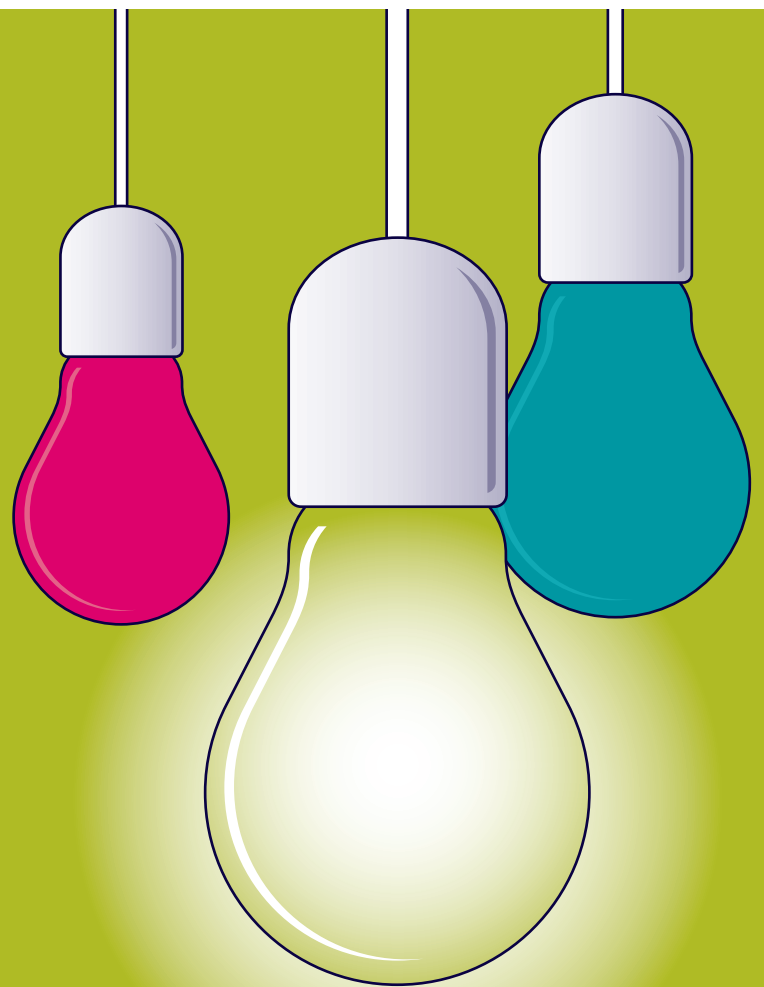


Improving decision making in organisations

The opportunity to reinvent
finance business partners



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1 Executive summary

'You don't ever want a crisis to go to waste; it's an opportunity to do important things that you would otherwise avoid. In 1974 and 1978 we never dealt with it, and our dependence on foreign oil never changed.'

**Rahm Emanuel,
Chief-of-Staff to Barack Obama**

Enlightened companies are already well on the way to transforming their finance functions to be more efficient and to better support decision making. This has included developing finance professionals and deploying them as finance business partners across the business. According to the CIMA Forum, this gives organisations a competitive advantage. Any organisation not taking the opportunity to transform its finance function in this way could be putting its competitive position at risk.¹

Where progress towards finance transformation has been slow, the need to adjust to the longer term economic impact of the 08/09 credit crunch could provide the 'burning platform' necessary to win buy-in to this important change programme.

The accounts and finance function is challenged to reduce its costs but it must continue to meet its full range of responsibilities. Management's information needs have expanded so it must provide better information too. However, the potential for further cost savings is limited and the emphasis has shifted to how finance can be engaged to partner with the business to enable value creation and protect shareholders' interests.

CIMA has commissioned independent academic research as we need a better understanding of how finance is changing, the finance business partners' service offering, the skills required, how these can be developed and how to manage these people. Meanwhile, this report shares insights from the CIMA Forum:

¹ Improving decision making in organisations: the opportunity to transform finance, CIMA, 2007

- The CIMA Forum has noted different forms of finance business partner. They can be operational or strategic and located centrally or deployed in the business. They can offer different levels of a finance business partnering service as appropriate to the scale of the business, its sector and the individuals' relative seniority.
- The concentration of accounting processes in shared service centres has increased efficiency but it has segregated accounting operations from the business. Finance business partners have important roles to play in bridging this gap and in ensuring that the support and counterweight long provided by a good finance director or chief financial officer to a managing director or chief executive officer can be cascaded down to other business managers.
- Management information has expanded to consider operational and external metrics which can be leading indicators of performance, risk and progress towards the achievement of strategic intent. Providing this better information, as champions of evidence based decision making, allows management accountants to talk the language of the business and enhances their credibility. They can provide better support with performance and risk management. But they also have professional integrity and objectivity so they can challenge the business to balance achieving short run objectives with developing the business to meet the longer term interests of shareholders.

Developing people with the combination of finance competencies and business capabilities required for this important role is a challenge. This report provides examples of how finance business partners can be developed. Also, how to measure and manage business partnering remains largely unanswered, but we have evidence of a range of measures being used.

Both Accenture and Deloitte have published quantitative evidence that supports the CIMA Forum's view that leading companies can achieve superior returns if among other variables they have transformed their finance functions and manage enterprise performance rigorously, a discipline which requires effective finance business partners.

Yet early findings from the independent academic research which CIMA has commissioned suggest that despite much rhetoric about business partnering, in most organisations there has not been a stepped change in the role of finance. Although there is some evidence of change towards a more business oriented role, many accountants are mainly occupied in transactional accounting and financial reporting. Organisations and their accountants are at varying stages on this journey.²

Business leaders should consider what role they would like the finance function to play in their organisation and not miss this opportunity to create or reinvent finance business partners as appropriate to their organisations' needs.

Priyan Fernando, President and Chief Operating Officer, American Express Business Travel:
 'While we are in the midst of this global recession, we need to be preparing ourselves to emerge stronger from it than ever. Successful companies are reinventing their business models to excel in a post-recessionary environment which will be quite in contrast to what we were accustomed to. We should not be surprised if the agility of the emerging economies enables them to recover faster than traditional economies.'

Someone said that a crisis is a terrible thing to waste. The question is how are we using this crisis. Are we waiting for it to pass or are we using the opportunity to reinvent ourselves?'

² Dr Philip Cooper, CIMA Centre of Excellence, University of Bath School of Management

The CIMA improving decision making in organisations forum

The CIMA Forum is a group of major organisations represented by senior finance personnel, typically divisional financial controllers or leaders of finance transformation projects. The participants are not necessarily CIMA members but they all share a professional interest in the future of the role of the finance function.

The forum meets twice a year, usually in London, for a full day's workshop hosted by CIMA. Members attend to share experiences, to learn from each other and to network. CIMA's objectives are to share learning with members, students and stakeholders and to inform its syllabus development and continuing professional development programmes.

Each member organisation is from a different sector and has a right of veto over any competitor joining. Academics or consultants are only invited as guest speakers. This helps to ensure an open discussion. Confidentiality can be assured and CIMA commits not to publish anything attributable to a member without their express permission.

The forum's agenda is set by the members. It considers finance transformation widely. The people aspects of business intelligence and finance business partnering have most recently been considered. CIMA has published a portfolio of reports informed by the forum's discussions: www.cimaglobal.com/decisionmaking

Organisations who have participated in recent meetings of the forum include:

- Alliance Boots Ltd
- Barclays plc
- Department for Work and Pensions
- Diageo plc
- Ford Motor Company
- HM Revenue & Customs
- Kimberly-Clark Corporation
- The NEC Group
- Rolls-Royce plc
- Unilever plc

Leading organisations from other sectors would be most welcome as members. If your organisation would be interested in joining the forum please contact CIMA at innovation.development@cimaglobal.com

2 The journey so far

The need for 'finance transformation' has been recognised for over a decade. This is a journey towards a situation where the efficiency of finance operations has been maximised, management information is insightful and actionable and finance is seen less as a necessary overhead and more as an important management discipline that enables value creation. This destination may always be hazy and beyond the horizon, but the direction seems clear. Some organisations have taken an early lead.

An enterprise resource planning system (ERP) is a company wide resource planning tool, a software system that can be used to process transactions and manage all the resources, information, and functions of a business from shared data sources. Most large organisations have already implemented enterprise resource planning to automate, standardise or streamline business processes. And they have formed shared service centres as centres of efficiency and expertise. Some have also developed and deployed finance personnel to take on a new collaborative role, supporting decision making as finance business partners. This may be work in progress but they are well advanced on the journey.

Yet, many organisations' accounting and finance functions still see this as a distant future. They will have reduced their costs. They may even have people termed 'business partners' or 'finance managers'. But if the emphasis is still on accounting processes and financial reporting, these finance functions have not been transformed. They may have become more efficient but can still be seen by some as more of an overhead than an enabler.

2.1 The future may be hazy but trends are clear

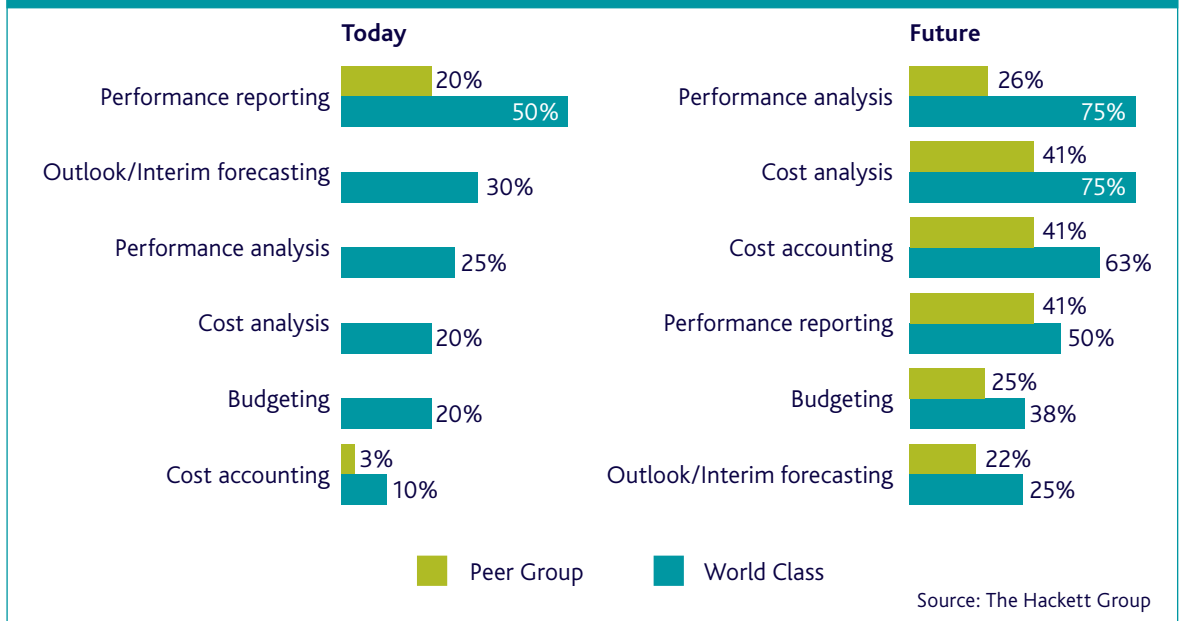
As an overhead, the accounting and finance function faces a relentless challenge to conduct its core transaction processing, accounting and reporting role ever more efficiently. But it must also produce better management information for both internal and external stakeholders.

The route towards making finance operations more efficient is well established. Investment in ERP systems allows business processes to be improved through streamlining, standardising and automation. Developments in information technology and globalisation enable routine operations to be automated or centralised in shared service centre (SSC) support units.



The finance function’s accounting operations can be more efficient if centralised so that processes can be standardised and economies of scale realised. Whether in-house or outsourced, these shared service centres can be centres of excellence where expertise is concentrated. Through investment in technology and skills development, the role of shared service centres in accounts and finance is expanding to include higher value services such as reporting and analysis. Other support services, especially information technology (IT), human resources (HR) and procurement may be provided too.

Figure 1 Beyond transactional support, the scope of finance shared services is expanding – to business analysis/planning



This research from Hackett shows that some 'world class' companies are already providing higher value services, such as performance reporting, forecasting and performance analysis through shared service centres. Hackett defines 'world class' as top quartile for both efficiency and effectiveness. As the chart shows, few 'peer group' companies (those in the middle

quartiles) provide any of these services through shared service centres today; only 20% provide performance reporting and 3% cost accounting. However, most 'world class' and many 'peer group' companies plan to provide performance analysis and reporting, and cost accounting and analysis through shared service centres in the future.

2.2 Better informed decision making

The traditional management information pack, consisting mainly of financial accounts, comparison with budget and a revised forecast for the year, delivered as a report a few days after the month end will no longer suffice. Today's business users expect instant access to a wide variety of information and a higher level of analysis.

In addition to financial outcomes, management accountants can access a wide range of data sources to provide information, commentary and supporting analysis about leading indicators of performance and risk. These include operational and external metrics as well as financial outcome measures. This can provide insights to help balance the achievement of objectives in the short run with the development of the organisation's competitive position for the longer term. This expansion in management information has required management accountants to report in the language of the business as well as finance. It has given them a greater understanding of how value is generated and increased their credibility and influence as potential partners to the business.

Developments in business intelligence (BI) systems reflect this expansion in the range of data to be considered and level of analysis required to meet business managers' expectations of management information.

Financial reporting and analysis tools, also known as enterprise performance management (EPM), or corporate performance management (CPM), are now being integrated with company wide BI systems. These tools could already speed up financial processes such as budgeting, forecasting and consolidation – without the risks inherent in spreadsheets. BI has the potential to speed up standard accounting processes and allow a wider range of data to be considered and insightful analysis to be conducted and presented, often in the form of dashboards on business users' computer screens.

Also, higher value analysis and 'what-if' modelling can be performed more readily to support evidence based decision making. This term, evidence based decision making, comes from medicine where treatment is prescribed on the basis of empirical evidence from clinical trials rather than a doctor's preference based on personal experience.³ We all have subconscious biases based on our experience and situation. Business leaders may like to follow their hunches and there should always be room for some entrepreneurial flair. There has to be a culture where ideas are allowed to emerge but the risk of a costly error can be reduced if the evidence available is also considered. Management accountants can help to ensure that decisions are properly framed so that relevant information is considered and assessed against the right objective: the shareholders' interest.

According to Accenture: **'EPM (enterprise performance management) helps CFOs transform finance to become a strategic business partner and overcome two traditional challenges. First, it provides greater analytic capabilities required to create, innovate around and apply insights that drive business outcomes aligned with financial goals. Second, it enables finance to help in opportunity identification and influence strategic planning and investment choices and allocate the right resources (people and capital) to execute those plans.'**⁴

Unfortunately, many BI projects do not deliver the benefits expected. These are not just about new systems; they are major transformation projects with a significant people dimension so proper change management is important. As knowledge workers with contact throughout the business, management accountants are well positioned to unlock the potential in BI. It can also release their potential to provide the decision support that business requires.⁵

³ See Evidence-based Decision Making: Using Business Evidence to Drive Value, CMA Canada/AICPA, 2009

⁴ The changing role of the finance organization in a multi-polar world – Accenture high performance finance study 2008, Accenture, 2008

⁵ Improving decision making in organisations: unlocking business intelligence, CIMA, September 2008

'BI is undoubtedly an enabler. At Axxia, we used Board, an integrated BI and CPM software package, to not only produce accounts but also analysis of KPIs (key performance indicators). This included financial outcomes, as well as operational measures and lead indicators such as resource utilisation, capacity planning, support centre calls and the sales pipeline. We had ISO 9001 accreditation so we also tracked non-compliance with procedures. We even had the metrics for staff appraisals on the system. In all these areas, not only did Board provide the high level KPI measures, but allowed drill-down to the lowest level to provide detailed analysis and explore variances.

Non financial metrics are essential for measuring performance towards achieving strategic objectives. We derived half a dozen of these objectives per department. Each department director would input the updated status towards his department's objectives each week.

Another important source of management information was the CRM (client relationship management) module that we developed with Board, showing for example: what we'd sold (and not sold) to each client, professional service days sold, etc.

Having all this data in one place provided transparency and made the necessary information much more freely available to decision makers on a self service basis.'

Russell Robinson, Former FD of Axxia
Source: Board

2.3 Are we nearly there yet?

Leading companies' finance functions already cost less than 1% of total turnover. The potential for further cost savings is limited. Engaging finance personnel to contribute towards value creation provides more potential. As more activities are migrated to shared service centres, the finance staff retained in the business should have the capacity to provide decision support as finance business partners.

Roy Barden FCMA of the Hackett Group says **'The structure of the accounting and finance function is changing. Increasingly both transaction processing and analysis are being handled in a shared service model. In this environment a finance person still re-working numbers will be an additional overhead. Finance is going to become a smaller exception-based advisory group.'**

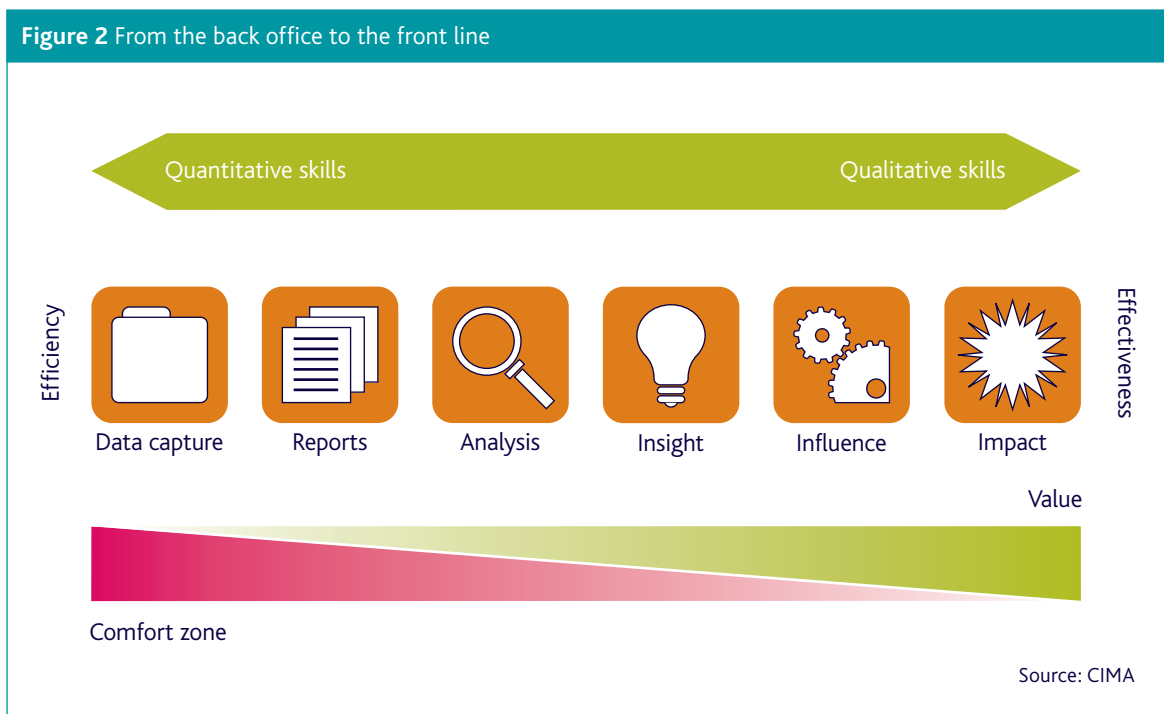
Management accounting has its roots in cost analysis in the manufacturing sector but it has developed and continues to develop in response to employers' needs. Advances in quantitative techniques have added to the management accountant's toolkit but for many years the emphasis has shifted from cost to value and from quantitative analytical skills to qualitative management skills.

Independent academic research by Professor John Burns of Dundee University and others has found that, in a sense, the management accountant's role has not changed much. It is still about helping to improve the competitiveness and long run profitability of the business:

'Although there have clearly been changes in management accountants' roles over recent years, the main focus has continued to be the support of business competitiveness and profitability through the provision of financial information for decision making. However, the manner in which management accountants provide such support has changed: from providing what they considered to be relevant information for business managers in the 1980s; to working together with those managers in the 1990s and helping them to identify the relevant information for decision making; to controlling businesses through integrated

performance measurement systems in the 2000s. Nevertheless, the common trend over the last 30 years has been an overriding concern to improve the competitiveness and long-run profitability of the business.⁶

Figure 2 From the back office to the front line



Strategic management accounting (SMA) has been defined by Professor Michael Bromwich as ‘the provision and analysis of financial and non-financial information on the firm’s products, markets and competitors’ costs, and the monitoring of the enterprise’s strategies and those of its competitors in these markets over a period of time’.⁷

The CIMA Forum says the role of the management accountant is becoming much broader than producing the necessary information, reports and analysis. It is about improving decision making. Decisions have to be properly framed so they are considered against the right objectives on the basis of the evidence available. Effective decisions achieve their intended impact. A recurring theme is that finance business partnering

takes the management information provided by accounting operations as its starting point. It is about understanding relevance, sharing insights, influencing decisions in the best interests of shareholders and helping to manage performance and risk through to the achievement of impact.

This takes management accountants on a journey from their quantitative roots, where the business imperative is to maximise efficiency to where the emphasis is on enabling value creation – from many traditional accountants’ comfort zone to where they must apply qualitative skills. In this new role, they can be of greater value to the business and enjoy wider career prospects.

⁶ John Burns, University of Dundee Gudrun Baldvinsdottir, Gothenburg University Hanne Norreklit, Aarhus University Robert W. Scapens, University of Groningen and Manchester Business School 2009 – Financial Management July/August 2009

⁷ Retrospect and Prospect, Michael Bromwich and Alnoor Bhimani, CIMA, 2009

3. A new role for finance?

Deloitte's finance masters

A Deloitte study of over 1,100 businesses across the globe over the past five years has found:

'Financial management is evolving from an uninspiring, albeit necessary, function of doing business to one of the most promising levers of business transformation. In fact, without support from the finance function in improving strategy and operations, companies face an uphill and often losing battle in transforming their business. Findings from our research underscore the importance of finance. Among the companies analysed to date, the group we call 'finance masters' – companies with the strongest finance capabilities in place to support business transformation – are leading the pack with superior business performance. The research not only links the transformation of the finance function and the business to performance, it also shows how finance masters differentiate themselves from the competition.

The finance masters have not only invested in strong core finance capabilities, they have gone further by building much better business capabilities to support business improvement and transformation. While they are by no means perfect, they have charted a finance transformation course that sets them apart from their peers with significantly higher performance in terms of profitability, returns on assets and shareholder value.'

Finance directors (FD) and chief financial officers (CFO) already have a broad range of responsibilities. In most organisations they have long been a strategic business counsellor and a trusted advisor to the chief executive. They must also maintain a professional objectivity as they are responsible for statutory reporting and, together with the board of directors, for the stewardship of shareholders' interests.

The CFO's core responsibility remains the management of the accounts department, its people and its processes. This includes responsibility for the integrity of the accounting processes and the quality and timelines of the information produced for communication internally within the business and externally to stakeholders.

According to Deloitte, financial management is evolving from an uninspiring, albeit necessary, function of doing business to one of the most promising levers of business transformation.⁸ They have found that the path to 'finance mastery' is built on finance stewardship and operations. Finance has to have got the basics right if it is to have the credibility necessary to partner with the business.

Figure 3 illustrates the roles of the accounting and finance function. At its core are accounting and finance operations. It has an internal audience which ranges from operational staff to senior management and the board. It also has responsibilities towards shareholders, regulators and other external stakeholders.

⁸ Deloitte review: Finance Masters: How Finance is Quietly Emerging as a Key to Business Transformation, Deloitte, 2008

Figure 3 Roles of the accounting and finance function

Enterprise governance		
Stewardship and reporting:	Accounting and finance operations:	Business and management support:
regulatory compliance	finance and accounting processes (procure to pay, order to cash, record to report, payroll and treasury)	management information
tax returns		planning, budgeting and forecasting
stakeholder assurance	financial close – completing period end accounts	performance measurement, reporting and analysis
investor relations		performance management
raising capital and loans	financial consolidation, reporting and analysis	risk management – from strategic to operational, including fraud risk
board reports	providing comprehensive management information	investment appraisal
statutory reporting	people management	cost management
	using IT to automate and standardise finance and accounting processes	supply chain management
	using shared service centres as power houses to concentrate expertise and improve the efficiency of financial processes – and often other overhead processes too	value based management
		project management
		change management
		capital structure and dividend policy
		strategic planning
		professional expertise e.g. merger and acquisition or tax (often outsourced)

3.1 Enterprise governance

Over many years bankers had devised innovations to provide their clients with higher investment returns and to satisfy society's demand for credit. These improved their banks' return on capital and increased the returns reported to shareholders. But they eventually destroyed value for shareholders and created huge costs for the global economy.

A study commissioned by IFAC and CIMA following the spate of major corporate scandals including Enron and Worldcom identified weaknesses in enterprise governance as a common factor.⁹ This is the proper oversight of both the conformance and performance aspects of the business.

As we learned from the Enron scandal, the smartest guys in the room¹⁰ can be motivated by self interest. There has to be a counterweight to balance this with the longer term interests of shareholders.

The accounting and finance function has an important role to play in upholding the enterprise governance framework whereby senior management, directors, investors and regulators are properly informed about key performance and conformance issues so that they can provide the necessary oversight to protect stakeholders' interests.

3.2 Stewardship and reporting

As with previous major corporate scandals, the depth of the 08/09 financial crisis was not anticipated in companies' statutory reports. Now the finance function is challenged to perform its traditional, fiduciary or governance role ever more diligently.

Demands for more transparency in statutory reporting, new accounting standards and greater scrutiny by analysts have made reporting more complex than ever. Accounts record financial outcomes. In order to provide more transparency, company reports must include more management information to provide insights into the company's position, performance, risks and prospects.

3.3 Accounting operations

Developments in finance transformation and business intelligence could release management accountants' capacity to provide decision support. Meanwhile, the major preoccupation of the FD and most people in the accounting and finance function is the management of accounting operations and the production of accounts and reports.

As the role of the finance function evolves, the traditionally central accounting and finance operations are increasingly segregated from the stewardship and business support roles. This separation could allow the retained finance function to focus more on the higher value aspects of the role but the FD continues to have overall responsibility. The service provided to both internal and external audiences rests on the quality of these operations. Managing and working with distant accounting and finance operations, whether in-house or outsourced, are new challenges.

3.4 Business and management support

Business and management support is the bridge between accounting operations and the business. About 10-20% of the finance function operate as finance business partners. They must develop good relations with both their clients in the business and their colleagues in accounting operations on whom they depend for the information on which their credibility is built.

An essential aspect of the finance business partner role is that it combines financial disciplines with business understanding. At the heart of the role is providing information to support decision making. The quality of information is key to the finance business partners' credibility. It is the basis for their invitation to the decision making table.

The level of contribution beyond providing information and helping with accounting processes varies considerably. But this is where the FD's influence can be cascaded so that financial disciplines are applied to control and empower the business.

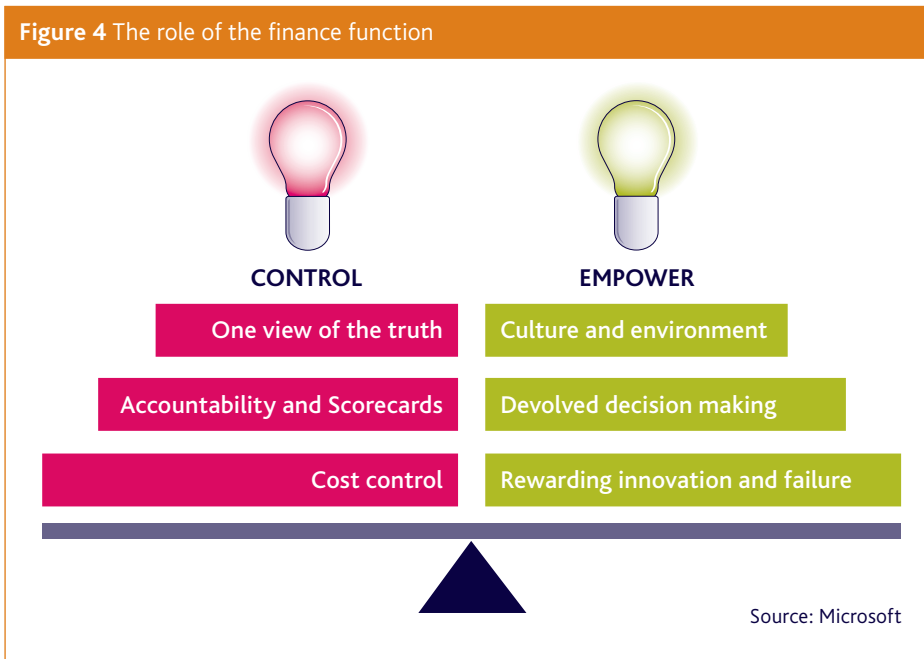
⁹ Enterprise governance – getting the balance right, IFAC/CIMA, 2004

¹⁰ The title of Fortune reporter Bethany McLean and Peter Elkind's book about the Enron scandal

3.5 A matter of balance: control and empower



Figure 4 The role of the finance function



Toby Willson, FD, Microsoft UK describes the role of the finance function as, **'Balancing responsibilities to control and empower. Finance business partnering is not so much a new role as an extension or rebalancing of the finance function's traditional responsibilities so that finance is not just an overhead but helps to create value.'**

This requires a change in culture where the finance professional's objectives and the business manager's objectives are seen to be aligned, and finance's contribution to management decision making is expected and valued. By deploying finance business partners across the business to cascade the FD's role, decision making can be devolved to allow business units more autonomy. This should allow business managers the flexibility to innovate within risk parameters. Innovation can be encouraged by rewarding success as well as those failures which demonstrate both a preparedness to innovate and the application of proper controls to limit the risk.

Decisions will sometimes still have to be taken without certain knowledge but risks can be managed and a stage gate process applied, whereby further expense will not be incurred unless performance milestones have been met – as in venture capital funding.

Finance business partnering is an extension of the FD's role as trusted advisor. Finance must take on a new role as financial coach to the business. Many chief financial officers (CFOs) may have long 'partnered' with chief executive officers (CEOs) to perform this role at that strategic level. The current development is for finance personnel to take on new roles as finance business partners, supporting decision making throughout the business – as players on the business team rather than scorekeepers on the side line.

Providing a finance business partnering service must be part of a wider transformation programme to develop the role of finance in the business. Each organisation must consider how it will transform its finance function and what its finance business partnering service offering will be. This new focus has to be balanced with continuing to meet other responsibilities.

4. What should finance business partners do?

'The term 'business partner' is not terribly useful. It seems to be a bit of a black hole. Nobody really knows what it means in practice.' Graham Colbert, vice president of finance for ISMO, AstraZeneca's international sales and marketing organisation.

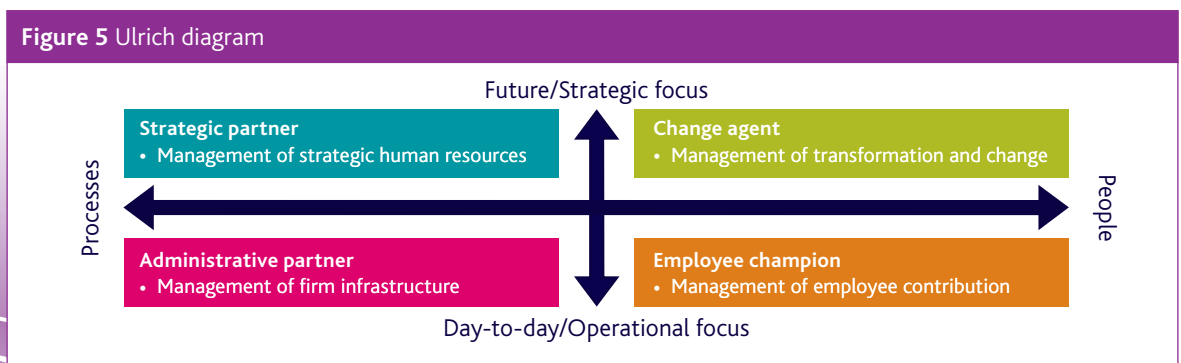
The term 'business partner' may have originated in the human resources (HR) discipline where it is accredited to Dave Ulrich of Ross School of Business at the University of Michigan.

Ulrich recommended that the HR function should be transformed. Routine HR processes should be handled by shared service centres and expert services should be centralised in centres of expertise. This would release HR professionals to take on a more strategic role as

HR business partners who could help the business to manage talent and ensure the organisation would have the human resources it required.

This Ulrich diagram describes HR business partners along two axes: from a process to a people focus and from an operational to a strategic focus. Each of these types of business partner would require people with different skill sets.

Figure 5 Ulrich diagram

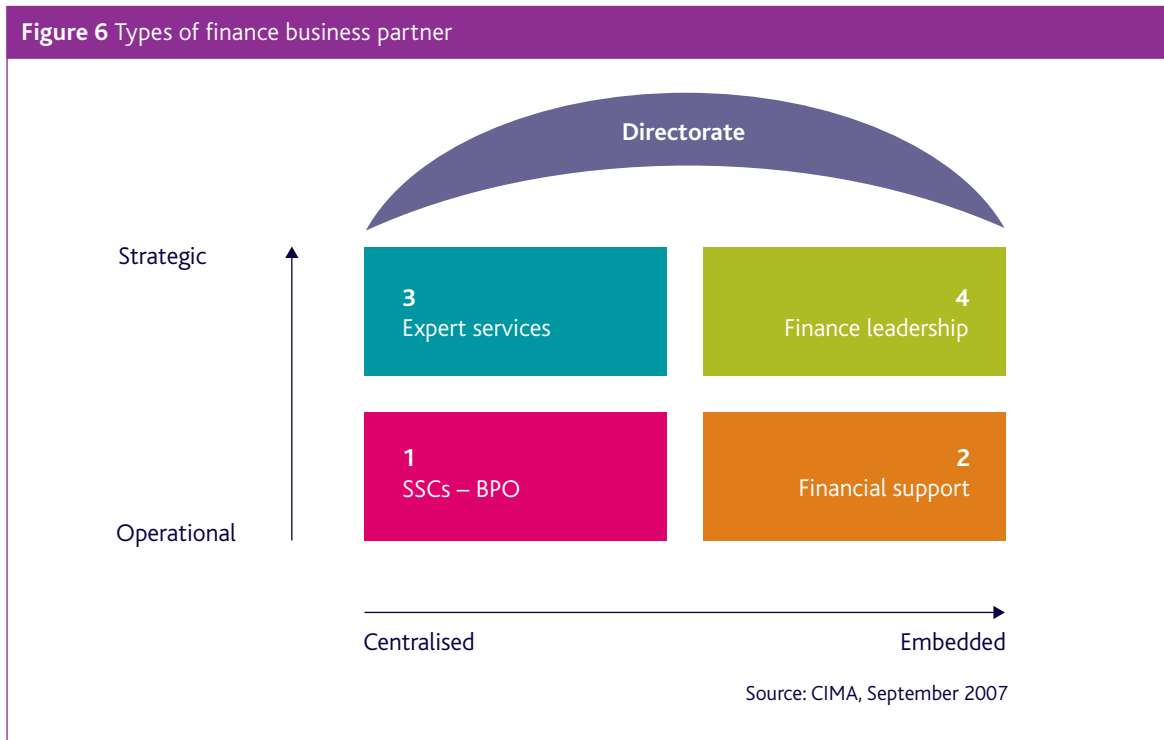


Although Ulrich's terminology is widely used by HR professionals, it is not clear that the model is always applied as he described. The experience of many members of the CIMA Forum has been that there are now very few HR business partners and they can only provide HR support at a director level. Managers have had to become self sufficient in those HR skills which are seen to be part of the skills set required by all managers rather than an area for specialists.

As can be seen from figure 5, Ulrich uses the term strategic partner for those HR professionals who are focused on supporting the business with the use of HR processes. Those with a people focus and a focus on the future rather than on day-to-day operations are termed change agents or human capital experts by Ulrich. These would seem to be closer to the CIMA Forum's ideal form of finance business partner.

4.1 Types of finance business partner

Figure 6 Types of finance business partner



When considering the opportunity to transform finance, the CIMA Forum noted four forms of finance business partner depending on whether they are centralised in the accounting and finance function or embedded in the business and whether they provide operational support or play a more strategic role.

1. Shared service centres whether in-house or outsourced are enabled by investments in technology and the skills of their people to offer higher value services. These include support with budgeting and planning and generating reports and analysis. Shared service centres can standardise processes and automate delivery if any analysis is to be provided on a regular basis.
2. Finance business partners can be embedded in the business, often with a matrix reporting structure such as a full line to the FD and a dotted line to the business manager or vice versa. These finance professionals' loyalties can lie with the business but they have a professional responsibility to ensure

that the organisation is compliant with its reporting and control responsibilities and that its performance optimises shareholders' investment. This form of finance business partner (as described by sector two in figure 6) provides accounting processes and 'number crunching' rather than contributing strategically.

3. A solution to the danger of finance business partners 'going native' and the fact that there is a shortage of high calibre people to provide strategic support is to have a technically expert team at head office which is deployed to the front-line on projects. It can be difficult for this form of finance business partner to be close enough to the business to be able to provide tactical business insights but they can bring expertise and objectivity. This can allow them to challenge the status quo and provide leadership on major change programmes to maximise shareholder value, reduce the cost base or revise the business model.

4. The forum describes proactive finance leadership as the ideal form of finance business partner. Generally, these do not produce routine reports or analysis. They may have the expertise and the 'toolkit' to conduct more detailed analysis on an ad hoc basis but their main purpose is to challenge business managers to improve business performance in the interests of shareholders as a form of financial coach or sparring partner.

The form of business partner required will vary by sector, scale of the business and the seniority of the finance person relative to the counterpart in the business. CIMA has commissioned research by Dr Philip Cooper at the University of Bath School of Management to explore this topic in detail. This work is ongoing.

Meanwhile, although the CIMA Forum is too small a group to draw any firm conclusions, here are some insights:

- The need to eliminate re-working of numbers and provide more routine finance business partnering through shared service centres is widely recognised.
- Manufacturing businesses with longer product life cycles seem to need finance business partners who can help manage longer term projects. They may have the 'financial support' form of business partner but these are expected to be capable of being 'constructive irritants' when required.
- Some participants at the forum, who have worked for major US companies, speak of finance as the discipline used by the centre to manage subsidiaries as central experts.
- Dynamic sectors such as fast moving consumer goods (FMCG) seem to require the more proactive form of finance business partner, for example, to support tactical promotional activity.
- Whereas bigger organisations need to develop finance business partners to cascade the contribution of a challenging finance director, in a smaller company he or she will be closer to the business in person. Here, the principals are often the major shareholders. The business is managed in their interests anyway so this challenge is not required.
- The finance business partner is often less senior than their counterpart in the business. This poses a challenge which has to be addressed over time through relationship building. It also helps if the finance business partner's role is made clear so that the business manager appreciates how it will be of benefit.

Graham Colbert, Vice President of Finance for ISMO,
AstraZeneca's International Sales and Marketing Organisation

'In my role I report directly to the head of ISMO and have a dotted line to the group CFO. This means that I and the people who work for me have to provide information up two routes. Clearly it is important that the information is consistent but as you can imagine a degree of finessing is required from time to time, depending on the issues.

As a sales and marketing organisation, ISMO tends to be reasonably short-term focused. Within a country we monitor the daily business but at the ISMO level, we are interested in monthly trends. We produce management accounts for each local organisation which focus on the profit and loss account and operational cash flow items such as customer receivables and overdue items. All of this gets consolidated at the ISMO level each month and discussed with the leadership team.

Each quarter we discuss the results of ISMO with the chief executive David Brennan and CFO Simon Lowth. In the summer we carry out a ten year planning exercise to understand the shape of the business and in the Autumn, we carry out an in-depth review of each marketing company in order to set the following year's performance targets and budget and get a fix on the next year. In our business, sales is the biggest driver

and we spend a lot of time understanding how these will develop, brand by brand, taking into account market dynamics, competitor activity and government and payer's actions. We use KPIs, ratios and benchmarks to review our cost base. My expectation is that a good business partner has analysed and understood the many data sources and uses them as a reference point when expressing an opinion. I know our business colleagues expect the same.

In addition to this monitoring and reporting role, my team undertakes ad hoc projects looking at different aspects of our business. For example we might take a deep dive look at a country and try and assess whether or not they are performing well in comparison to peers in the same or different regions or the competition in that market and articulate the reasons why. This will require in-depth brand-by-brand work. We might look at how sales force bonus schemes are operating to ensure that they are truly incentivising.

Of course, this requires finance business partners to work very closely with their sales and marketing colleagues. This in turn means they must have a high degree of credibility and an ability to translate financial information into something easily understood.'

4.2 Performance management

Each month performance management is a key objective for finance business partners. This ranges from presentation of the previous month's financial performance, its assessment relative to budget, to reviewing forecasts and progress towards achieving longer term strategic objectives. This interaction provides finance business partners with the opportunity to contribute insights and develop good working relationships with their counterparts in the business.

Control systems such as budgeting and performance measurement are not just feedback loops but opportunities for informed dialogue where ideas can emerge that might lead to innovations, the identification of valuable market segments or uneconomic high maintenance customers and potential cost savings.

Performance management is not just about reaching financial outcomes such as budgetary targets but also about making progress towards strategic goals, which are more likely to be qualitative, than financial measures.

Strategy mapping links metrics that describe the company's strategic direction, through performance measures to financial outcomes. This can give accountants an even broader understanding of the value drivers in the business, increasing their influence and their credibility as partners to their clients.

The ability to balance short-term performance and the development of long-term competitive advantage is important. The need to beat financial targets or trigger bonuses in the short run must not be allowed to distract attention from also developing, as Sir Brian Pitman put it, a 'legacy for the future'.

Sir Brian Pitman, former chief executive and chairman of Lloyds TSB

The ability to generate consistently superior total shareholder returns over time is the best single measurement of corporate management performance, claims Sir Brian Pitman, but it is also the most challenging objective that a company can set itself.

'It requires delivering outstanding levels of current performance while building a legacy for the future,' he says. 'Those few companies that achieve it are hailed for their ability, year after year, to generate wealth for their owners in excess of their competitors.'

One of the great advantages of shareholder value as a governing objective is that it demands continual improvement. According to Pitman, 'there is no time when you can sit back and admire your achievements. The measurement is obvious to all, both inside and outside of the company. There is no hiding place.'

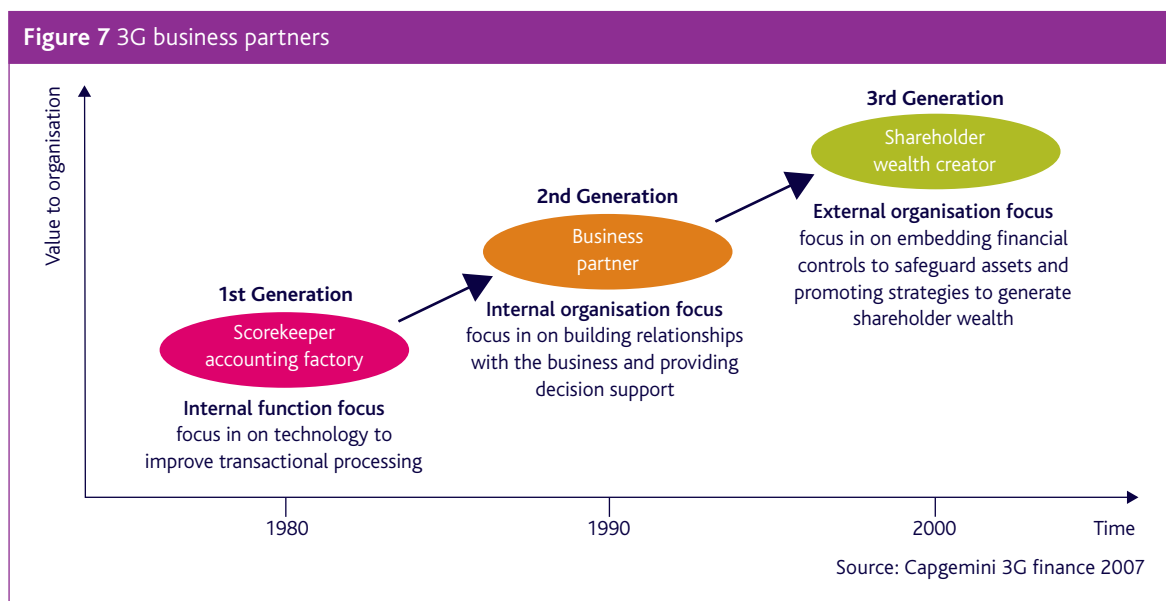
Source: Cathy Hayward, Secrets of the knight revealed, Financial Management, CIMA, November 2003

The focus on shareholder value maximisation had been questioned following corporate scandals where profits were overstated to meet analysts' expectations and inflate the share price. More recently, bankers' innovations to increase their bank's return on capital boosted the levels of profitability reported but eventually destroyed shareholder value.

These experiences do not invalidate the doctrine of shareholder value maximisation. They demonstrate the importance of ensuring that organisations balance financial outcomes with developing their competitive position in order to generate value for the longer term. Finance business partners who can combine a keen understanding of the business with financial management disciplines and professional objectivity have an important role to play in ensuring the doctrine is applied properly.

Jack Welch, the legendary former CEO of GE, was an early champion of the shareholder value doctrine. This was interpreted by some to mean selling off underperforming units and maximising the profits reported each quarter so as to increase the share price. There was much comment on blogs when he clarified his position in an interview with the Financial Times in March 09. Achieving profits in the short run has to be balanced with building the longer term value of the business.

4.3 A new type of finance business partner?



Capgemini have described '3G Finance' or third generation business partners as those who can retain their objectivity and challenge the business to improve performance in the interests of shareholders. The three generations vary by who they see as their client:

1. Finance business partners are sometimes seen as contacts on the finance team who liaise with colleagues in the business in order to complete accounting and finance business processes and meet the finance team's objectives.
2. A higher form of finance business partner sees the business unit as the client and aims to provide the manager with the support necessary. Information generated by the finance function is the starting point for the service offered. This should include sharing insights into performance metrics, showing the financial implications of decisions and helping the business to get approval of the unit's budget and investment proposals.
3. The highest form of finance business partner serves neither the internal finance function nor the business unit but retains professional independence to work in the interests of shareholders.

The experience of the credit crunch and impressions gained in a series of meetings with accountants in major banks suggest that developing this form of finance business partner is particularly difficult in investment banking. Investment banks recruit the 'elite' from the best universities for investment banking roles. Their finance functions usually recruit qualified accountants. Investment banks sometimes have a trainee programme for accountants but, unlike some other sectors, this will not usually be part of the main graduate trainee programme. It will seldom include any front line experience. This can make it difficult for finance to claim the business understanding necessary to provide a counterbalance to the bankers in a culture where finance is seen as a support role and front line bankers are the supposed elite.

Some clarity is required as to the role finance business partners will play in the organisation. Best practice seems to be to have a finance business partner handbook and a calendar.

4.4 Finance business partner handbook

This handbook is likely to be a resource made available over the organisation's intranet. It will describe the range of services to be provided, best practice and what support is available to finance business partners.

It sets out job descriptions for business partners at different levels, explaining their reporting relationships and with whom in the organisation they will partner.

It will specify the experience, qualifications, business understanding and technical expertise required to perform the role in addition to the behaviours expected. It may also provide accesses to training modules or other resources for continuing professional development (CPD).

As further CIMA research has found, **'The requirements for this type of management accountant role are not simply technical but behavioural in nature. They constitute the ability to relate well by developing empathy towards the managerial roles in their role sets. In this way they can build trust and the mutual respect that can encourage favourable attitudes to accounting and so foster the expectation changes for the accounting role needed to avoid conflict. At a more practical level, a range of non-technical skills are also needed. They encompass abilities in attention directing, communication, education, advice giving and the building of trust and respect. Capability in the analysis, interpretation and explanation of accounting information play an integral part in the realisation of these abilities. The job of this type of management accountant has become a socio-technical one. Many of these qualities relate to personality and may therefore be matters primarily for promotion and recruitment policies. However recruits are best to know in advance what is required by the profession and these qualities could be highlighted more in career intelligence and through the educational process. Information production methods alone are unlikely to regain the dominance they once had for the management accountant.'**¹¹

The Handbook will make clear that the finance business partners' objectives are aligned with those of their counterparts in the business. The finance business partner usually has particular responsibility for the delivery of the cost side of the budget. They are expected to provide 'cost leadership', identifying opportunities to improve the efficiency of business processes and to implement cost reduction programmes. They also provide assurance to the FD about achievement of budgets and forecasts and the management of the unit in the interests of shareholders.

¹¹ Role development: a contemporary challenge for management accounting, Bromwich, Carr, Hemming and Mitchell, CIMA 2009.

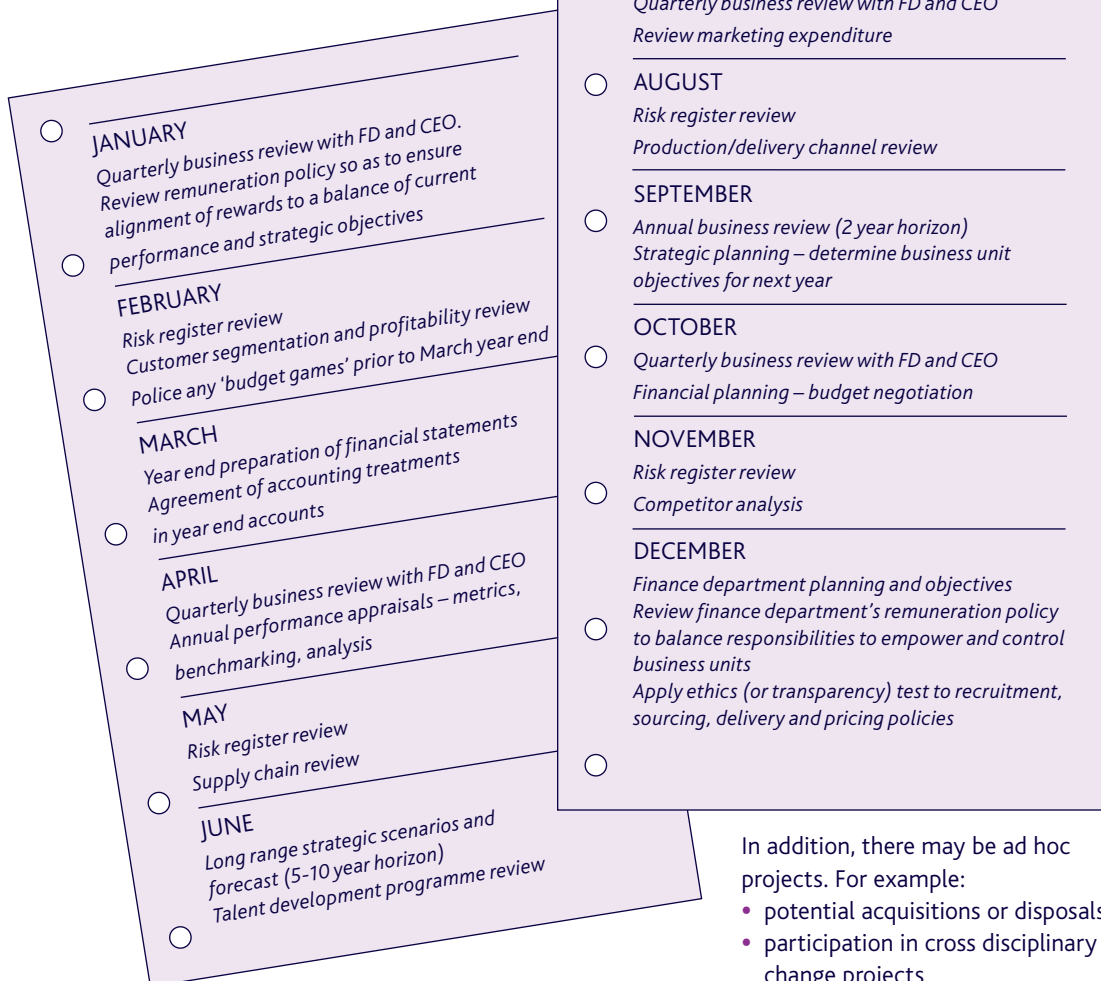
4.5 Finance business partner calendar

Throughout the year, performance against budget is reported and rolling forecasts are prepared but there is also seasonality to the interactions between finance and the business. Typically there will be an annual planning and budgeting round in Q3, a focus on achieving

year end results in Q4, appraisals and bonuses in Q1 and a longer term strategic review in Q2. There might be a risk register considered quarterly. Business cases for recruitment, investment proposals or marketing campaigns may be considered as the need arises.

Figure 8 Finance business partner calendar

A finance business partner's calendar might include the following in addition to performance management throughout the year:



In addition, there may be ad hoc projects. For example:

- potential acquisitions or disposals
- participation in cross disciplinary change projects
- review environmental impact and make proposals.

4.6 A matter of balance: support and challenge

Former CIMA president, Glynn Lowth, explains how there is a need for balance between the use of the intelligence found in technology, and the objectivity that financially qualified business partners can bring.

'Whilst it is perfectly possible, and in leading companies often the case, that modern integrated ERP systems can provide comprehensive forecast and budget data with little or no intervention, it is important to maintain a degree of professional 'decision scepticism'. Glynn says. He cites the example of a multi-national chemical company with a worldwide 'single instance' fully integrated ERP system, from which departmental budgets are automatically produced based upon the detailed and comprehensive information the system already contains on all elements of cost. 'Managers can just accept the budget or forecast proposed by the system,' Glynn says, 'or opt to make limited changes to reflect for example their recruitment plans for the coming year. On the face of it this is a scenario worthy of Orwell, where the computer almost has the ability to take the decisions. However, now that now management accountants can rely on integrated systems to provide accurate and sophisticated data, the management accountant can apply his energies and expertise to the task of ensuring that business managers understand the resultant plans.'

'The management accountant's objectivity in his role as a business partner can be applied to ensure consistency and value in plans and to ensure the organisation understands how results can be achieved' Glynn continues. 'He is also well placed to spot opportunities and question potential downsides. This objective scepticism – probing to ensure that plans are achievable, and that risks are understood – can add real value and bring a welcome level of assurance to the use of the data by putting it in the context of the business in the real world.'

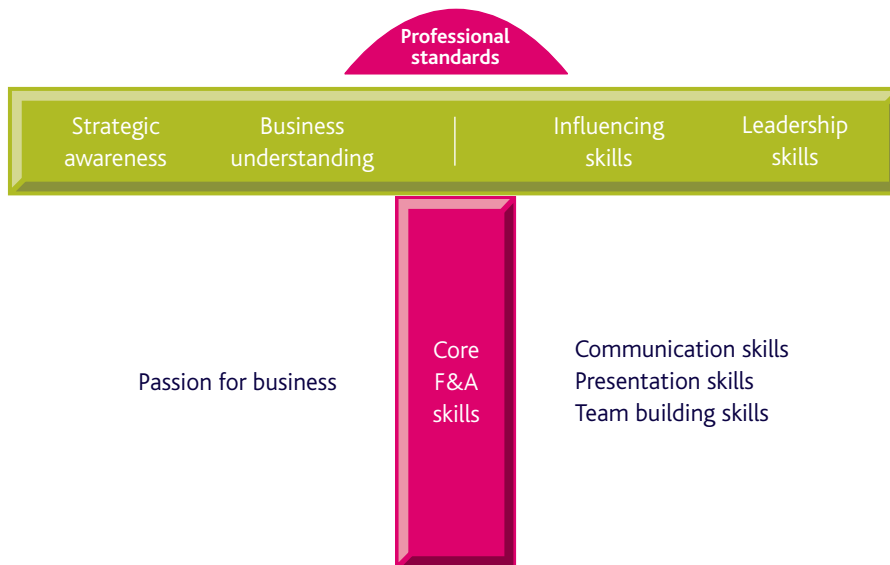
'The management accountant can therefore bring his sophisticated expertise to add real value to the use of complex and increasingly 'intelligent' systems.'



5. The skills required by finance business partners

5.1 The T-shaped accountant

Figure 9 The T-shaped accountant



Accountants' understanding of numbers, business processes and, especially, how to manage decisions through to impact is valued.

Source: CIMA, August 2008

Debits and credits have been balanced on T-shaped accountants since medieval times. Today, the CIMA Forum describes the ideal form of the finance business partner as being a T-shaped accountant. By this they mean an accountant who has a core skill set of finance and accounting skills. Above this they should have a combination of skills which on the one side are about business understanding and strategic awareness and on the other, how to influence people and even provide leadership. This requires a passion for the business as well as the soft skill set. The T should be capped with professional standards to provide integrity.

The T-shaped model presumes that an accountancy background is required to become a finance business partner. Roger Tomlinson of Rolls-Royce questions if, being accountants ourselves, we are inclined to overestimate the importance of the finance and accounting core skill set. Is it our vanity that makes us think this is so important? He points out that finance business partners must combine financial skills and business skills but this combination is commutative. That is to say that the combination can also be achieved by training a business person and giving them a sufficient grounding in finance.

The skills required by accountants with the ambition to become finance business partners are often described as soft skills but these are hard to develop. They include presentation skills, business acumen and influencing skills. The implicit assumption is that an accountant will, by qualification, have the technical and analytical skills to be a good number cruncher but may not be very out-going or commercial.

Graeme Rayner, Unilever’s Finance Excellence Director says, **‘Unilever see a combination of technical accounting/decision support skills, interpersonal business partnering skills and business experience as the three pillars required to be a strong business partner. The innovative business partnering programme run by the Unilever Finance academy focuses on raising capability in business partnering across Unilever. In the technical skills area, the focus is on finding the world class decision support tools relevant to business partners, over and above a core finance and accounting toolkit, e.g. best practice tools/analysis in pricing decisions, or marketing investment decisions etc. In this programme, there is also a large focus on developing and training the key interpersonal skills.’**

5.2 The finance business partner’s toolkit (see appendix A)



Kaplan and Norton published a seminal book entitled *Relevance Lost* in 1987. They argued that the financial accounting and cost analyses developed for manufacturing industry were no longer relevant for the new service economy where intangibles such as brands were more significant to value creation than the historic costs shown on balance sheets. CIMA had already changed its syllabus to emphasise management. Since then, there have been many technical innovations in management accounting and related disciplines and developments in the enabling technology.

The developments in management accounting include activity based costing (ABC), the balanced scorecard, benchmarking, life cycle costing, target costing, managing for value and strategic cost management.

Management accountants now have a toolkit that has enabling technologies on one side and tools borrowed from related disciplines on the other. In the main compartment are the standard planning, budgeting, reporting, analysis and forecasting tools.

The enabling technology includes spreadsheets, accounting software, performance management suites and business intelligence.

Management accountants sometimes borrow from developments in other disciplines including competitive positioning, brand values, business process re-engineering, total quality management, Six Sigma, Kaizen, change management and project management, operational research (e.g. linear programming), statistics (regression analysis and even game theory) and finance (real options).

Strategic management accounting (SMA) techniques include activity based costing (ABC) geared to strategy, costing of the product attributes offered to consumers, target costing, value accounting, competitive positioning, pricing relative to competitors, life cycle costing, quality costing, strategic costing relative to the costs of rivals, value chain costing and benchmarking (Guilding et al, 2000).¹²

Although management accountants have these tools in their toolkit, there is little evidence that they are used regularly. They seem to be kept in the bottom drawer of the toolkit, only to be used in situations where complex analysis is required.¹³

Often, management accounts are very similar to financial accounts but with additional columns for the budget and forecast. One FD explained that this is because the directors are familiar with this format. It is difficult to explain complicated financial analysis models to non finance people. However, management accounts often have additional lines of detail that allow key performance indicators to be tracked. The term 'balanced scorecard' is widely used. Although strategic mapping, linking objectives through performance metrics to financial outcomes, is not always robust, management accountants seek to balance financial outcomes with longer term objectives.

Paul Kenyon of AstraZeneca notes that finance business partners typically have access to much more information than other people on the management team. By using that information to provide business insights and identify opportunities for performance improvement, they can establish themselves as valuable members of the team.

Graham Colbert, vice president of Finance for ISMO, AstraZeneca's International Sales and Marketing organisation, says **'in my experience, operational management are not so interested in things like net present values, risk adjustments or expected values because they find it difficult to know what to do with them. A conventional profit and loss account and cash flow statement, concentrating on the areas where line management have choices and understanding how this will change over time is much more useful as are concepts like time to break even and payback. From this, it is very easy for good finance business partners to produce the necessary analysis required at the corporate level.'**

Brian Smith, strategic business manager at Everest would tend to agree: **'The tools I see most often used are the standard financial statements (profit and loss, balance sheet, etc.) plus some competitor and positional analysis. I believe the financial language is a barrier, plus that a lot of finance business partnerships are not deep enough i.e. they only address surface issues.'**

Mike Kelly, formerly of Credit Suisse provides an alternative view. He says **'the financial information pack is for accountants own use. A finance business partner might reduce it to one page of insightful commentary or graphics as preferred by his client in the business. Finance business partners help the business by delivering the information they need, and help them to understand issues arising and potential responses.'**

¹² Retrospect and Prospect, Michael Bromwich and Alnoor Bhimani 2009

¹³ Retrospect and Prospect, Michael Bromwich and Alnoor Bhimani 2009

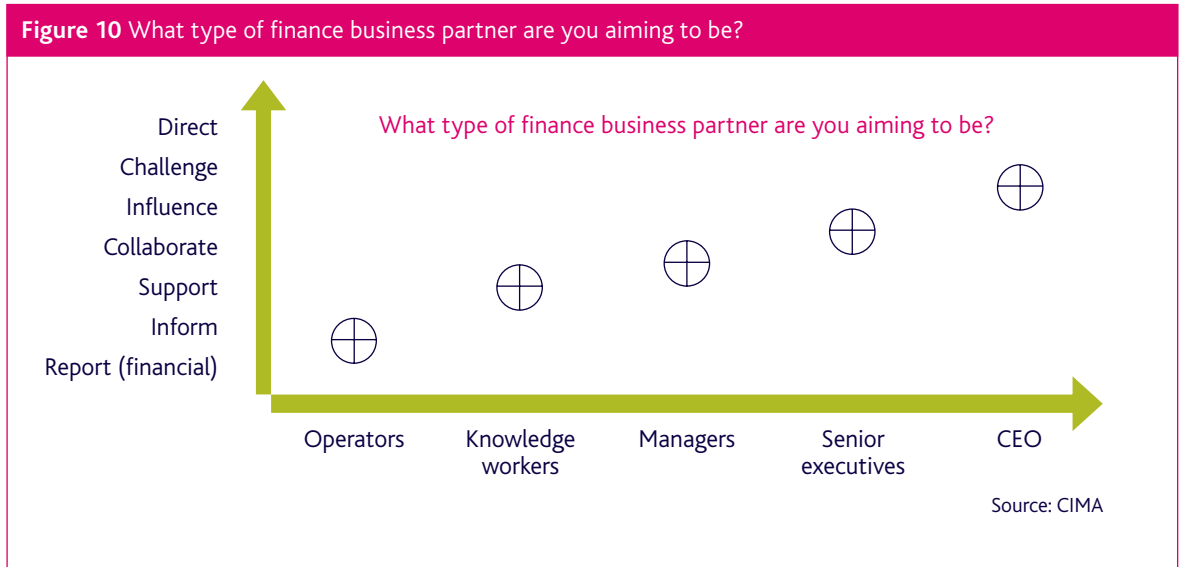
5.3 Relationship building

Some members of the forum have found that accountants' enthusiasm for providing business partnering is not always matched by their colleagues' willingness to have them do much more than they already do. If there's this lack of demand from the business, accountants often call for the CEO's leadership of the finance transformation programme and endorsement of their suitability for this new role. But this form of positive discrimination can cause resentment. Building the necessary relationships over time may be a better answer and allow progression through to higher levels of finance business partnering.

Graham Colbert, Vice President of Finance for ISMO, AstraZeneca's International Sales and Marketing organisation says, **'The best business partners I have seen are able to simplify complex situations so that line management are able to grasp it, engage with it and understand the consequences of different courses of action.'**

Quite often the finance guy is not going to be the one who actually makes the decision. But they must be able to make well thought through recommendations. This means thinking about situations from multiple directions, being somewhat independent and very clear about assumptions and limitations. The ability to synthesise and communicate in a simple way is really a distinguisher of performance. Excellent people are able to ensure that discussions focus on the right things from the start.'

Figure 10 What type of finance business partner are you aiming to be?



5.4 Finance business partners' clients and the level of relationship vary

The CIMA Forum suggests that there are different levels of business partnering, as appropriate to the finance business partner's relationship with the client in the business (figure 10).

The CEO may want the FD to deploy finance business partners to provide a challenging service to other senior executives and business managers. But senior executives may resent an obligation to engage these finance people in their decision making. These clients may only welcome a more modest form of finance business partner, one who provides reliable information on a timely basis and helps them to win approval for investment proposals and budgets and to 'manage the expectations' of the CEO.

Relationships must also be built with colleagues on the accounting and finance team. When CIMA development specialist John Hemming was a finance business partner to both operations and HR directors at Royal Sun Alliance, they developed a balanced scorecard derived from strategic objectives and reported performance metrics. John was supported by two analysts; it was not his role to crunch numbers. However, he points out that finance business partners need to ensure they have a good relationship with their colleagues in the shared service centre. The quality of the service he could offer depended on the quality of the information they supplied.

Early indications from the pilot phase of academic research commissioned by CIMA suggests that there can be a shortfall between the level of partnering that the finance function believe they provide and the level appreciated by the business. Perhaps a good finance business partner challenges so subtly that the business manager takes new ideas on board as his own. Or, probably more likely, finance people are still seen as accountants and reinventing themselves as business partners takes time.

Intel finance views partnership as a continuum that spans from irrelevant to full partner, and, in any given partnership, the finance professional may be at any point on the degree of involvement scale. Finance personnel move up the scale as they find ways to work effectively with their partners. The five levels of the continuum can be described as:

1. Irrelevant: operations perceives no value from interactions with finance and works with finance only when required.
2. Listened to: operations comes to finance for data and analysis, but finance is not invited into the decision making process.
3. Included: operations proactively invites finance into the decision making process and asks for and values finance's input.
4. Empowered: finance uses its knowledge of the business and ability to leverage the finance network to actively drive changes that result in enhanced business value.
5. Full partner: finance and operations work as an almost indistinguishable unit to shape the direction of the business.

Source: How Intel finance uses business partnerships to supercharge results, Boedeker and Hughes, Strategic Finance, October 2005 (IFAC article of merit)

5.5 The right stuff?

Some people who choose to become accountants may not necessarily be the right kind of people to become finance business partners. A contributor from the finance sector even told the CIMA Forum that his company would not recruit anyone to a finance business partner role if their CV showed they had spent two or more years in an accounting role. But a combination of accounting and business skills is usually necessary.

'Within Deutsche Post DHL, the finance community sees itself as the 'Navigators' of the business. In fact, there is an extensive set of training and coaching available within our inhouse 'Advanced Navigator' program. There is a very clear split between financial accounting and controlling.

Controllers are often drawn directly from the business, and this provides them with a thorough understanding of it, but it means that some have little formal financial training. Programs like Advanced Navigator help overcome this and are particularly useful as they raise awareness of developments in costing or budgeting/forecasting processes; areas to which they may otherwise not have been exposed.'

Pete Bandtock, Director Finance BPO, DHL

'Rolls Royce has had a successful SAP implementation and has established a shared service centre. Investment in business intelligence further reduces the need for the management accountants engaged as finance/business partners to re-work numbers. They have the capacity to provide decision support but they also need a passion for the business.

Project management is a key discipline at Rolls Royce. The development of a new jet engine is a medium term contract. Costs being below budget might look like good news but it could mean that the project is falling behind schedule.

For Rolls Royce finance also plays a critical role in developing and implementing service strategies. More than 50% of Rolls Royce's revenues now come from engine services rather than engine sales. Airlines prefer to hire 'power by the hour' rather than buy jet engines. So, Rolls Royce bundle engines, funding, parts and servicing as long term service contracts. Commercial decisions such as pricing a contract often have to be made quickly, based on a wide range of information about production costs, usage, servicing, parts replacement, over the term of the contract.

Finance business partners have important roles to play in managing performance but it is often necessary to combine an engineer's understanding of the business with financial disciplines. It can be easier for engineers to combine these skill sets than for traditional accountants to acquire the necessary business understanding.'

Roger Tomlinson, Rolls Royce

'In some ways, I think that the business partnering role will become as specialised as a tax or treasury role: if you want to be a great sales and marketing finance business partner then you need to understand how contract negotiation with a customer works, how to measure return on marketing investment, and so on. Alternatively, if you want to be a great research and development finance business partner it clearly helps if you have some

grasp of the science behind the compounds in development. That knowledge base allows you to 'speak the language' of your customers which, coupled with broader influencing and partnering skills, is an important step in becoming accepted as a valuable member of the team as opposed to being regarded as someone who is just there to add up the numbers.'

Paul Kenyon AstraZeneca

Figure 11 Finance competencies and business capabilities

Finance competencies	Business capabilities
Reports past performance	Provides insights into the future
Inquisitive and analytical	Creative and articulate
Risk averse (mitigates)	Handles ambiguity and uncertainty
Practical with attention to detail	Sees the big picture
Pragmatic	Flexible
Supportive	Challenging
Likes to consider all options	Keen to take action
Inclined to control	Able to influence
Responds reactively	Takes initiative proactively
Technical accounting expertise	Commercial acumen
Identifies issues	Tackles problems

Scorekeepers on the sideline



Players on the team

Source: CIMA

Experience in typical in-house accounting roles develops finance competencies. But senior finance roles usually require business capabilities. These qualities do not necessarily require an accounting background. In the current climate there is a swing back to basics and finance business partners must combine finance competencies with the business capabilities required to strike a balance as appropriate to their client and the level of the partnering service to be delivered (see figure 11).

Research by recruitment agency Badenoch&Clark has found that although accountants recognise how the role of finance is changing, when it comes to their professional development, many accountants focus on developing their technical accounting and IT skills. This clarity about the skills required to fill finance business partnering roles can help management accountants to identify their development needs and take the initiative to future proof their own careers.

5.6 A matter of balance: accounting skills and business skills

It is important to maintain a balance of skills within the accounting and finance team. With so much emphasis on the challenge to become a finance business partner, and the apparent excitement of these roles, it is becoming difficult to find accountants who understand the mechanics of accounting processes or with the expertise in statutory reporting, for example.

Finance business partners have to balance accounting competencies with business capabilities. They have to be able to balance short-term objectives, such as the achievement of the financial outcomes expected in the current period's budget, with achieving progress towards the business' longer term strategic objectives so as to develop its competitive position and ensure its enduring success.

What skills do business partners need?

Technical knowledge (accruals, budgets, typical accounting) is a threshold competence in partnering but the real skills that a BP needs are soft skills, the ability to build and establish strong relationships is key. Building trust through having an interest to know the business that you support is critical.

How can these be developed?

These could be developed by working closer or potentially sitting in the same buildings, floors, offices where the business you support operates. Regular contact with the business is the foundation on which good relationships can be built.

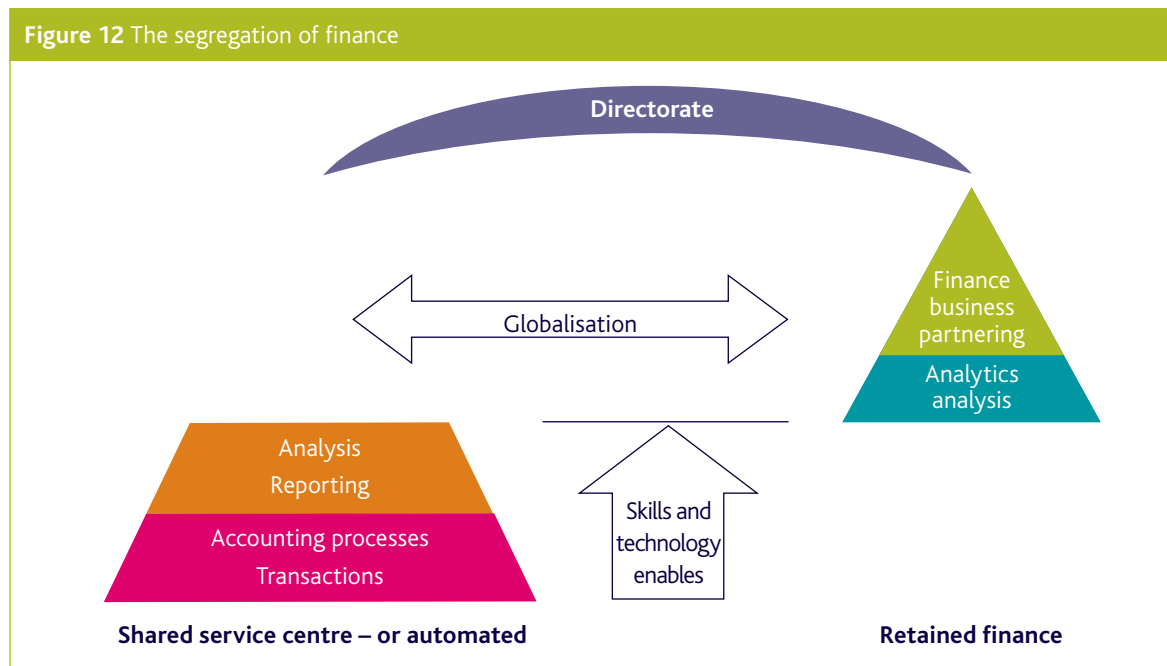
Leonard Fom, Group IT, Finance and Business Services, Finance and Transformation Analyst
Lloyds Banking Group



6. Developing finance business partners

There may be a widening gap between the practical accounting that many accountants are required to do and learn as trainees and the more commercial and qualitative business skills that can be required of them in business partnering or more senior roles later in their careers.

6.1 The segregation of finance



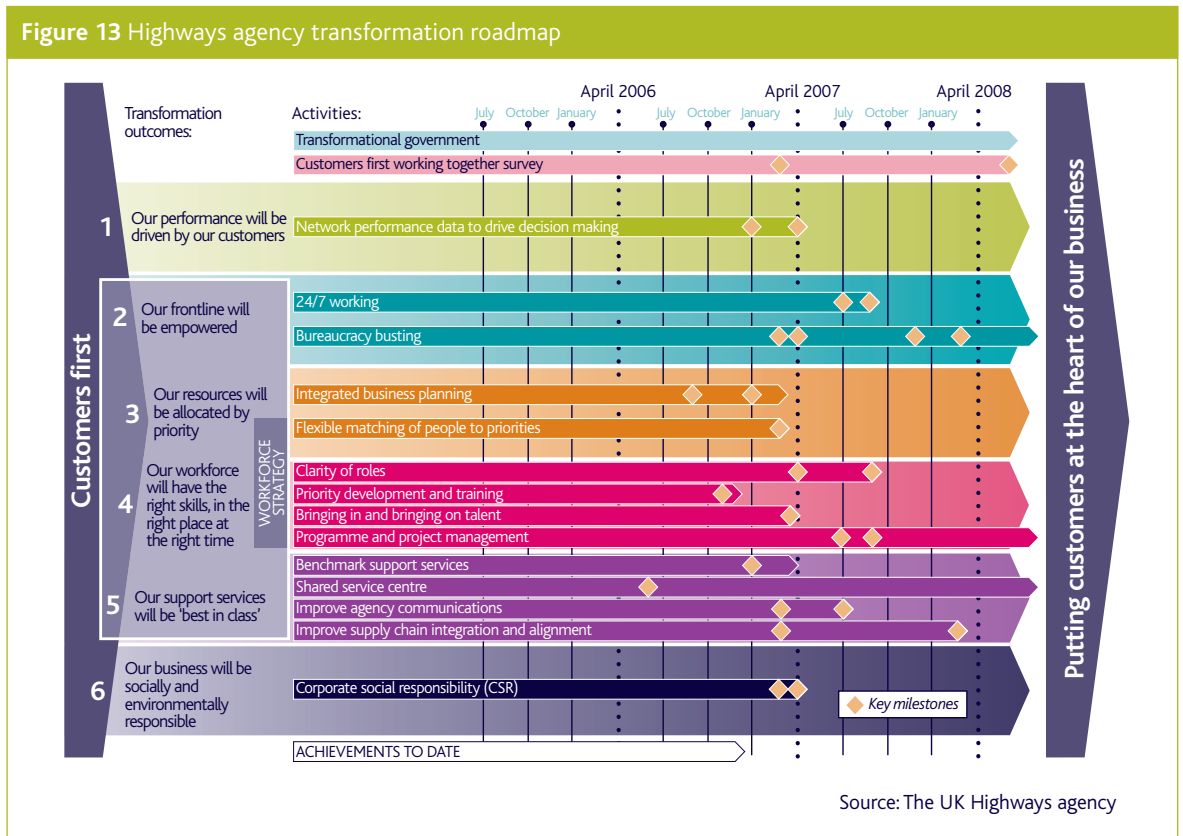
The segregation of finance, whereby accounting operations are located in shared service centres, separate from the analytical and finance business partnering roles, poses a problem for the future. It may become difficult for trainee management accountants to progress from back office roles via analysis roles to business partnering. However, the experience in those junior roles may become less significant for finance business partnering.

Just as there are a variety of different types of business partners there are also a variety of ways in which they can be developed.

These include:

- recruiting and managing up
- continuing professional development
- developing internal consultants
- career development programmes
- finance academies.

Figure 13 Highways agency transformation roadmap



However, the CIMA Forum suggests that finance business partners must be developed as part of a wider finance transformation programme.

Figure 13 shows a road map for a finance transformation journey from the UK’s Highways Agency. It shows clearly how developing finance business partners at the Highways Agency was part of a wider finance transformation programme. Also, there is a logical sequence of clarifying roles, development and training, and talent management.

6.2 Recruiting and managing up (or out)

Mike Kelly ACMA formerly of Credit Suisse told the CIMA Forum how in investment banking most finance recruits will have been invited at interview to demonstrate business partnering skills as well as

accounting skills. **Investment banks have structured graduate programmes for trainee bankers but accountants tend to be recruited in as qualified staff**, he says **‘Some will have previous banking experience but others will come from professional practice, or other industries. The term ‘business partner’ is used loosely and there is unlikely to be a detailed template about how the recruit is expected to partner with the client. At a performance appraisal an issue might arise through feedback. If they are not making the necessary impact in their partnering responsibilities, a development need would be identified and some soft training put in place. People are managed up, or into roles where their particular skill sets can add more value, through the appraisal process.’**

6.3 Continuing professional development

Figure 14 Finance job families

Resource control and reporting	Customer interface/ business partner	Decision support	Business support
Financial reporting and control Team leader	Senior finance business partner	Costing and work study team manager	Business planning and communications team leader
DEL/AME reporting accountant	District finance business partner	Financial modelling team HEO accountant	People and capabilities team leader
Resource support team Resource lead	Costing team senior analyst	Unit costing financial analyst	Central services support executive
Financial reporting and control analyst	Assistant business partner – benefit processing finance	Decision support executive	Business partner support
Producing consistent right first time information on time every time which builds confidence in the integrity of the finance function and the resource information base.	Making it easy for us to do business by enhancing our reputation, maintaining our integrity and sharing their business knowledge and specialist expertise for the benefit of DWP.	Giving us the edge in government finance with their business knowledge, commercial understanding and innovative approach.	Ensuring the smooth running of finance teams and supporting them in planning, people and capability and communications work.

Source: DWP

At the DWP, the UK’s Department for Work and Pensions, Derek McMahon, Deputy Director, Planning and Performance Management and his team have invested considerable effort in developing job families with clear job descriptions and competency expectations for each level.

The DWP have also developed ‘Aristotle’, a CPD assessment tool which finance people work through alongside their line managers. Although Aristotle is online software, it was not expensive to develop as it is Microsoft (MS) based.

An important aspect of the tool is that each individual sits down with his or her line manager to consider their level of confidence with a number of scenarios

that are relevant to their role and level. This helps to identify development needs. Further questions help to determine development priorities.

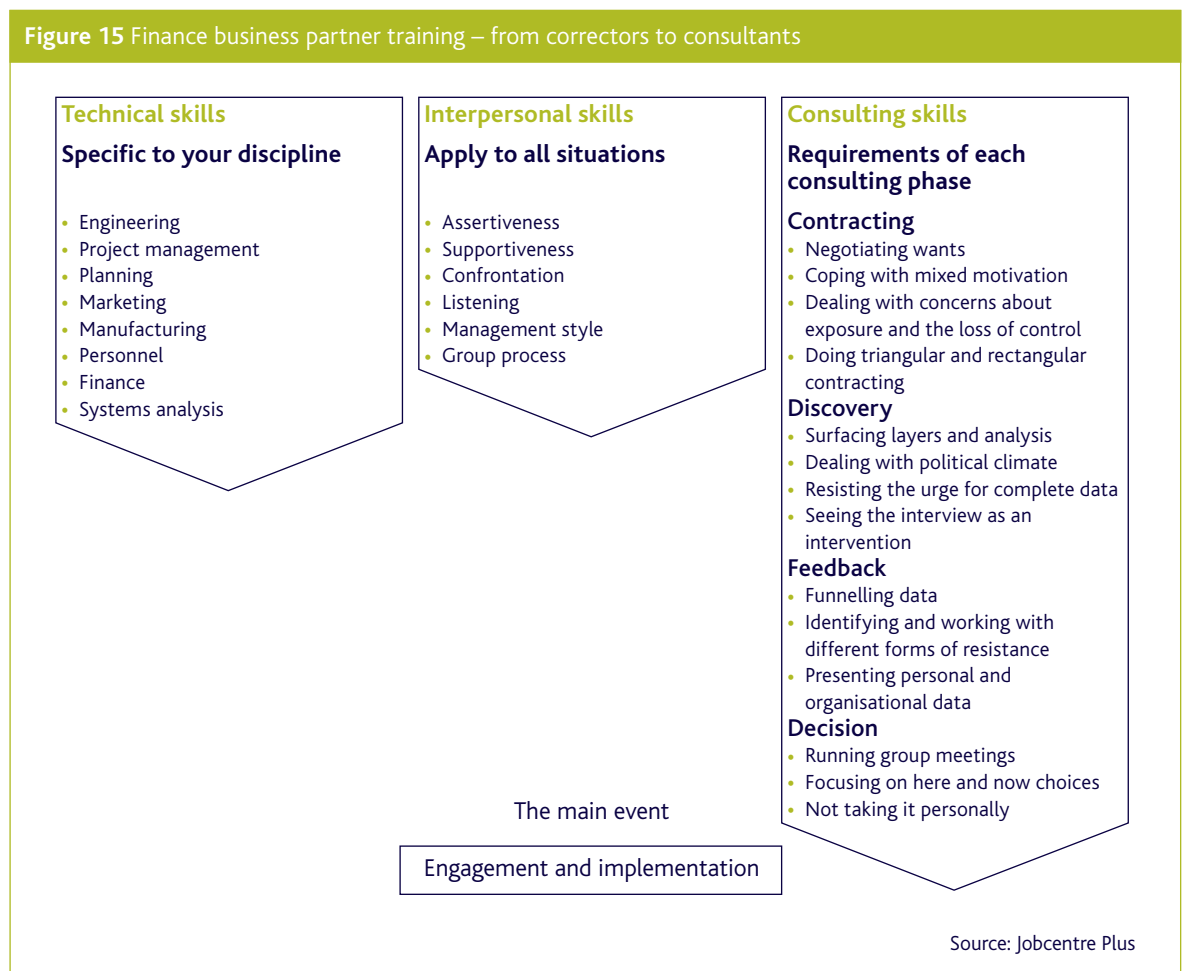
Aristotle can then relate development priorities to the wide range of CPD resources offered by the DWP – many of which are not expensive. Derek says ‘We tend to think of CPD as an annual plan but it tends to look more like a rolling plan with a three year horizon.’

At Jobcentre Plus they see the finance business partners as a form of internal consultant. Peter Schild had previously implemented a similar programme at British Telecom based on the writings of Peter Block.¹⁴

6.4 Developing internal consultants

Figure 15 lists the core interpersonal skills required and the further consulting skills required at each stage of the consulting process: entry and contracting, discovery and dialogue, feedback and decision to act, implementation and follow through.

This clarity about the role and the skills to be developed is the basis for a comprehensive programme to train this form of internal consultant.



¹⁴ See www.peterblock.com

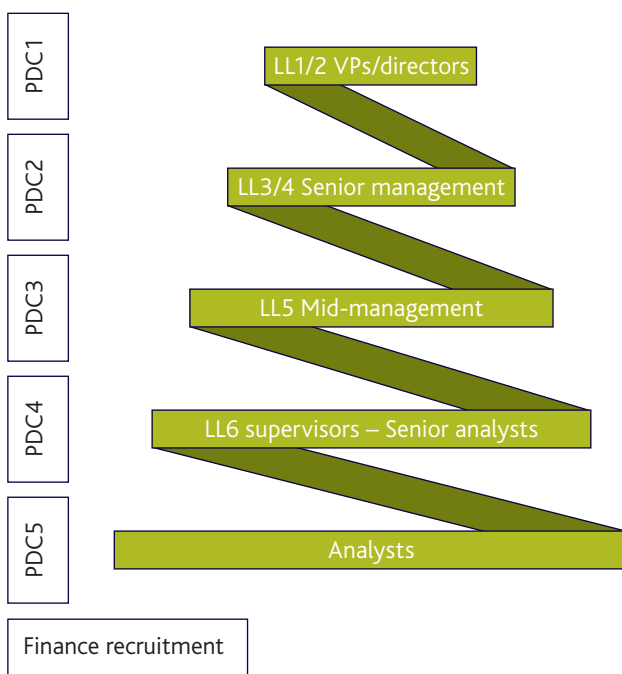
6.5 Career development programme

Ford develop people by ensuring they are given a range of experience that allows them to develop a broad set of skills. This approach becomes more difficult when the traditional accounts department is offshore and management hierarchies are flatter, however the multi functional nature of automotive manufacturing is a key enabler. Perhaps this, combined with the apprenticeship tradition in manufacturing, enables Ford to focus on developing leaders from within the company.

Likewise, at Microsoft they try to create stepping stones to develop people, giving different experiences. A highly talented person might spend 18 months in each role whereas others might spend three to four years to give more depth of experience.

For other members of the CIMA Forum, this career development model seems old-fashioned. People in their 20s and 30s and two career couples are less flexible about moving around on promotion. Companies have flatter structures which make it harder to offer promotion with each move. And the shared service model means that fewer trainee accountants are developed in proximity to the business operations. One solution is to give finance people opportunities to work on multidisciplinary project teams to increase their experience across the business.

Figure 16 Ford's development spiral



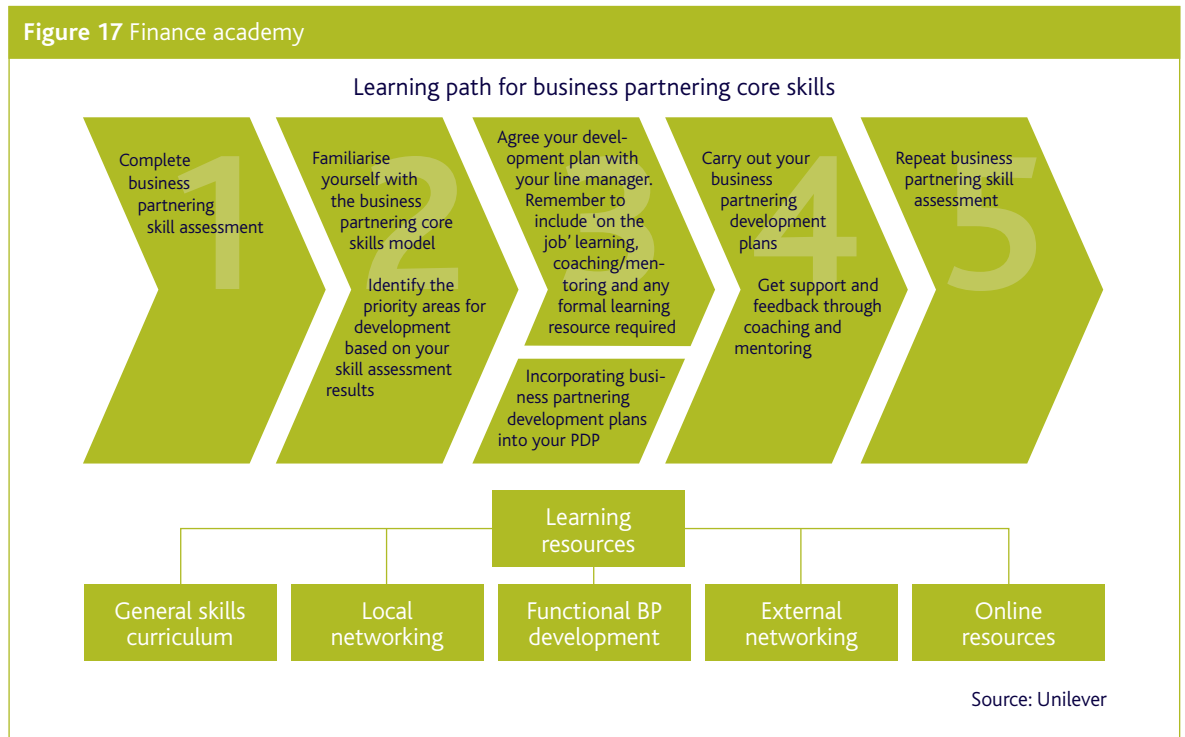
The model for Ford Finance professional development is long standing and can be likened to an upward spiral, from analyst potentially through a series of leadership levels (LL).

Oversight of development at each level and recommendation for promotion to the next level is via a series of personnel development committees (PDCs) with participation from the next level management and HR.

Opportunities also exist for assignments in other countries and regions, as well as cross functional assignments, to meet the development needs of both the individual and the company.

Source: Ford Motor Company

6.6 Finance academies



Unilever have a deeply engrained commitment to people development. Their finance academy provides comprehensive support tools and training to support career development enabling people to become innovative business partners.

Graeme Rayner, Unilever's Finance Excellence Director explained to the CIMA Forum how Unilever launched a finance of the future programme back in 2003 with 'innovative business partnering' one of the key pillars. **'The finance leadership believed that investing resources to develop a world class finance business partnering capability would significantly pay back, through better business decisions leading to ultimately better business results,'** Graeme says.

'The finance academy was charged with finding or developing world class decision support tools relevant to finance business partners, and embedding these rapidly in the business, via training or direct consulting. This has now evolved to where a large number of decision support tools and analysis approaches covering such areas as

pricing decisions, marketing investment decisions etc. are largely embedded in the 100+ countries where Unilever operates. There is also a large focus on developing and training the key interpersonal skills in the programme.'

6.7 Just do it

Much finance business partnering can be learned on the job.

Certainly, using business partners as a new job title does not make the finance person an instant partner in the eyes of the client. Partnership relationships have to be developed.

Clarity about this new role for finance from the chief executive can help but it can also be a hindrance because it is a form of positive discrimination. The reputation of the highly regarded finance director can lend credibility to members of his team. A receptive business director can also help. But otherwise and more often, finance business partners have to build these relationships and grow into the role.

6.8 Career paths outside finance

Colleagues in the sales discipline could teach accountants a lot about targeting clients, networking and building relationships. Regular contact and meeting the clients' information needs is a good start. Relocating to work alongside the client's team provides an opportunity to absorb more about the business and develop personal contacts. Acting as a go between to resolve any problems with the accounting and finance function, or satisfying information needs, builds credibility and wins acceptance.

But it is the performance management cycle that usually provides the best opportunity to re-position the finance person as trusted adviser over time.

PA consulting suggest this maturity model for finance business partnering. They say the value of the support provided increases as finance business partners provide higher value information, can be trusted to deliver and their judgement is more valued.

This model also illustrates a progression that can be achieved through different levels of finance business partnering to become a true strategic partner.

Finance develops talent. The finance department has to accept that it should be a net exporter of management talent to the rest of the business. The number of finance people who take on roles outside finance can be a measure of the success of the finance function. Accountants who have trained in business, earning and learning on the job, can develop a broad understanding of the business, widening their career prospects.

The CIMA qualification is reviewed every four years to ensure that it continues to meet employers' requirements. It is an attractive qualification for people whose ambition is broader than becoming an accountant as employers increasingly require accountants to be able to not only produce accounts but also contribute to management.

Figure 18 Business partner maturity model



'In terms of why people would choose finance, aside from getting a qualification – which is always good – I think that you get a much broader view of the business in finance than in a lot of the other support functions: almost all of the decisions made in a business impact on the financial results and the role of finance is to interrogate those decisions, so you end up getting an unparalleled view of the business.'

Without wishing to stereotype, finance people tend to be logical, bright (in order to pass the exams) and ambitious and that, coupled with the broad view of the business noted above, leads a lot of finance people to make the step across to non-finance roles. That in turn means that the finance function has to over-develop its talent pipeline to cater for a certain amount of 'leakage' along the way.'

Paul Kenyon AstraZeneca

6.9 A matter of balance: qualifications and experience

Developing finance business partners requires development of a balance of accounting and finance, communication and business skills. Development programmes start with clarity about the roles within each organisation. This allows a gap analysis and a programme to be put in place. That programme will be a balance of education, experience, coaching and personal professional development.

Or, as another FD put it, 'we have a 70/20/10 mantra, because you learn 70% by doing the job itself, 20% from working for a great manager and 10% doing the course.'

'We have invested a lot in our finance academy: we have developed capability specifications for roles all the way up to the finance senior management team coupled with a web-enabled capability assessment tool that allows people to assess themselves against the required capabilities for their current level, as well as jobs they may be targeting for a future move. The result of that assessment then forms the basis of the next development conversation between manager and team member. To assist people in their career planning, we have also included example career paths to the senior roles, to help people understand what experience they need to gather in order to successfully compete for a given role.'

Paul Kenyon AstraZeneca



7. Managing the finance business partner's performance

There is little evidence of the finance function being required to make a business case for the finance business partner role. The finance business partners' costs are usually covered by the finance function. Sometimes they are charged out to the business line being supported. Doing so raises challenging questions about their effectiveness or perceived value. So it's important to consider how they can be managed and what value they contribute.

The performance of finance business partners can be assessed by the level of the support provided by the accounts and finance function as a whole and at an individual level.

Tracking how they spend their time gives some indication of what finance business partners might contribute. Qualitative measures including feedback from their clients are good metrics but the ideal seems to be to be able to conduct a cost-benefit analysis.

7.1 How do they spend their time?

The term 'retained finance' is sometimes used to describe those members of the finance community remaining with the business after shared service centres and outsourcing. Although these may have been the right people with the attention to detail required to implement a change successfully, they might not be finance business partner material. Sometimes they are termed finance business partners without having had to make any business case for their redeployment in this new role. There is a danger that they will soon be fully occupied conducting analysis and preparing reports rather than performing the finance business partner role as was intended.

One member of the forum told how newly appointed finance business partners became so busy re-crunching numbers, an activity in their comfort zone, that they were given assistants to model spreadsheets for them to remove that diversionary activity.

So, how finance business partners spend their time can be an important indication of their effectiveness.



Accenture identify five key finance capabilities:

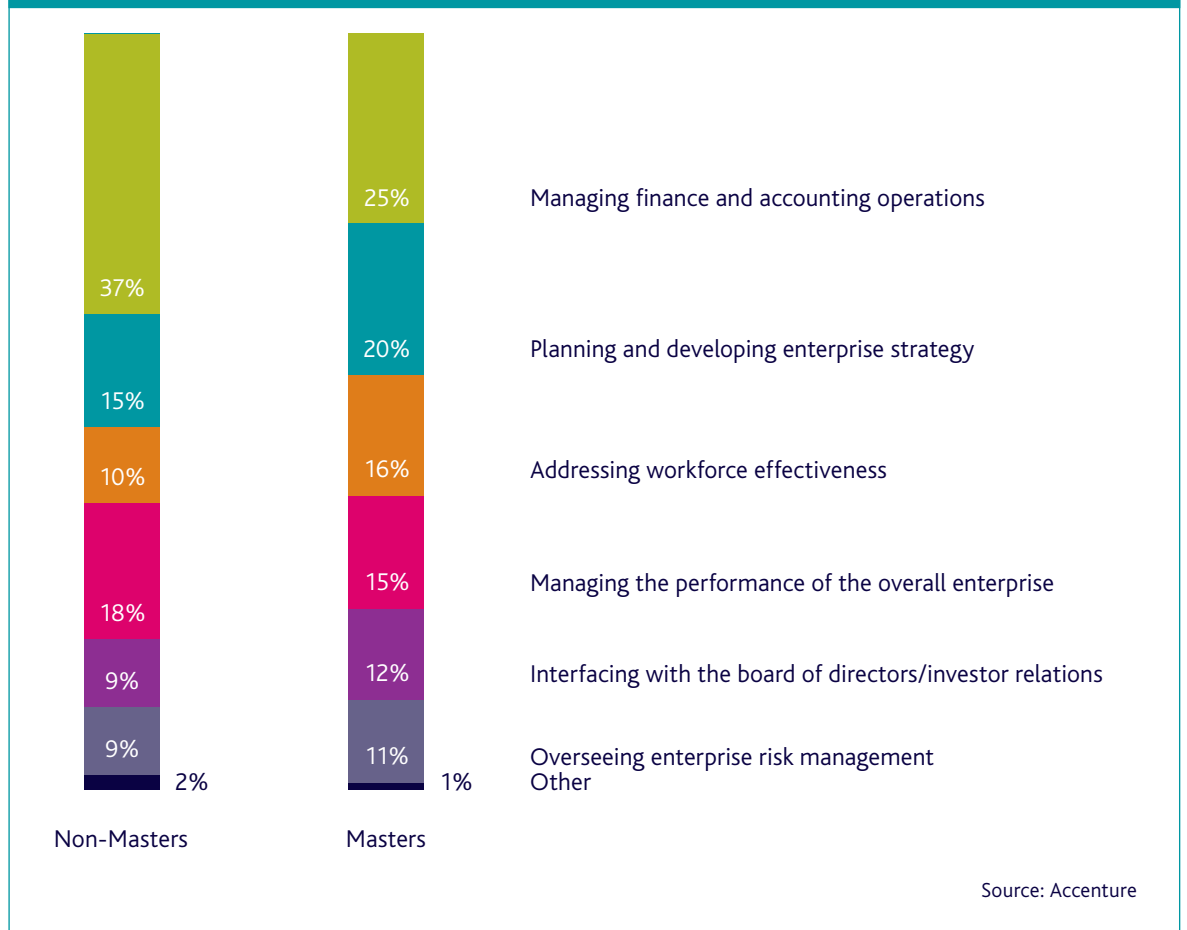
1. finance organisation management
2. enterprise performance management
3. finance and accounting operations
4. enterprise risk management
5. corporate finance.

In this context, by enterprise performance management, Accenture do not mean that the organisation uses advanced BI tools for reporting and analysis performance but that they also have a performance management discipline embedded in the business. The people who deliver this might be termed finance business partners.

Most respondents to the Accenture high performance finance study 2008 admitted to shortcomings in these capabilities. However, some companies had advanced capabilities on average across these five areas. Accenture termed these 'finance masters'.

A comparison of how these finance masters allocate their time compared to non-masters is revealing: the finance masters spend considerably less time on managing finance and accounting operations, giving them more time to spend on higher value activities, particularly planning and developing enterprise strategy and addressing the cost-effectiveness and communicating with the board and investors.

Figure 19 How finance masters spend their time



7.2 Qualitative measures

Another approach is to rate performance on a qualitative scale from one to five. This is an example of a scale. These metrics are subjective but they can include feedback from clients in the business, for example through 360 degree feedback surveys used in the performance process.

If there is clarity about the role of a finance business partner in the organisation, then it should be possible to describe the behaviours expected. It is then possible to check if these behaviours are being demonstrated.

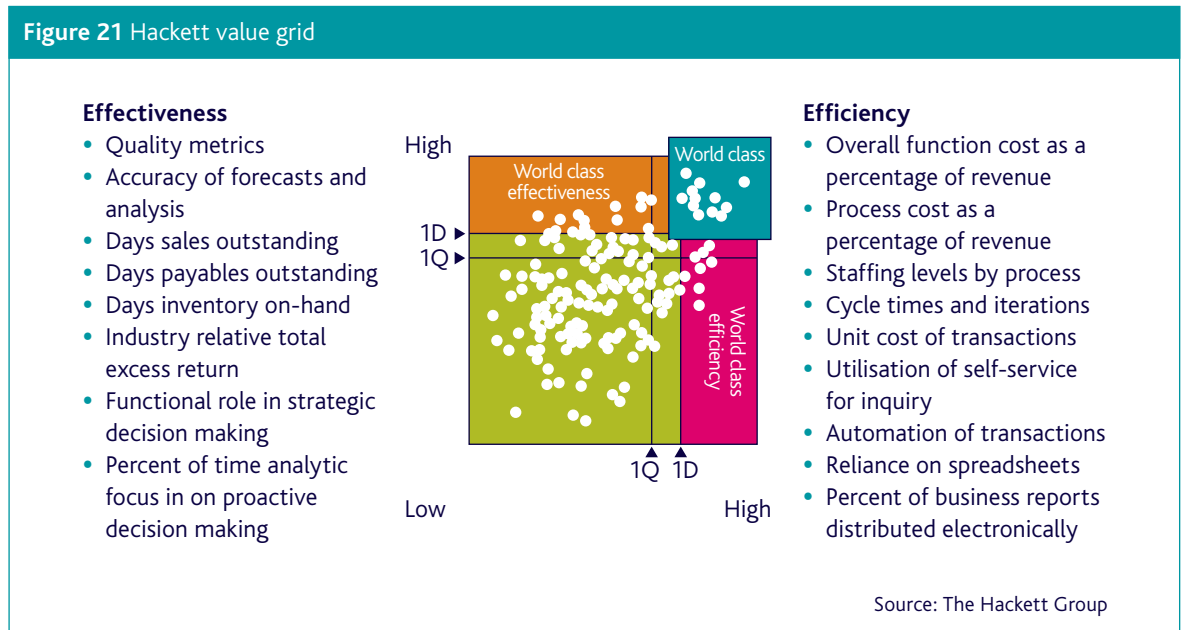
Figure 20 Qualitative measures

Finance organisation management		1	2	3	4	5
Finance organisation strategy and structure	Reactive, informative	←————→				Proactive, aligned with strategy
Workforce management	Basic, general skills	←————→				Deep and specialised skills
Value-centered culture orientation	Finance governance role	←————→				Intimate business advisor
Enterprise performance management						
Strategy development	Less focus on value drivers	←————→				Deep understanding of value drivers
Target setting	No link to strategy, no distinction between high return and low return assets	←————→				Linked to strategy, full portfolio analysed for high returns
Budgeting and forecasting	Stand alone; time intensive	←————→				Integrated; accurate; forward looking
Performance management and reporting	Little insight, multiple systems, simple, adhoc analysis	←————→				Insight driven; current and future value management, dynamic, scenario based analysis
Finance and accounting operations						
Transaction processing	Manual processing	←————→				Outsourced/shared services, workflow management and self-service capabilities, standard processes
Financial/Regulatory reporting	Non-standardised; 15+ days to close	←————→				Automated, standardised
Internal controls	Poor control, high risk	←————→				Optimised, low risk
Corporate finance						
Capital planning and management	No formal tracking, focus on profit and loss	←————→				Enterprise-wide capital and investment planning, focus on value drivers
Treasury	Staff function	←————→				Strategic focus
Tax	Tax compliance oriented	←————→				Intimate business advisor
Investor relations	No systemised processes, separate, rudimentary financial reporting	←————→				Reliable data, based on transparent and self-service reporting
Enterprise risk management						
Financial risk management	No clear risk management goals; limited use of tools	←————→				Optimised risk throughout company
Business risk and operational risk	Poor understanding; separate risk management	←————→				Integrated, enterprise-wide risk management system linked with strategy and operations

Source: Accenture

7.3 Benchmarking

Figure 21 Hackett value grid



7.4 Cost benefit analysis

A more quantitative approach is to identify measures or proxy measures that might be indicative of the quality of finance business partnering. The metrics used by Hackett in figure 21 as measures of the finance function’s effectiveness and efficiency are instructive.

The measures of effectiveness suggested by Hackett include working capital measures. Tangible benefits of finance business partnering can include improvements in working capital management.

A guest at the CIMA Forum who prefers not to be named told the forum that his company, a global computing company, requires each business partner to present an individual cost benefit analysis, agreed with their partner in the business, to demonstrate their value.

Some leading companies may have achieved the ideal of being able to conduct a cost benefit analysis on their business partnering programme. A more typical situation is that described by an attendee at the forum who said:

‘We don’t measure the impact of our programme. I really resist any pressure to do this as it would create bureaucracy for no purpose. I am lucky the finance leadership just have faith that if you have business partners around the business making better decisions, the business results will get better, so it is worth investing a bit of resource in the programme.’

7.5 Personal performance appraisal

Balanced scorecards are widely used to manage individuals' performance. Ideally the measures used should reflect the individual's contribution to the organisation's scorecard.

Those business partners based in the accounts department or finance unit will generally have a reporting line to the finance and accounts department. Those allocated to the business or deployed to work alongside the business may share key performance indicators (KPI) with colleagues in the business. They usually have a matrix reporting relationship. This is often described as a direct line to finance and a dotted line to the business. It suggests that their responsibilities as a professional accountant take precedence over their loyalty to their colleagues.

If the finance business partner is at controller level and it is made clear that his goals are congruent with those of the business manager, this can help to build the working relationship. The finance business partner may not have revenue targets but he or she will often have responsibility for ensuring the cost budget is not exceeded. As Stephen Dauncey of the Highways agency says, **'business partner's objectives tend to be hard. They are about hitting the numbers. The softer side is measured by feedback.'**

7.6 Performance related pay?

The examinations required to qualify as an accountant are demanding, especially if they are taken while also performing a full-time role. This demonstrates how accountants are prepared to work hard. This work ethic is often most evident in their preparedness to work long hours at period ends to get the job done without a need for incentives.

But if finance business partners are expected to contribute to value creation alongside their counterparts in the business, they should probably have a consistent incentive scheme to promote goal congruence. A challenge is to ensure that they also have an incentive to maintain their objectivity. Their incentive scheme should be consistent with the creation and protection of shareholder value.

7.7 A matter of balance: quantitative targets and qualitative standards

If performance is to be measured, managed and rewarded effectively, clarity about the role, behaviours expected and outcomes to be achieved is required. Finance business partners can have a balance of hard financial targets and qualitative standards to meet. Their personal balanced scorecard should reflect their expected contribution towards delivering the results expected in this period and developing the business' competitive position.

How to measure results

Effective partnerships should lead to measurable results and improvements. Intel evaluates finance, partnering effectiveness via the following measures:

Strategic influence events: Significant changes to the business strategy or business direction in which finance played a central role;

Cash savings: Instances in which finance successfully changed a decision operations made that resulted in a 12 month cash savings of at least USD 1 million after tax, and cash maximisation: Partnership results in which finance contributed at least 25% of the effort in a business decision or process change that resulted in at least USD five million of after tax cash savings in the first 12 months.

Intel sets annual number and dollar goals for each measure. Achieving these goals is a tangible measure of the bottom-line benefit business partnership provides to the company.

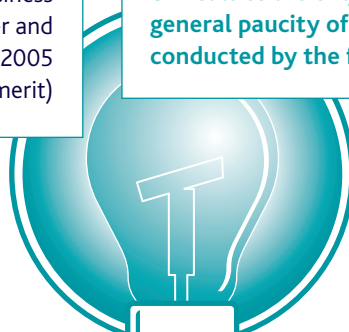
Source: How Intel finance uses business partnerships to supercharge results, Boedeker and Hughes, Strategic Finance, October 2005 (IFAC article of merit)

Accenture's high-performance finance study 2008 surveyed 350 finance executives across 30 countries and 20 industries.

Accenture found that few finance executives believe their divisions are performing at the highest possible level. **'Many believe they lack the processes, data, tools, organisational structures, governance and skilled workforces they need to capitalise on the new markets, resources and opportunities for value creation the global economy offers.'**

Only about half of the companies participating in the Accenture survey had implemented a finance strategy over the previous two years to address the short comings of their finance function and align its capabilities with the business' strategy.

A majority of survey respondents reported that they do not understand the underlying cost structure and therefore cannot determine their annual cost of finance (the total cost of all people, processes and technologies performing in the finance organisation) and related cost drivers. This lack of insight and data, and the concomitant lack of actionable metrics to measure performance makes it very difficult if not impossible to identify where and how improvements could be made and what investments (and what levels of investment) make the most sense both in terms of competing successfully and enhancing shareholder value. And these difficulties are only exacerbated by the general paucity of benchmarking initiatives conducted by the finance organisation.'



8. Conclusion and next steps

8.1 Conclusion

Companies need to determine what role they want finance to play and a finance strategy to ensure that they are developing the finance capabilities necessary to deliver the service that is required. In particular, clarity is required about the role of finance business partners in the business. Only then can the skill sets required be defined and training programmes developed.

- There will be little demand from the business for finance to provide a business partnering service if the service offer and its business benefits are not clear.
- A business partnering service cannot be supplied where accountants are fully occupied by the reporting cycle. The business' requirement must be clear.
- In either case, the service must be part of a wider finance transformation programme and finance business partners must have to have the ability, capacity and credibility to deliver the service offered.

There is already evidence of a correlation between companies where finance functions have been transformed to improve the focus on performance management and superior returns for shareholders. This is achieved through improved performance and more reliable forecasting giving investors greater confidence.

Management accountants still retain their traditional roles of processing transactions, producing accounts and preparing management information. They are still responsible for the accounting processes which ensure that monies due from customers are collected, that employees and suppliers are paid and that the business' financial position and performance are reported accurately. Developments in information systems, business process improvement, shared service centres and outsourcing have allowed accounts departments to restructure and perform these traditional roles more efficiently.

Finance directors must retain objectivity in statutory reporting, as stewards of the business' assets, as cost controllers and as the owners of budgeting, reporting and forecasting processes. These roles will continue to be important. An increased emphasis on stewardship and governance may be a benefit of the current climate.

But in these roles, accountants can be perceived as overheads. As such, they are in the path of the relentless drive towards greater efficiency. Now they have the potential to become players on the business team rather than scorekeepers on the sideline.

There is an exciting opportunity for management accountants to re-invent themselves as a new form of finance business partner. They can improve decision making by providing better information and helping to manage performance and risk so that financial targets and strategic objectives are achieved.



8.2 Next steps

Developing the finance function – global research
CIMA is continuing to research finance transformation via a unique and dedicated research centre – the CIMA Centre of Excellence at the University of Bath School of Management.

In autumn 2009, the Centre will commence releasing its global research outputs. To obtain more information and keep up-to-date with the research please email transformation@cimaglobal.com

In the meantime we would welcome your contribution to answering important questions about the future role of finance and what this means for management accountants.

For example this is how IBM addresses some of these questions in outlining their vision of the future for their finance function.

Q. Where does the finance function fit in?

Our vision is to provide strong financial leadership to all the different businesses in IBM while running efficient, globally consistent processes. We've used a common platform and systems since the nineties. Since then we've been bringing more and more activities into international shared service centres. That's put us at the leading edge in this area, so we're now doing it for other companies as well through our consulting and business process outsourcing teams. The whole agenda of control is important to us and our clients. We were one of the first organisations to comply with the Sarbanes-Oxley Act 2002 and we can show that this is part of a comprehensive control framework that goes a long way beyond having the right numbers in the accounts. I am fortunate that, as a company, we have a set of values that demands that we behave to the highest standards.

Q. Has this changed the type of finance professional that the company needs?

Much of our processing and basic financial work is now being done in Eastern Europe. We still employ about 500 people in finance in the UK, but the roles here tend to be more business-orientated. We place a premium on people who can provide interpretation, insight and influence. That requires not only strong financial skills but also a passion for problem solving.

Stephen Wilson FCMA

Chief financial officer, UK, Ireland and South Africa, IBM
Financial Management magazine October 2007

To share your views and experiences, log on to <http://community.cimaglobal.com/peter-simons-blog/finance-business-partners>

Appendix A

Examples of tools from the bottom drawer of the finance business partner's toolkit

Activity-based costing (ABC)

Approach to the costing and monitoring of activities which involves tracing resource consumption and costing final outputs. Resources are assigned to activities, and activities to cost objects based on consumption estimates. The latter use cost drivers to attach activity costs to outputs.

Attribute costing

The costing of specific product attributes that appeal to customers. Attributes considered may include reliability, warranty arrangements and after sales service.

Benchmarking

Establishment through data gathering, of targets and comparators, that permit relative levels of performance (and particularly areas of underperformance) to be identified. Adoption of identified best practices should improve performance.

Business process re-engineering (BPR)

Selection of areas of business activity in which repeatable and repeated sets of activities are undertaken, and the development of improved understanding of how they operate and of the scope for radical redesign with a view to creating and delivering better customer value.

Competitive position monitoring

The analysis of competitor positions within the industry by assessing and monitoring trends in competitors' product offerings, promotion and creative positioning, sales, market share, volume, unit costs and return on sales (ROS). This information can provide a basis for the assessment of a competitor's market strategy.

Cost, life-cycle

Maintenance of physical asset cost records over entire asset lives, so that decisions concerning the acquisition use or disposal of assets can be made in a way that achieves the optimum asset usage at the lowest possible cost to the entity. The term may be applied to the profiling of cost over a product's life, including the pre-production stage (terotechnology), and to both company and industry life cycles.

Cost management

Application of management accounting concepts, methods of data collection, analysis and presentation in order to provide the information needed to plan, monitor and control costs.

Customer profitability analysis (CPA)

Analysis of the revenue streams and service costs associated with specific customers or customer groups.

Direct product profitability (DPP)

Used primarily within the retail sector, DPP involves the attribution of both the purchase price and other indirect costs (for example distribution, warehousing and retailing) to each product line. Thus a net profit, as opposed to a gross profit, can be identified for each product.

The cost attribution process utilises a variety of measures (for example warehousing space and transport time) to reflect the resource consumption of individual products.

Discounted cash flow (DCF)

Discounting of the projected net cash flows of a capital project to ascertain its return or present value. The methods commonly used are:

discounted payback The discount rate is used to calculate the present values of periodic cash flows with a payback period then being calculated.

net present value (NPV) The discount rate is chosen and the present value is expressed as a sum of money.

yield, or internal rate of return (IRR) The calculation determines the return in the form of a percentage.

Economic value added (EVA™)

Profit less a charge for capital employed in the period. Accounting profit may be adjusted, for example, for the treatment of goodwill and research and development expenditure, before economic value added is calculated (Stern Stewart & Co).

Enterprise risk management (ERM)

Process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (Enterprise Risk Management – Integrated Framework COSO, 2004).

Environmental management accounting

Identification, collection, analysis and use of two types of information for internal decision making: physical information on the use, flows and rates of energy, water and materials (including wastes); and monetary information on environment related costs, earnings and savings (EMARIC).

Integrated performance measurement systems (e.g. balanced scorecard)

A performance measurement system which considers financial outcome measures alongside operational and external measures which can be leading indicators of performance, risk and progress towards the achievement of strategic intent. Performance is usually considered under a range of headings such as profitability, customer satisfaction, operating efficiency and innovation.

Lean

A waste minimisation discipline. Stripping out costs that do not provide value to the business, its stakeholders or its customers.

Reference class forecasting (RCF)

The use of analysis of the performance and cost outcomes of a sample of comparable large scale projects to assess the potential outcome of a major project being considered.

Scenario planning

The identification of major trends and the description of potential future trading situations in a form that allows alternative strategies to be developed in anticipation. This enables an organisation to be prepared and respond swiftly to developments in its market.

Six sigma

Methodology, developed by Motorola and others, based on Total Quality Management, to achieve very low defect rates. The 'sigma' refers to the Greek letter used to denote standard deviation, so six sigma means that the error rate lies beyond six standard deviations from the mean. To achieve six sigma, an organisation must therefore produce not more than 3.4 defects per million products.

Strategy map/mapping

A strategy map can be used to identify the most appropriate KPIs to measure performance within an integrated management system (e.g. a balanced scorecard). It is a diagrammatic representation of how the organisation creates value by linking its strategic objectives in cause and effect relationships through to performance measures including financial outcomes.

Target costing

A method used during product and process design that involves estimating a cost calculated by subtracting a desired profit margin from an estimated (or market based) target price or price point to arrive at a desired production, engineering or marketing cost. The product is then designed to meet that cost.

Total quality management (TQM)

Integrated and comprehensive system of planning and controlling all business functions so that products or services are produced which meet or exceed customer expectations. TQM is a philosophy of business behaviour, embracing principles such as employee involvement, continuous improvement at all levels and customer focus, as well as being a collection of related techniques aimed at improving quality such as full documentation of activities, clear goal-setting and performance measurement from the customer perspective.

Value analysis

Systematic interdisciplinary examination of factors affecting the cost of a product or service, in order to devise means of achieving the specified purpose most economically at the required standard of quality and reliability (BS 3138).

Value engineering

Redesign of an activity, product or service so that value to the customer is enhanced while costs are reduced (or, at least, increase by less than the resulting price increase).

Value based management

Ensuring the company is managed to provide consistently superior returns to shareholders over time.

Variance analysis

Evaluation of performance by means of variances, whose timely reporting should maximise the opportunity for managerial action.

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