantly large number of firms was HP/leasing finance: 46% of firms approached them *(see Figure 1)*.

But all other sources of finance declined in the proportion of firms which approached them, compared to our 1997 survey. Venture capital firms, trade customers and private individuals were together approached by less than 10% of SMEs *(see Figure 2)*.

It therefore appears there has been a notable reduction in the diversity of SME finance.

Micro firms (businesses with fewer than 10 employees) are less likely to approach HP/leasing finance, and more likely to approach private individuals for external finance. They exhibit higher failure rates across most sources of finance. Medium-sized firms are more likely to approach venture capitalists.

Finance obtained

Of the firms who were seeking finance, about three-quarters received bank funding and about half obtained HP/leasing finance. Banks and HP/leasing firms now together provided over 80% of the total finance obtained by SMEs.

But it is the banks whose importance as providers of external funding increased dramatically over the last two years. Their share of the finance provided rose in that period from 48% to 61%.

All other providers declined. The share of finance provided by HP/leasing firms, for example, dropped from 27.1% to 22.7%.

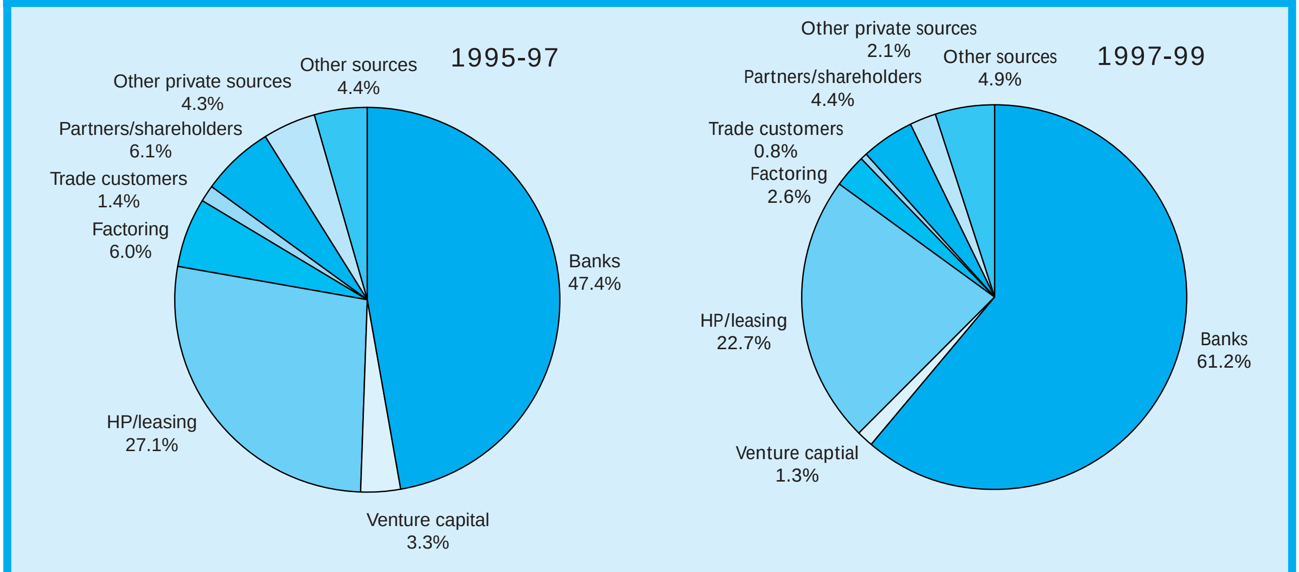
Looking at the kinds of firms seeking funding, it is clear that many of them increased their reliance on the banks. Older firms increased their share of bank finance by more than newer firms.

Non-innovators also switched substantially from HP/leasing finance to the banks. Meanwhile, the micro firms have dramatically increased their proportion of finance from the banks from 45% in 1997 to 69% now.

Thus there appears to have been a significant return to bank finance over the last two years in the SME sector.

"British Enterprise in Transition", price £50, is available from: Publications, Centre for Business Research, Austin Robinson Building, University of Cambridge, Sidgwick Avenue, Cambridge, CB3 9DE. Please make cheques payable to the University of Cambridge. For conference bookings, tel: 01223 335243.

FIGURE 2 MEAN % SHARE OF FINANCE OBTAINED BY SOURCE OF FINANCE FOR YEARS 1995-97 & 1997-99



E-commerce adopters lead treasury innovation

Chris Mansell looks at the effect of e-commerce on treasury practice; and at the difficulty of predicting US inflation and, therefore, interest rates.

Although innovation in business practice and the use of the internet in particular occupies more and more column inches, the traditional 'bell curve' response pattern continues to apply. A few aggressive early adopters lead the way, with the bulk being categorised as moderately early or moderately late adopters. The residue of laggards comprise the other side of the bell curve.

Research suggests that corporate culture is a strong influence. Where innovation and new technologies course through the veins, financial management within the organisation wishes to share in it. Treasury management itself offers particular opportunities for innovation, not simply obtuse derivatives which some banks are so keen on peddling, but the application of conventional treasury risk management techniques to operating issues which may not normally fall within the scope of the finance function: price lists, export finance, terms of payment etc. The same research suggests that technologically innovative treasury teams are more likely to get involved in the mainstream business.

In the meantime what is happening among the banks? The ubiquitous 'e' is attaching itself to relationship management – 'e-relationship management' – whereby banks take advantage of the information on e-commerce transactions passing through the network to provide them with the data to improve their marketing. This is not as big-brotherish as it may sound. Properly used this information will enable the bank to reinforce the transaction patterns of e-users through the pricing structure and other incentives.

Banks themselves will get more accurate feedback from their marketing campaigns and this will enable future initiatives to be more tightly focused. E-commerce data will also enable the thorny question of customer profitability to be addressed. This offers potential benefits for both bank and customer given the radically different cost structure of e-banking.

The future for banks and their innovative customers is to develop the range of services into areas such as electronic data interchange (EDI), post and bill presentation, enabling the banks to sustain their drive towards greater competitiveness and cost effectiveness.

Reading the runes for US interest rates

Computing power has long been the driving force in economic analysis. Econometric models are hugely complex and the correlation of the variables increasingly subtle. The same factors however are undermining these bewildering equations: the new economy is leaving data collectors trailing.

These elements have become especially evident in addressing the key economic issue of the day – what is going to happen to US interest rates? The rate of US inflation determines US interest rates. These in turn have an influence on other key rates across the globe, but most especially on levels of US demand which in turn affects both major exporters to, and investors in, the US. The success of the UK economy has been due in no small measure to the many years of robust growth in the US, running well above the trend while inflation has hovered at levels as low as in the 1960s.

There has been evidence in recent months, however, that US inflation is beginning to respond to the high-pressure economy. If this continues through the second half of the current year, fuelled by further growth, the Federal Reserve Board, which calls all the shots on interest rates, will raise rates again. Even a soft landing in the US would have an impact across the globe. If the Fed squeezed too tight the consequential hard landing would have much sharper world-wide effects.

According to analysts at Dresdner Kleinwort Benson, traditional lead indicators for US inflation are doing a poor job. Capacity utilisation and the unemployment rate are familiar pointers, but these have progressively lost their earlier predictive power. The money supply (M2) which correlated so effectively with inflation during the period from the late 1960s to the early 1980s has also proved unreliable.

Perhaps the most surprising failure has been that of the rate of unemployment as a lead indicator of inflation. The notion used to be that if unemployment fell below its 'natural' rate of 5%-6% (in the US), then inflation would start to rise inexorably. The current expansion has seen nothing of the sort.

The quandary facing US policy makers is that no particular variable taken alone has proved accurate in forecasting inflation. A recent study measured 19 indicators ranging from commodity prices to financial and real economy indicators. The paper concluded that better results could have been achieved by using past inflation as a proxy for future inflation. Now there isn't a treasurer in the land who won't understand that one.

FORTHCOMING FACULTY EVENTS

CONFERENCE PROGRAMME 2000

20 September LONDON SOLD OUT

29 November SOLIHULL

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

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

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

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

31 October LECTURE LONDON

Matt Davies of CPD ATC Ltd provides a review of both the theory of value based management (VBM) and the evidence which is emerging about how VBM is being used in practice. Registration 6.00pm – 6.30pm, lecture 6.30pm and buffet 7.30pm.

***Matt Davies** is a director of CPD ATC Ltd, a company that provides tailored finance training for corporate and professional clients. Prior to joining ATC last year, Matt spent six years at Aston Business School where he specialised in VBM-related teaching, writing and research. Through his research, Matt has interviewed senior executives of more than 20 major UK companies that have experience of using VBM in practice. Matt's main publications in this area include 'Shareholder Value' (FT Management, 1997) and 'Value Based Management: context and application' (Wiley, 2000). Matt is currently responsible for the VBM components of the MBA programmes at Warwick University, Queen's University Belfast and Aston Business School.*

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

Re-inventing Europe

In the second of his regular columns about the European Union, **Martin Manuzi**, from the Institute's office in Brussels, looks at the background to the EU's proposals for a Europe-wide patent.

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LETTER FROM BRUSSELS

It is a year since Romano Prodi took over as president of the European Commission following the most serious crisis in the organisation's history. It was expected that the new administration would break old ties and establish itself as a forward-looking entity; unfortunately, this has been difficult to achieve. The blow to the confidence and standing of the Commission inflicted by the downfall of the Santer administration has proved a lingering legacy.

A common criticism in Brussels is that the present Commission lacks ambition and vision. These criticisms have focused particularly on the external policy sphere and the question of enlargement, where the lack of a grand design is often lamented. Certainly, as at no previous occasion in its history, the Commission has been consumed over the last 12 months or so with its internal affairs – administrative reform and, most importantly, an overhaul of its system of financial management.

However, the era of grand political designs is giving way to a more pragmatic, business-like approach. A number of key policy initiatives are being prepared which will have a direct impact on the way in which European enterprises operate.

Cross-border

One of the most important relates to plans for the introduction of a Europe-wide patent by the end of next year. The idea was first raised in the mid-1970s but was not carried through fully. The European Patent Office (EPO) was established but the organisation, despite its name, could not actually grant EU-wide patents; rather, it was given the authority to group together national patents to provide cross-border coverage. However, translation is required in each EU member state and, more importantly still, the patents are themselves enforced in national courts.

It has long since been recognised that this system places European inventors seeking European coverage for their work at a considerable disadvantage vis-a-vis their competitors in the US and in Japan. And one of the stated aims of EU policy is that of reducing administrative burdens and associated costs on business.

Translation

It is estimated that the average cost of a European patent – or at least one encompassing eight European countries – is around three to four times higher than that incurred in the US or in Japan. Translation fees account for a significant portion of this differential – preparing a typical patent application in all the official EU languages costs over €17,000. Under the Commission proposal, this would be reduced to just over €2,000 as the granting and publication of a Europe-wide patent would be required in only one of three working languages: English, French or German.

The main hurdle on the way to its approval and application lies in the judicial sphere. For such a patent to work effectively, an EU-wide infringement procedure would need to be established. The Commission has put forward the idea of a centralised tribunal operating from the European Court of Justice in Luxembourg. This proposal, however, requires Treaty amendments – a topic for the on-going inter-governmental conference charged with designing the future structure of the EU. This no doubt will mean that the end-2001 deadline for the introduction of the patent is rather tight, but in EU circles it is regarded as a realistic one.

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