The Institute of Chartered Accountants in England & Wales

Faculty of Finance and Management

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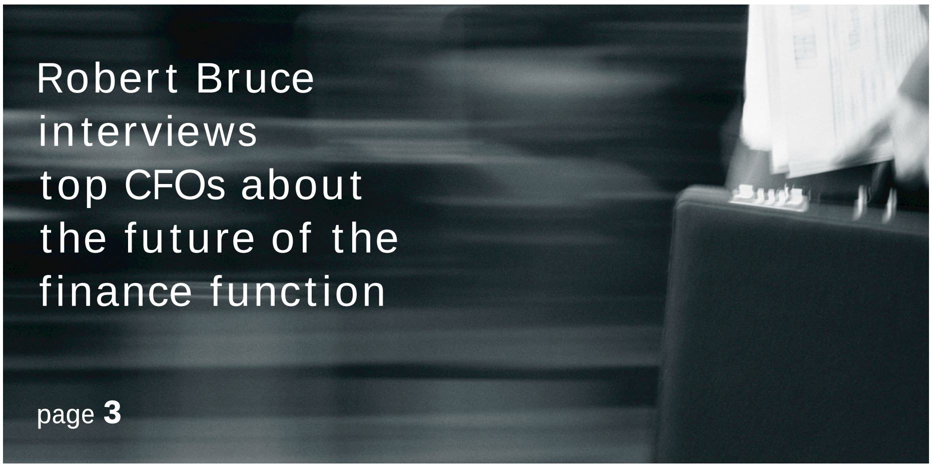
The role of the CFO in 2010



Robert Bruce interviews top CFOs about the future of the finance function

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THE NEW AGE

This above all...

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New bribery and corruption legislation

The Anti-terrorism, Crime and Security Act 2001 was rushed through Parliament with the minimum of scrutiny and gained Royal Assent before Christmas. Among its 129 sections are three which radically amend the UK law on bribery and corruption, making it an offence for a UK citizen or company to bribe an overseas official in his/her own country.

The offence can be tried in the UK, even where the bribe was arranged, paid and related to duties carried out entirely abroad. The three sections were due to come into force on 14 February, so all members would be advised to review their conduct of business overseas to ensure they remain within the law, where they are not already confident that bribes are not paid.

Reform of the UK law on bribery and corruption was already in the pipeline, with an outstanding commitment for the UK to implement its ratification of the OECD Convention on the Bribery of Foreign Public Officials. This swift and abbreviated change to the law does not address any of the anomalies that have become apparent in the 80 to 120 years since the legislation was originally passed and leaves a lot of questions unanswered. For example, no additional assistance is given by this legislation, in the judgement of when a sales promotion or facilitation payment becomes a bribe. Further reform of the law is still expected, with a comprehensive Bribery and Corruption Bill to be introduced into Parliament within the next year or two.

The only way in which the extension of the law differs from the current UK legislation, is that the presumption of corruption, where payments are made but where it cannot be proved that behaviour has been changed as a result, will not apply to the new offences. However, this should not be taken as a licence to pay bribes, as interpretation of this, as other sections, is not clear and could rebound on bribe payers.

More important, the payment of bribes cannot be said to be consistent with the Institute's fundamental ethical principle of integrity with its implications of honesty and fair dealing.

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MQOnline

In response to the very positive feedback received from the membership about *Management Quarterly*, the Faculty has launched a new initiative, MQOnline – a web-based series of streamed multimedia lectures that cover and expand upon many of the subjects addressed in the journal.

These 10–30 minute lectures, which cover a wide range of finance, marketing and strategy topics, can be accessed via the Faculty web site at **www.icaew.co.uk/fmfac.**

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

The CFO and the role of information

The International Federation of Accountants recently published a booklet entitled 'The Chief Financial Officer in the year 2010'* – in which 10 leading CFOs were interviewed about their thoughts on the changes and challenges that they faced over the next decade. The project was organised by an international committee led by Chris Jackson, head of this Faculty.

Here the accountancy writer **Robert Bruce**, who conducted the interviews for IFAC, summarises the results of this exercise – and on page 4 we publish his interview with Tony Isaac of BOC Group. Further interviews will be published in F&M later this year.

**The booklet can be downloaded at no charge from IFAC's web site at www.ifac.org/store. Hard copies may be purchased for $25 plus shipping through the on-line bookstore.*

A couple of insights from two of the chief financial officers interviewed during this project sum up the scale of the changes that they expect across the next decade.

John Connors, CFO of Microsoft, said: "People will have access to information in a way that they never had in the past, which means the premium on communicating financial information will be enormous." The message of Jan Hommen, global CFO of the electronic giant, Philips was simpler but no less apocalyptic – "The speed at which you will have to do things will be mind-boggling", he said.

The interviews with 10 of the greatest CFOs of our era around the world covered a wide range of issues. But it was always information, its uses and power, which lay at the heart of what they were all saying. They also thought that the role of the CFO would move towards one where acting as guardian of that information and as a steward and compliance officer was the central responsibility.

They thought that the position of the CFO as a pivotal role within a corporate structure would continue and the relationship with the CEO, whether as a restraining influence, guardian of the corporate conscience, or as the real strategist behind the board's plans, would be at the heart of that.

They felt that the changes within the role of the CFO would reflect the way the finance function would become a process system with much of it outsourced or achieved through joint ventures. They felt that the finance function had to remain the bedrock but also had to become more strategy-oriented.

This would change the nature of the people who became CFOs. Out would go the figures-based CFO and in would come leaders with strong personalities and a wide understanding of markets and cultural issues.

The global corporate stage

The essence of the changes predicted was that the role of CFOs in the year 2010 would be shaped by their position on a global corporate stage.

Norman Lyle, group finance director of Jardine Matheson in Hong Kong, summed up the way that CFOs would change. "The CFO", he said, "needs to guard the information. The CFO is now often seen as the automatic deputy CEO and is the person who deals with the outside world." John Schmoll, CFO of Coles Myer, Australia's largest retail group, thought that the CFOs of the year 2010 "will have to be experts at interpreting the information and communicating it to the organisation".

Sten Fornell, CFO of telecommunications giant Ericsson, suggested that, as already happens in technology companies, "you are pretty deep in the operational side and you don't work very much with pure finance".

"In future", said Tony Isaac, who progressed from CFO to CEO at BOC, the industrial gases giant based in the UK, "much of the CFO's role will include strategic planning, financial planning and risk management." Iain Lumsden, currently finance director of Standard Life, the giant Edinburgh-based financial services group, is another who is about to become CEO. But he provides a note of scepticism about the growth of information. "I haven't seen a corresponding increase in useful information", he said. "There has been a huge increase in useless information."

But it is the global which dominates. Angela Holtham, who recently stepped down as CFO of Nabisco in Canada, was clear on that. "It is all going to be global", she said. "Everything about a business needs to be global and less and less specific to any given country."

These changes will in their turn change the responsibilities of the CFO. "The CFO will need the conviction and courage to stand up to business colleagues", said Norman Lyle. "For example, when a proposed acquisition just doesn't make sense the CFO will need to be able to articulate why this is the case and hold his corner." And that will mean a very different type of person.

"We are looking for people who are happy not to work in the back room but happy to work on the front foot", said John Schmoll. "People who enjoy communicating and working in teams." He said that meant that many more CFOs in the year 2010 would have arrived at their role via line management rather than from the traditional route via the finance function.

"People have to understand the business and have a strong financial background", said John Connors. "But CFOs who did not serve in the finance function will become much more common."

The overall impression given by these 10 CFOs from around the world is one of confidence. The role of the CFO is a strong one and its growth, as the predictions of the year 2010 make clear, is assured. That growth of the role will be one that is based on complex information and its fast delivery but is also based firmly on the strengthening of the CFO as the pivotal and increasingly powerful role within the corporate entity of the future.

Strategic changes are on the way

Few people have as detailed an experience of the interaction between the CFO and the CEO as **Tony Isaac** of BOC Group – having held first one and then the other role in the large British industrial group. Here Robert Bruce interviews him about the outlook for CFOs.

CFO 2010

For the majority of his career Tony Isaac was a finance man. This culminated in his role as group finance director at the BOC Group in England. Then in the year 2000 he became the company's CEO. He brings a different perspective to how the role of the CFO will have changed by the year 2010. From his background and experience he knows how solid and necessary an effective finance function must be. But he also knows that strategically things are changing fast for the finance role.

The first change he pointed to was the merging of parts of different disciplines within a company into a shared services core. "Potentially we will see not only financial services centres", he said, "but also customer services, IT and human resources all joined together." Like some other CFOs in this project he sees the value of creating separate entities to provide the services that a company requires. "BOC has moved towards that in the last four years", he pointed out. "Financial services centres bring together all the transactional work." And he sees no reason why all four of the service disciplines he mentioned should not be combined by 2010 bringing together people with transactional skills as well as people skills.

The benefits are clear. The future will mean that service centres will provide all of the servicing skills. And that, in Isaac's view, will include basic management accounting. "The role of the business finance manager will be that of a finance director within their own business unit", he said, "and they will provide help with the strategic thinking. The translation of financial accounts into management accounts will disappear."

This is the first of the big changes that Isaac foresees by the year 2010. "We will have only one set of data", he said. "Many managers will be very computer literate and will get their day-to-day needs from databases within the company. So they won't need the management accounting which goes on in a company at the moment."

Global market

But the biggest change of all is going to be the operation of companies in a truly global market. "This will provide challenges for the CFO who will need wider and wider knowledge of markets and cultural issues." And the means of doing business will become more complex. "Most companies will find that a lot more of their business will be done in areas, like Asia and South America, where they will operate in joint ventures with local partners and again the cultural issues will be important."

This also connects with the place of

internal controls and risk management in the CFO's portfolio by the year 2010. "Risk management will be a major item for their agenda", he said. "Line managers will become more proactive. Management teams will realise that it is not a burden. They will be working on eliminating or managing risk. And that means that the old financial stewardship role changes. There will be two areas: the facilitation role for risk management; and the risk assurance work checking internal controls on a selective basis."

But Isaac thinks that globalisation of data will crack much of this problem. "By 2010", he said, "we will have moved towards single instant data, using common data around the company. Then the chance of error and the need for some basic financial control should reduce significantly. You are already getting more robust systems which are all-embracing. So progressively it is improving. Combined with the idea of shared services covering everything from human resources to the finance function, that should ensure quality and commonality of data."

Quality of the people

For Isaac the main challenge in achieving this is the quality of the people working for the company. "There will need to be a continual development of people for the finance function. You will need a continuing flow of good people who you have developed in-house, have come through a graduate scheme, or have come from outside. And the changes which will flow from shared services will have an effect here as well.

"Splitting the role between finance and services will be difficult for the people developed in-house", he said. "Finance service centres could be seen as the less-exciting areas and the business finance manager roles will be the popular ones because people there would be dealing with the total business team and all the business issues."

How this will be resolved is a question for the future. Isaac believes it will remain absolutely critical to have both high quality financial information provision and finance management input to the business.

There is also the challenge of investor relations. "Anyone who becomes a CFO has probably not had experience of investor relations before", he said, "and it's a pretty steep learning curve." Isaac sees this as becoming evermore complex across the next decade. "Companies", he said, "will go to many different marketplaces for equity or debt. More and more UK companies have American listings and are also trying to grow a set of relationships with French, German and Dutch shareholders, for example. This trend will accelerate."

This development will go hand-in-hand with changes in financial reporting. "There will be some harmonisation of financial reporting", he said.

Environmental reporting

Another area which will become much more important is environmental reporting. "There is no alternative to substantially more environmental reporting", he said. "Safety statistics, for example, bring their own issues in making sure that the data is correct." And the concept is still in its infancy when it comes to comparable figures across even industry sectors. All that will change by 2010. "Trying to get commonality in a particular industry or across the FTSE100, for example, is very hard", he said. "But getting and understanding a commonality of data is very important."

The driver of this change, of course, is investment. "The potential investors in 2010 will be looking at environmental and ethical reporting as well as good corporate governance and risk management", he said. "By then we will find that executive management teams will really understand the risk issues for themselves. They will have regular risk reviews and it will be high on the agenda. Risk, safety and environmental issues will be significant agenda items for the board. They will demand much more frequent reporting and review.

"Executive directors have to accept the responsibility for the assets and the whole well-being of the organisation." He sees change coming in the way that remuneration is set. "There is a gathering momentum for major companies to agree remuneration structures at annual general meetings and debate it in advance with significant numbers of the shareholders. That will be significantly formalised. Investors will demand it and I expect that to happen before 2005, let alone 2010."

Active

The role of the CFO in strategy will continue to increase towards 2010. "Many CFOs are already active members of the strategy team", said Isaac. "Many are already involved in mergers and acquisition work, in how the business should be shaped, or in the debating of investment decisions. Lots of organisations find that financial and strategic planning has moved into the CFO's arena. In future much of the CFO's role will include strategic planning, financial planning and risk management, for example, though the CFO could potentially also lose direct authority over the financial services function if the shared services concept progresses."

The CFO in 2010 will continue to have a significant role. "The CFO will probably be privy to more information than any others in the executive team", said Isaac.

Isaac, having moved from finance director to CEO knows more about this than most. "The relationship between the CEO and the CFO should be a close one but then so should the relationship of the CEO with all of his directors", he said.

"In terms of knowledge and information the relationship between the CEO and CFO is an exceptionally close one", said Isaac. "The CFO should be privy to all the main discussions."

Tony Isaac is chief executive officer of the BOC Group, one of the world's largest industrial gases companies with its headquarters in the UK. He joined BOC as finance director in 1994, having previously held similar positions with Arjo Wiggins Appleton and GEC Plessey Telecommunications. BOC employs over 43,000 people and operates in some 50 countries.

Budgeting – evolving a better way

In his recent Faculty breakfast seminars, **John McKenzie**, of software developers and consultants Armstrong Laing, analysed the shortcomings of the traditional budgeting process in the modern business environment, and suggested a better way forward. Helen Fearnley reports.

John McKenzie pointed out that the traditional budgeting process, established some 80 years ago, is no longer particularly apt.

In the 1920s, there was little information freely available. Customers were therefore relatively 'ignorant'. Also, businesses operated locally, with little competition on a given patch, and through purely paper-based transactions. Interest rates were low and steady, exchange rates fixed. The business environment was predictable.

All that has changed. Customers now have abundant information. Competition is intense. Operations are national or global. Business is transacted fast – increasingly, electronically. Exchange rates can fluctuate wildly. Interest rates were in double figures not that long ago.

To keep up, managers need to improve their internal organisational processes, be quick to adapt, and be more able to predict future outcomes.

The budget

Often, said McKenzie, a budget has no sooner been completed than it is revisited for re-forecasting; sometimes several times a year. Nowadays, in 12 months the world can change so much that all the original assumptions become invalid. Finance departments need to think about why they do budgeting, and how they can do it better.

How can it be done better?

Despite the changed environment, we still tend to focus on very traditional measures – the balance sheet, profit and loss account, monthly management reports and budgetary analysis. We gain no insight into the 'how, what and why' of performance, so when the predictions go awry we do not understand the underlying cause.

The budget should be seen as a tool not only to exercise control over the costs in a business but also to guide management in the realisation of its objectives.

The aim of budgeting and planning, he argued, is to ensure goals are achieved (and assist those involved in that achievement), to maximise performance in key dimensions, and to provide predictability and control. Yet in most cases this is not achieved.

To succeed today management needs to gain a better understanding of profitability, focusing more on segmentation (identifying which of its products and services are most profitable, and trying to identify and deliver products tailored to each important segment's needs). It must open up the box of 'overhead cost', identify the true drivers of cost, and gain a better understanding of its processes, in order to add more value.

To do this it needs more accurate forecasting/budgeting, relevant performance measures, and benchmarking.

An organisation is in business to make profit for shareholders. To achieve this, management must ask itself:

- what are we doing?
- who do we do it for?
- why do we do it?
- how do we measure it? and
- how well do we do it?

If the organisational processes are designed and delivered correctly, and if the right performance measures used for that delivery are identified and challenging targets set for them, then profit follows. But improving measurement and delivery depends upon detailed activity and process analysis.

Viewing cost

The traditional way of viewing cost – vertically, by function – is not particularly helpful since functions do not themselves incur costs. Hence

FIGURE 1 DEFINITIONS AND EXAMPLES

	Definition	*Example*
Function	An area of related skills supporting one area in the business	Accounts receivable
Activity	A series of related tasks carried out repeatedly	Chase a customer for late payment
Driver	An event or factor which causes an activity to be performed	Unpaid invoices
Process	A series of activities required to achieve an outcome	Invoicing process

the traditional tendency to lump together many ill-understood costs as 'overheads'.

The activity based view, contrastingly, adopts a process cost structure (*see Figure 1 for definitions*). A process moves horizontally across the functions in a company to produce a major deliverable in terms of products, services and customers. The series of activities making up a process has a clear starting point and an ultimate output. In between, every constituent activity has an input driver from preceding activities, and outputs (or drivers) to activities that follow.

Activity cost analysis focuses on these drivers, which make us undertake the work we do (eg unpaid invoices, which trigger the whole late payment-chasing activity). The premise is that there is a causal link between the driver and a customer, product or service. The invoice-chasing process, for example, is a direct cost attributable to the customer, since there is a link between the invoice being successfully chased and money appearing in the business's bank.

This approach gives much greater insight into the true cost associated with given customers, products or services. The reality is that costs are incurred by activity drivers and only reduced by decreasing cost per driver unit or the driver volume.

The dynamics of today's environment suggest that the business of the 21st century is based more on sense and response to the marketplace, ie a bottom-up focus on planning and control. It is made up of a network of market- and process-focused units, driven by market forces, with fast, open, KPI-driven IT networks. It uses rolling forecasts and measures, sets medium term stretch goals, sets strategy continuously and measures itself relative to the competition. Local units have authority to acquire resources, and its reward system is linked to group performance.

Obviously traditional budgeting no longer fits the bill, but what are the alternatives? McKenzie set out four possibilities:

- flexible budgeting;
- zero-based budgeting;
- activity based budgeting; and
- no-budget predictive planning.

The types of budget involved in the first three can be defined as follows:

- *flexible budget* – variously defined as 'a full year budget with frequent short-term review and update...' or 'a full budget that flexes resource and cost on a shorter time horizon to the changing level of business activity'. It requires an understanding of resource flexibility and what drives resource consumption (in other words, understanding of the activity drivers and their costs);
- *zero-based budget* – a full year budget starting with a blank sheet, justifying resources consumed from a zero base. Again, it requires an understanding of resource flexibility and consumption; and
- *activity based budget* – combines the two, being a flexible budget, starting from a zero base, matching month by month resource consumption to actual business drivers of activity. It requires an understanding of resource flexibility, what drives resource consumption, and the capacity of resources.

Activity based budgeting (ABB)

ABB – though not without its flaws – is superior to both zero based and flexible budgeting, said McKenzie. Essentially ABB uses both the volume of the major activity drivers as a basis to forecast activity, and the reduction in unit cost of the drivers to measure and forecast efficiency improvement.

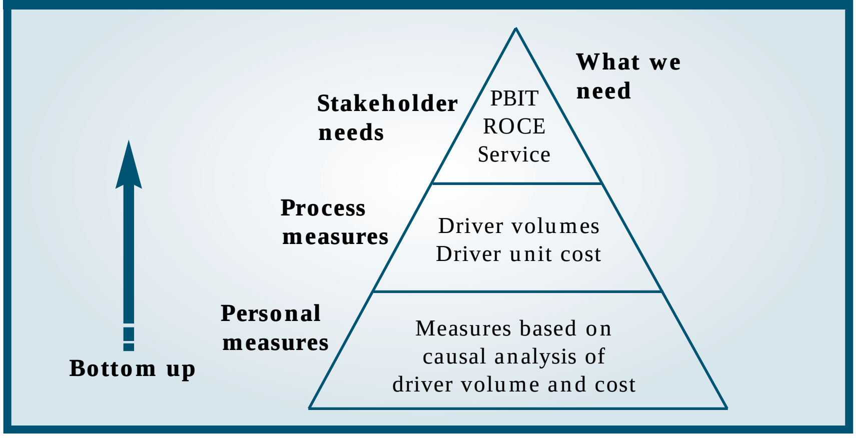
ABB assumes that the relationship between volume of drivers (work done) and resources required (cost) is linear, but in reality this is not so. Resources have a capacity, so that up to a point one set can carry on doing more and more work for no extra cost until a capacity crisis is hit, more resources hired or bought, and a jump in cost incurred. Hence a graph of cost against work done is a series of steps rather than a smooth line.

Overheads are often over-provided-for. ABB tries to match provision of resources with requirements. By measuring and tabulating actual volume and actual unit cost and desired volume and desired unit cost for the key activity drivers, the variance from the ideal can be found, and some sort of insight into the business can be gained.

If the variance is positive (ie the average 'actual' is better than the 'desired') then the underlying reasons – greater efficiency, an improved process – can be pinpointed. If the variance is negative, then lack of efficiency, worsening or breakdown of a process, or some other factor may be discovered.

Armed with knowledge of the underlying factors behind the variance, better planning can begin, starting with deciding how the business should best go forward. Volume changes can be forecast by making a series of judgements based on what past experience suggests the drivers will do (factoring in the impact of any planned changes in products or services). Unit costs can also be predicted based on the level of resources needed to handle the predicted driver volume, the variability of

FIGURE 2 HIERARCHY OF MEASUREMENT – THE BALANCED SCORECARD



the resources (their ability to function in other capacities if there is overcapacity in one business area) and process efficiency (taking account of improvements from new or improved systems).

However, there are a couple of serious limitations to ABB. First, it is a labour-intensive exercise involving measurement of many factors previously not monitored. Additionally, it still depends on looking backwards, using past performance to predict future costs.

The fourth option – predictive planning

Now, fortunately, a new way of planning has emerged in what is called 'predictive planning'. This technique is focused on the market place and the laws of cause and effect. It requires management to identify and understand those events both internally and in the outside world which will trigger significant changes in the organisation's internal processes – thus impacting on the way the business operates. This means identifying not just the key drivers in the business but the surrounding causes and effects, adopting measures for monitoring these, and asking such questions about them as:

- did we expect X to happen?
- did it happen when we expected? and
- what knock on effects did this have internally?

Then statistical techniques are used to learn from the event and make predictions about likely future cost behaviour. Hence predictive planning requires the same basic understanding of resources as do flexible and zero-based budgeting. However, it also requires management's interpretation of cause and effect.

Driver volume

Instead of just extrapolating from past experience of the activity drivers, predictive planning finds out the underlying cause of the experience and uses it to predict. To take two examples concerning the volume of an activity driver such as unpaid invoices:

- *interest rates* – if the proportion of unpaid invoices historically increased unexpectedly, it might be found on investigation to be linked to a period of increasing interest rates making it more difficult for customers to pay. A similar increase in unpaid invoices can be forecast to appear shortly after a similar rising trend in interest rate; and
- *volume of invoices* – there is not a linear correlation between volume of invoices and the number unpaid; the proportion unpaid generally falls as the number of invoices grows. So increasing resources for debt-chasing in exact proportion to an anticipated increase in sales volume would be wasteful.

Similarly with unit cost of chasing unpaid invoices, the cause-and-effect analysis would include such questions as:

- can the process be made better/smarter? and
- which debts are the most difficult to chase and can exposure to that type of customer be reduced?

Balanced scorecard's role

A useful tool to aid the implementation of precision predictive planning is the balanced scorecard (BSC). The traditional BSC's role is to enable delivery of strategy by providing a finger on the pulse across the enterprise. It produces coherent alignment of measures throughout the company – at the business unit, divisional, and departmental levels.

The measurements in the standard BSC segments (business process, growth and learning, customers and financial) enable management to look at the impact of cause and effect relationships on the performance drivers of the various dimensions of strategy (customer relationships, core competences, organisational capability, research and development), and link them to the financials (sales, cost, profit, shareholder wealth).

It is, McKenzie said, the business process, growth and learning and customer quadrants that deliver the financials, not (as top-down management believes) the other way round. Hence the hierarchy of measurement is bottom up (*see Figure 2, on page 7*).

Predictive planning – a powerful tool

A shift to predictive planning would involve many significant changes, including the introduction of more open accessible IT systems and rolling forecasts, and a culture of thinking further down the track, noting causal factors, and setting stretch targets. It would also involve becoming less inwardly-focused – measuring ourselves against competitors rather than our own previous efforts. Strategy would have to be accepted as a continuous rather than annual process, for plans not to be overtaken by events.

This process-based model would also require more ability devolved to the 'front line'. And, controversially, since the organisation's performance is the result of interactions between people, processes and departments, it would make sense to drop individual performance reward systems in favour of those based on workgroup, business unit or corporate performance.

Software is already being developed to facilitate predictive planning. More significantly, companies are beginning to understand for themselves the importance of cause and effect. Initiating this technique requires a degree of work in the short term – there could be up to 30 or 35 key drivers of cost to measure and analyse. But by encouraging understanding of these, the competition, and the market, predictive planning not only provides a powerful tool for going forward but also promises to reduce the overall planning effort as the process becomes almost self maintaining and sustaining.

In fact, once in situ, predictive planning becomes a relatively trouble-free continuous process and, McKenzie concluded, "means you may never need to produce an annual budget again."

John McKenzie is group-wide international marketing director of software specialists and consultancy Armstrong Laing, and lectures extensively on Advanced Budgeting and other financial planning and performance issues. He is a member of both the CAM-I Beyond Budgeting Round Table and the Finance Faculty of the Management Centre of Europe.
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LEGAL **UPDATE**

Anticipating the new consultation rights for workers

New European information and consultation obligations will require employee representatives to be actively involved in decision making. **Helen Cookson** considers the implications of this significant change.

Helen Cookson is an associate in the employment law department of the HR group within international law firm DLA.

European works councils – with us since January 2000 – affect only the largest multi-national employers. However, the same is not true of the provisions within the information and consultation directive, scheduled for final adoption early this year with UK implementation by 2005.

Businesses large and small will feel the impact of the three key new employee rights in this directive:

- to be informed about the employer's economic situation, including probable developments;
- to be informed and consulted about employment prospects, in particular where there is a threat to employment; and
- to be informed and consulted with a view to reaching agreement about decisions likely to bring substantial changes in work organisation or contractual relations, for example proposals to dispose or merge parts of the business or to make acquisitions.

Member states have a choice of applying the directive to 'undertakings' (public or private concerns carrying out an economic activity) with at least 50 employees, or to 'establishments' (business units where an economic activity occurs on an ongoing basis with human and material resources eg a division or plant) employing 20 or more.

Advance employee involvement

The directive suggests that employers must provide information in advance of taking major decisions and negotiate with employee representatives on the managing of businesses before changes are made.

It stipulates that the timing, content and delivery of information must allow employee representatives to conduct an adequate study and preparation for consultation. And while there is no absolute requirement that a works council be established, in practice most employers will probably find it easiest to set up some form of permanent consultation forum.

The timing, method and content of the consultation must also be 'appropriate'. The consultation must be based on information supplied by the employer and opinions formulated by the employee representatives. Representatives must be entitled to meet management, offer opinions, and get a reasoned response.

The purpose is to reach 'an agreement' on matters likely to lead to substantial changes in work organisation and it is clear that employers will be expected to provide information in advance of major decisions.

Opting out

Employers and employees may agree procedures different to the above provided that the overriding principle of the directive is respected. But such voluntary arrangements must be in place before the directive comes into force.

Confidentiality

The directive is bound to cause concern in boardrooms in relation to confidentiality, although the directive prohibits employee representatives from disclosing confidential information during or after a term of office.

And the provision that employers need not comply with the information and consultation procedures if, judged objectively, the undertaking or establishment may be seriously harmed or prejudiced, is likely to be interpreted in an extremely limited manner by courts and tribunals.

Penalties

Infringement by employer or employee representatives will be subject to 'effective, appropriate and dissuasive' penalties. It is up to the UK government to determine exactly what those penalties will be but, at the very least, financial penalties similar to those imposed for a failure to consult on redundancies or transfers of undertakings (up to 90 days pay per employee) can be expected.

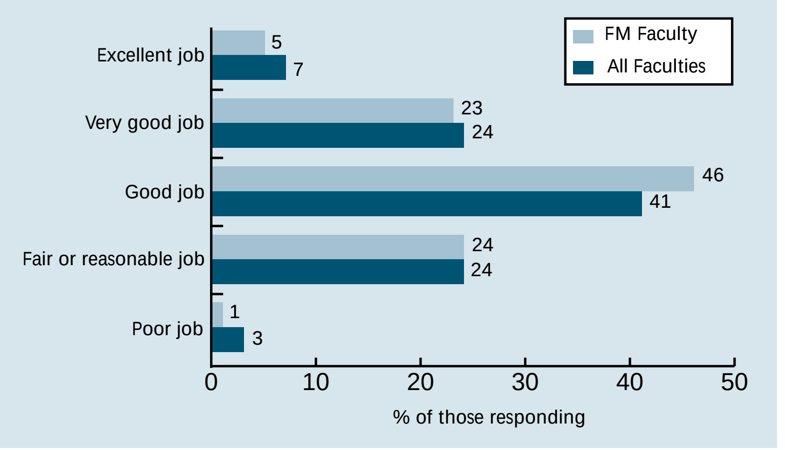
Consultation

Currently the directive provides a simple framework for proposals, with the detail to be supplied in the UK legislation. The government has promised wide consultation and it is vital that companies who will be affected participate in that process.

These changes will need long and careful consideration and planning by boards.

MEMBER SURVEY

How the Faculty shapes up



Are we doing a good job? The response says we are – but we are always looking for ways to improve our service to members.

During 2001 a major research project was undertaken by the Institute's Research Centre on behalf of all the Faculties. This is a summary of the main findings in relation to the Faculty of Finance and Management (FFM).

The research involved interviewing some 1,250 Institute members via the telephone – the interviewees comprised 750 members of the faculties (150 interviews for each faculty) and 500 non-faculty members. Respondents were asked a series of questions and asked to rate the Institute as a whole and then faculty members were asked to rate their specific faculty.

The overall standard and level of service provided by FFM to its members was found to be high. The majority (74%) of FFM members felt that the Faculty is doing a good to excellent job in satisfying their needs and 76% of members felt that there was between 'some' and 'a very big' advantage to being a member of the Faculty. On specific attitudes, the findings were:

- the majority of FFM members felt that the Faculty is up to date in its coverage of relevant issues with only 7% disagreeing;
- 88% of FFM members felt that the information produced by the Faculty is well presented, with the majority always reading it and feeling that it is relevant to their needs. Members were comfortable with the level of publication output and felt that the Faculty does not send them too much information;
- although most FFM members do not make the effort to attend Faculty events, those who have attended found them good value for money and said that they were provided with good supporting materials; and
- 70% of FFM members thought they get good value from their subscription.

Asked about expectations, the two main reasons members join the faculties are to increase knowledge of the topic and to keep up to date. Out of the FFM members seeking to increase their knowledge 94% (40% of which rated FFM as increasing their knowledge 'a lot') felt that the Faculty had achieved this. 90% wanted to be kept up to date on Faculty matters and of these 98% (36% of which believed the Faculty had achieved this 'a lot') felt that the Faculty achieved this.

Customer satisfaction ratings for the Faculty are positive with 77% of Faculty members feeling the Faculty responds quickly to changing issues and that its provision of technical leadership is good, giving it a 79% rating, higher than that for the Institute as a whole.

The role that the Faculty plays as an information source for its members was found to be particularly significant with 51% of FFM members (compared with 32% for the Institute as a whole) regarding the information the Faculty provides as their most important source ahead of other sources such as their own firm and financial magazines and newspapers.

On communications, the Faculty's publications were found to be both informative and useful.

Conclusion

This in-depth and extensive research has provided a host of issues and discussion points to be considered and noted. The overall response from members has been extremely positive. However, there is still the need to look closely at all areas of the Faculty's service, to maintain and raise standards.

The Faculty team will continue to seek improvements and progression over 2002 in order to deliver the best possible service and value to its members.

FORTHCOMING FACULTY EVENTS – 2002

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

● 13 March HALF-DAY INTRODUCTORY MEETING (Birmingham City Football Club)	*'BEYOND BUDGETING – HOW MANAGERS CAN BREAK FREE FROM THE ANNUAL PERFORMANCE TRAP' – JEREMY HOPE, CAM-I.* Adopting 'Beyond Budgeting' has far-reaching implications for employees, customers and shareholders, as well as for the organisation's leadership and management processes. Jeremy Hope, the programme director of CAM-I's Beyond Budgeting Round Table, introduces the BBRT research and discusses its findings and its success. For further details, please refer to the FFM events brochure in this month's mailing. Registration 9.15am; meeting 9.30am to 12.30pm.
● 15 April EVENING LECTURE (Chartered Accountants' Hall, London)	*'STRATEGIC ENTERPRISE MANAGEMENT' – MARTIN FAHY, NATIONAL UNIVERSITY OF IRELAND* This lecture, in association with CIMA, will focus on strategic enterprise management (SEM), including how to create, manage and nurture it. Martin Fahy of the National University of Ireland, Galway, will consider sensible strategic management accounting decisions necessary for continually increasing shareholder value. Registration 5.45pm; lecture 6.00pm.
● 28 May LUNCHTIME LECTURE & FACULTY AGM (Chartered Accountants' Hall, London)	*'PAY FOR PERFORMANCE – DIRECTORS' REMUNERATION' – RUTH BENDER, CRANFIELD SCHOOL OF MANAGEMENT* Ruth Bender, lecturer in finance and accounting at Cranfield, will discuss the structure of directors' remuneration in the context of creating value for shareholders. She will look at performance-related pay in the long and short term, the choice of performance measures, current UK practice and the implications of the DTI's latest consultation document. Registration 12.15am; lecture and AGM 12.30pm, followed by buffet lunch.
● 11 June HALF-DAY INTRODUCTORY MEETING (Golden Tulip Hotel, Manchester)	*'BEYOND BUDGETING – HOW MANAGERS CAN BREAK FREE FROM THE ANNUAL PERFORMANCE TRAP' – JEREMY HOPE, CAM-I.* See 13 March event, above. For further details, please refer to the FFM events brochure in this month's mailing. Registration 9.15am; meeting 9.30am to 12.30pm.

RECORDINGS OF FACULTY LECTURES

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

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

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

MANAGING THE CHANGE – PERFORMANCE MEASUREMENT IN THE PUBLIC SECTOR

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

CUSTOMER RELATIONSHIP MANAGEMENT

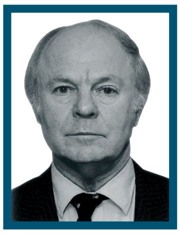
Professor Robert Shaw of Marketing Best Practice International Ltd describes the critical success factors and the role of financial management in the investment of CRM.

THE BALANCED SCORECARD

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

This above all...

Looking again at leadership issues, **Richard Alston** points out the importance of recognising your strengths, and acknowledging those areas in which other team members have greater expertise.



During his epic solo flight from New York to Paris in The Spirit of St.Louis in May 1927, Charles Lindbergh kept a log, in part to record technical details and in part to help him stay awake for the 33 hour journey.

In one entry he writes of training for his wings in the Army Air Service, after some years 'flying the mail'.

> *A new plane, and changing hands on the stick, threw me off a little. My first landing was not three-point, as I'd expected it to be. But Master Sergeant Winston turned me loose for solo after three rounds of the field, and – a special honour – let me use his personal plane, JN6-H Number 326. "You know how to fly all right," he said. "you've just got to get used to this Jenny. Later on I'll try you out in acrobatics."*
>
> *Master Sergeant Winston had a human touch, wisdom, and humour that held the respect of his students aside from his pilot's skill. He usually gave us short talks before flying started in the morning . . .*
>
> *"Now pretty soon you fellows are going to think you're pretty good. It happens to every pilot. Usually starts when he's had about 25 or 30 hours solo. I just want you to remember this: in aviation, it may be all right to fool the other fellow about how good you are – if you can. But don't try to fool yourself."*

We are now all so familiar with change and change processes that we have come to look upon them as fixtures in themselves.

One consequence of this, together with the associated shortage of money, low numbers of employees, short-term contracts and advancing technology, is the emergence of a sophisticated version of the Peter Principle – the one, you remember, stating that 'in a hierarchy every employee tends to rise to the level of his or her incompetence'.

The original principle was associated with slow-moving 40-year career structures. The new version, giving the same output, arises from short-term appointments held by people who have little time, if any, to train for the job and even less background experience on which to rely while performing it.

Managers and supervisors finding themselves in such jobs are usually surrounded by subordinates who know more than they do, and who tend to resent such appointments.

Managing a team in these circumstances means being clear about why you are there, what the group is required to produce, identifying who does what best, how to set and manage deadlines and how to encourage people, including when to move them on and/or out.

Acknowledging

It does not mean vying with every subordinate over the best way to do things or trying to turn the group into 'our gang'. It means knowing and showing what you are really good at and freely acknowledging that in some areas some people really do know better.

Motivating others means knowing yourself and not trying to be something else.

As Shakespeare puts it –

> *This above all, to thine own self be true*
> *And it must follow, as the night the day,*
> *Thou canst not then be false to any man.*

An international consultant until his recent retirement, Dr Richard Alston (rabath@supanet.com) runs distance learning MBA (Management) courses for a private university (www.iubusch.org).