Improving decision making in organisations

The opportunity to transform finance
Preface

This report is based on discussions of the CIMA Improving Decision Making in Organisations Forum (the CIMA Forum).

CIMA acknowledges that some of the views expressed have not yet been tested with academic rigour. But the CIMA Forum has credibility and CIMA believes it is important to bring the matters discussed to your attention.

This report demonstrates how leading businesses have already seized the opportunities presented by finance transformation to engage finance to improve decision making across the business.

We hope this report will be useful to you in developing a vision for the future role of finance in your organisation.

CIMA would welcome your views on this report and any insights gained from your experience in this area.

Comments should be sent to:

The CIMA Innovation and Development Department
CIMA
26 Chapter Street
London SW1P 4NP
United Kingdom
E. innovation.development@cimaglobal.com
Foreword

Foreword for business leaders

The CIMA Forum contends that top performing businesses usually have high performing finance and accounting (F&A) functions. These leading companies look to their F&A functions to not only operate efficiently and produce accurate financial accounts and useful management information but also to work closely or to ‘partner’ with the business to help improve decision making and support value creation.

Surveys published by major consulting organisations support this view.

Improving decision making is becoming the key to superior business performance. Finance transformation provides an opportunity for the F&A function to become more efficient and to better support decision making.

The way leading companies have engaged their F&A functions seems to be the basis for their companies’ success. Although the causality is unproven, the correlation is clear. Business leaders need to take note that failure to seize this opportunity to transform the F&A function might put their organisation’s competitive position at risk.

‘I would say that the biggest risk for finance is the risk of complacency. I would also say that if a finance function is not going through a transformation at this point it is probably placing the company at a long term risk.

Finance, first, must be at the forefront of leading the company through the changes brought about by globalisation. So first it must globalise. This means big changes.

Second, it must expand its focus to drive the execution of strategy and that is to create shareholder value.’

Priyan Fernando
Chief Operating Officer, American Express Business Travel
CIMA webcast, 2006
Foreword for accountants

‘Accountants could go the way of (the UK’s) coal miners! A mighty industry that once employed three quarters of a million and helped bring down a government today employs fewer employees than SmithKline Beecham. I believe that accountants in industry could go the same way if they do not realise the fundamental changes they need to make.’

Sir Hugh Collum
Former Chief Financial Officer, SmithKline Beecham
KPMG Management Consulting, 1998

The late Sir Hugh Collum, then chairman of the 100 Group (FTSE 100 finance directors) and chief financial officer of SmithKline Beecham, was quoted as saying this in a report by KPMG back in 1998.

Sir Hugh may have seen a false dawn. Finance transformation did not occur as rapidly as was expected. But leading companies have already woken up to the opportunities presented by developments in technology and globalisation.

Finance transformation may threaten traditional roles in the provision of management information but it also provides exciting new opportunities.

In an Accountancy Age article in January 2006, Professor Andrew Likierman of London Business School wrote that ‘the changing management agenda, along with changes in technology and the drive towards outsourcing, is a threat as well as an opportunity’ for the F&A function. ‘Finance is a natural home for good performance measures.’ The F&A function ‘ought to be playing a big role in strategy formulation as well as execution.’ To perform this role finance has to become a partner to the business.

Likierman, 2006
The CIMA Improving Decision Making in Organisations Forum

The CIMA Forum is a group of major organisations represented by senior finance personnel. The CIMA Forum originally met in 2000 to consider how Strategic Enterprise Management (SEM) systems could be used to improve decision making.

A report was issued in 2003 entitled *Improving decision making in your organisation: The CIMA Strategic Enterprise Management (SEM) initiative.*

Member organisations of the CIMA Improving Decision Making in Organisations Forum

- BBC World Service
- Department for Work and Pensions
- Diageo plc
- Ford
- Fujitsu-Siemens Computers
- Kimberly-Clark
- Pfizer Ltd
- F. Hoffmann-La Roche Ltd
- Rolls-Royce plc
- Royal Mail
- Tesco plc
- The Linde Group
- Unilever plc
More recently, the CIMA Forum has been considering how finance transformation presents an opportunity for finance to take on a broader role: to improve decision making in organisations.

Finance transformation has often been considered in terms of the impact of market forces, competitive pressure and developments in information and communications technology and globalisation on the F&A function. But it is also necessary to look at the opportunities to take on a broader role within the front office and the front line areas, as shown in Figure 1 (and which are discussed further in section 2.4, the challenges for finance, page 16).

Figure 1  Finance transformation and the opportunity to take on a broader role

1Enterprise resource planning (ERP), corporate performance management (CPM), shared service centres (SSCs) and business process outsourcing (BPO).

Source: CIMA, September 2007
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1 Executive summary

The CIMA Improving Decision Making in Organisations Forum (the CIMA Forum) has noted that many leading companies have already seized the opportunities presented by finance transformation to improve the efficiency of their finance and accounting (F&A) operations and to engage F&A personnel as finance/business partners to improve decision making.

High performing companies usually have high performing finance functions. Although the causality has not been proven with academic rigour, the correlation is clear. Surveys by leading consulting organisations support the CIMA Forum’s view. These leading companies seem to be empowered by their finance functions to improve their decision making and financial performance.

Decision making is becoming the basis of competitive advantage and value creation. If markets give all organisations access to similar resources globally and competition causes many routine business processes to converge on world-class standards, the quality of decision making could become the key differentiator.

Finance transformation provides an opportunity for the F&A function to improve its operating efficiency and provide high quality financial and management information to support decision making. It also provides an opportunity to improve its effectiveness by engaging finance personnel with the skills to collaborate with the business to contribute to improving decision making and business’s financial performance as finance/business partners.

As finance can help improve decision making, any company that does not transform its finance function risks putting itself at a competitive disadvantage.

- Most CIMA Forum members now have shared service centres (SSCs) whether in-house or outsourced, onshore or offshore. SSCs were introduced to achieve cost savings in routine activities (for example transaction processing and standard reports) but they also allow the implementation of uniform systems and streamlined processes. They often have the scale to allow more people development than may have been envisaged. Some CIMA Forum members are now looking for further efficiency gains in business processes and for their SSCs to also provide less routine, higher value services.

- Other CIMA Forum members are looking to achieve a step change more rapidly by harnessing expertise, for example in systems implementation and business process improvement. These services are now available offshore through business process outsourcing (BPO) providers. Although many organisations are still wary, BPO has developed and should be considered.

- Enterprise resource planning (ERP) systems have long threatened the traditional role of the management accountant. But they have actually kept accountants busy using spreadsheets to produce reports in the format required by the business, investigating discrepancies and conducting ad hoc analysis. However, the ERP vendors have been acquiring corporate or enterprise performance management (CPM/EPM) systems to overcome ERP’s limitations. The experience of members of the CIMA Forum confirms that these applications can release capacity for accountants to become finance/business partners.
Finance/business partnering varies in form. Credibility as a finance/business partner usually rests on the financial expertise and analytical rigour contributed to decision making rather than an ability to provide expertise or leadership in other business disciplines.

Finance can already provide both quantitative and qualitative management information including accounts, analysis, balanced scorecards and narrative reporting. The challenge is to help apply financial and accounting expertise to decision making in the business.

To bring F&A expertise to the business, finance/business partners must:
- have sufficient business understanding to recognise the relevance and practical application of the information
- be able to communicate their insights in the business’s terms and to help determine and manage actions through to achieving impact.

Developing finance/business partners is a challenge that requires the application of change management principles. There can be an impasse on the route to finance transformation if the business expects more of finance personnel but doubts traditional accountants’ aptitude for these new roles. Or, more often, if accountants are willing and able to contribute more but feel there is no demand from the business. The starting point must be a clear shared vision of the new role of finance.

1.1 Key messages

- Decision making is becoming the basis of competitive advantage and value creation.
- Management accountants have key roles to play in the decision making process from strategy formulation and implementation through to impact.
- The finance and accounts function must improve its efficiency in providing reliable financial and management information.
- Finance’s main challenge is to develop people who can collaborate with the business to support decision making through to impact.
- Finance/business partners can help improve decision making by applying financial disciplines, such as managing for value or risk management and by providing analytics.
- Top performing companies have this advantage. Any company not transforming its finance function is putting its business at risk.
- Change management principles must be applied to this process.
2 The decision making process

2.1 The importance of decision making

Global markets already give businesses throughout the world access to similar resources. Competitive pressures are causing many routine business processes to converge on similar world-class standards of efficiency and quality. This means that decision making, as shown in Figure 2, could become the key link in the value chain whereby companies can still achieve superior performance.

Thomas H. Davenport noted, in Harvard Business Review (2005), that competitive pressures compel continuous improvement in business processes and this leads to a convergence on high standards. This means that processes will no longer be potential sources of competitive advantage. Outsourcing processes could reduce costs and trim balance sheets. As process standards become commoditised, many more business processes could be outsourced. This could dramatically reduce the number of these processes that organisations decide to perform for themselves.

Diageo, the premium brands drinks company, is an example of a global company which has applied this logic. Diageo has a keen understanding that what creates value for its shareholders are its brands. These form a moat which allow it to defend its competitive position and command superior returns.

Brand management is the key to Diageo’s success. It has retained some drinks production. The cachet of premium brands could be damaged if they were known to be manufactured under licence on an unglamorous industrial estate. But it has outsourced many business processes (including accounts) that might once have been considered core activities.
Managerial decision making is something of a black box. Most companies have a strategic planning process and a governance process at board level that is usually formalised. But the planning process can often generate reports rather than decisions and the board’s role in decision making is often just to oversee or ratify. Usually only routine operational decisions, for example credit management, have fully documented processes. Most decisions are taken by line management outside formal processes.

So what is in the management’s black box? The decision making process is usually illustrated as a proposal being considered by participants in the context of the organisation and its strategic position. Alternatives, risks and potential outcomes are considered and then a decision is reached. There may also be a post audit and a feedback loop.

The decision making process is subject to human error as the participants have personalities, prejudices and a self-interest bias.

Discussion of how management accountants can improve this process with members of CIMA’s Forum contributes some important insights.

- The decision should not be shown as the end of the process. It is important that decisions are managed through implementation and on to subsequent decisions to achieve impact. The outcome of the decision making process must be an impact on the business’s performance.
- The organisation’s enterprise governance and strategic planning process provide the context in which issues are framed. The organisation’s culture and leadership style are also important determinants of how decisions are framed as is the role finance will play in the process.
- Management accountants are keen to work with the business to improve decision making. They can provide the metrics and analysis to support evidence based decision making.
- Management accountants’ invitation to participate rests on:
  - their ability to provide timely and accurate management information efficiently
  - their ability to work closely with the business to combine financial expertise with business understanding to inform decision making.

Although a formal strategic planning process can be useful as a planning tool, there is a danger that the final report is seen as the output required. Michael Mankins and Richard Steele make a case for ‘Decision-Focused Strategic Planning’ in Harvard Business Review (January 2006). They argue that important decisions are often made on an ad hoc basis as issues arise rather than through the formal planning process. Companies need to maintain a rolling agenda of the issues requiring decisions. This seems to be best practice.

Mankins and Steele, 2006

At Roche, Michael Mankins found that the Chief Executive, Franz Humer, created a decision agenda comprising the ten most important opportunities and problems facing the company. Leaders regularly update the agenda by quantifying the value at stake for each issue and spend over half of their meeting time on those ten items. This process has transformed the quality and pace of Roche’s strategic decision making.

Mankins, 2004
The decision making process as shown in Figure 3 is based on discussions with members of the CIMA Forum.

- The board provides the overall enterprise governance. This means that it exercises effective oversight of both the conformance and performance aspects of the organisation. The formal planning process provides the strategic context, brand values and budgetary constraints in which decisions are taken.

- Decisions are taken in the general context of the organisation’s overall strategic direction, ethical values and culture by individuals with their own prejudices in the immediate context of the issue being considered.

- Framing the decision is a key step. Issues must be properly framed to balance a broad view with efficient focus. Appropriate parties must be engaged. Stakeholders’ interests are taken into account in determining the objectives at this stage. In businesses that are managed for value, the main criterion to be considered will be the impact on shareholder value.
Providing insightful information to describe the business’s current financial and competitive position, the proposal(s), the propositions’ value for customers, the impact on the organisation’s value chain and the risks requires close cooperation or partnering with the business.

Alternatives should be selected on the basis of evidence and analysis rather than personal opinions. Risks – including reputational risks – must be identified as either ‘deal-breakers’ or issues to be managed. Management accountants can facilitate unbiased, fact-based decision making that is aligned with ethical standards, providing consistent quantitative and qualitative analysis of the situation and proposals.

The decision maker(s) should have the authority to take the decision. Role clarity is important here so that decisions are reached efficiently and not delayed or swayed by other interested parties.

Managing implementation through to impact requires that the decision should be clearly communicated and the expected outcomes reflected in performance management metrics. Quantifying or describing the potential outcomes and, if appropriate, the potential next steps after each outcome, will enable implementation to be managed and appropriate action taken promptly, if necessary, to ensure goals are achieved.

Feedback loop: trial and error may be allowed as tactical experiments within acceptable risk parameters but repeating past mistakes should be inexcusable. The decision and matters considered should be properly documented for post audit or learning purposes. The outcome of past decisions should be captured as part of the corporate memory to ensure lessons are learned.

Enterprise Governance is represented in Figure 3 (page 12) by the CIMA Strategic Scorecard™ to illustrate the overall governance context in which strategic decisions are taken. The scorecard is a tool that has been developed by CIMA to help the board of any organisation to engage effectively in the strategic process. It is based on the premise that executive management is responsible for conducting the detailed strategic planning while the board needs to provide effective oversight. The scorecard gives the board a simple, but effective, tool that helps it to focus its attention on the most important strategic issues and to provide a constructive challenge to management by asking the right, searching questions.

In the context of Figure 3, therefore, the scorecard conveys the point that decisions are not taken in isolation. There must be accountability and/or approval for major strategic decisions. On the other hand, however, boards should not get too immersed in the detail of the organisation, and management needs to be free to take decisions that are necessary to the daily running of the business.

CIMA, March 2007
Relating the decision making process to the definition of management accounting (as set out in Figure 4 and in Appendix 1, page 53), it can be seen that management accountants have a significant contribution to make at each stage of this decision making process. However, the F&A function has challenges to overcome before it will be engaged to provide finance/business partnering; it must be transformed to better support decision making.

**Figure 4** The decision making process and the work of the chartered management accountant

**The decision making process**

- Context mindset
- Frame the issue
- Assemble information
- Select alternatives
- Decision
- Manage implementation
- Impact

**The work of the chartered management accountant**

- Formulation of policy and setting of corporate objectives.
- Formulation of strategic plans derived from corporate objectives.
- Formulation of shorter-term operational plans.
- Design of systems, recording of events and transactions and management information systems.
- Generation, communication and interpretation of financial and operating information for management and other stakeholders.
- Provision of specific information and analysis on which decisions are based.
- Acquisition and use of finance.
- Monitoring of outcomes against plans and other benchmarks and the initiation of responsive action for performance improvement.
- Derivation of performance measures and benchmarks, financial and nonfinancial, quantitative and qualitative, for monitoring and control.
- Improvement of business systems and processes through risk management and internal audit review.

CIMA Official Terminology, 2005
Surveys from leading management consulting organisations suggest that the majority of top performing companies have already transformed their F&A functions. They may even be empowered by their F&A functions to achieve superior performance. However the causality is unproven. Superior returns could also be due to holding competitive positions in attractive sectors, choice of strategy, exceptional leadership or just good fortune.

Nevertheless, the correlation is clear. There is sufficient evidence to suggest that organisations that do not transform their F&A functions to better support decision making risk putting their company at a competitive disadvantage.

A survey conducted by the Economist Intelligence Unit for KPMG identified how the F&A functions in top performing companies differ from average performing companies. They found that the top performing CFOs are more inclined to see decision support as a major focus of their role and less inclined to see cost control as their priority. These CFOs are also more likely to have a clear vision for the F&A function that they have shared with the business. Traditionally accountants have been focused on financial reporting, budgeting and cost control. Relative to their peers in average performing businesses, top performing companies’ F&A functions already put more emphasis on risk management, investor relations, operating and strategic decision support and providing non-financial data.

The Economist Intelligence Unit, 2006

Research by Accenture has shown a high correlation of over 70% between businesses with high performance and their F&A functions’ mastery of a suite of five finance capabilities.

Capabilities:
- pervasiveness of a value-centred culture
- depth of enterprise performance management
- efficiency of finance operations
- sophistication of capital stewardship
- extent of enterprise risk management.

Accenture, 2004

More recent research by Accenture identified five key challenges that are common to finance executives around the world.

Challenges:
- balance the role of accountant with that of intimate finance/business partner
- increase total return to shareholders
- achieve operational excellence
- manage all types of risk
- develop finance skills and retain talent.

Accenture, 2006
2.4 The challenges for finance

Figure 5 The challenges for finance

F&A personnel not trained as management accountants in business would be challenged to move from their core competence and comfort zone in head office or back office roles to work alongside the business’s front line (Figure 5) in the front office.

CIMA’s Visiting Professor in 2007, Professor Mike Shields of Michigan State University, notes that head office F&A roles in America tend to be held by staff with legal backgrounds because of the emphasis on compliance in financial reporting. On the other hand people with industry backgrounds, for example engineers and forestry experts in the pulp and paper industry, often fill the finance/business partnering roles.

Having a fiduciary/stewardship role and being a control function can distance head office accountants from the front line. For governance reasons, the finance director needs to apply checks and balances to retain objectivity. But good finance directors (FD) have always balanced their professional objectivity with an ability to partner with the managing director (MD). For example, Andrew Higginson FCMA of Tesco currently holds the job title of finance and strategy director.

In some cases finance/business partners are spared this potential objectivity tension by being assigned to the front line. More than one in ten CIMA members in business already holds management or director level roles outside the F&A function. These F&A alumni are still management accountants. They bring their professional standards and disciplines to non-financial roles – these are shown as stars in Figure 5.
Moving from being a score keeper in the back office to a player alongside the front line can stretch F&A’s credibility in those businesses that still see F&A as a control and report generating function.

The information produced by F&A has to be reliable and in a useful format if finance/business partners are to work alongside the business as advocates rather than apologists for finance. And these finance/business partners must have sufficient understanding of the business to be able to apply their financial expertise.

The CIMA Forum has considered these challenges and determined that if the F&A function is to be engaged to help improve decision making, it must first attend to the following:

• the efficiency of F&A operations in producing timely, accurate and useful financial and management information to support decision making
• F&A’s ability to provide finance/business partners to work closely with the business to combine their financial expertise with the business’s expertise to inform decision making and help the business to achieve impact.

These are usually addressed sequentially as improving efficiency of finance operations releases the capacity to offer finance/business partnering.

Sections 3 and 4 (pages 18-36) consider these challenges in turn.

2.5 Key messages

• Decision making is the key to superior performance.
• Decision making is an ongoing and continuous process.
• Management accountants have a significant role to play in this process.
• The challenges for the F&A function are:
  – to provide useful management information more efficiently
  – to work closely with the business to improve decision making.
3 Providing management information more efficiently

3.1 The cost of the finance and accounts function

According to research from the Hackett Group, F&A functions had achieved considerable productivity gains by 2000 through the implementation of ERP/financial accounting systems and shared service centres. But gains in efficiency seem to have bottomed out in more recent years.

Finance costs have declined by half over the last 15 years and drivers of the change remain fairly consistent.

Figure 6 shows how finance and accounts (F&A) costs as a percentage of turnover have been steadily reduced since the early '90s. The peer group in the middle quartiles may have reduced costs by almost 40% over this period but top quartile (or world class) companies have reduced their costs by over 60%. Gains in efficiency are achieved through process improvement (simplification, standardisation and automation), greater use of technology (ERP systems and business intelligence) and the economies of scale in shared service centres, whether in-house or outsourced.

This Hackett Group chart relates F&A costs to turnover to show efficiency gains. Some may question how these statistics from major organisations in a wide range of sectors across the world can be related to their business. Rather than questioning the statistics, the CIMA Forum accepts Hackett's analysis as being directionally correct and consistent with their own experience; the trends and issues to be addressed are what is important.
Figure 7 shows how top quartile (or world class) companies continue to pursue efficiency relentlessly and to widen their cost advantage over the peer group in the middle quartiles. Although world class companies have fewer than half the number of F&A staff relative to turnover than the peer group, labour costs are a higher proportion of their total F&A costs. This reflects the fact that, not only are they more efficient, but they employ higher paid people and spend more on higher value processes (e.g. planning and analysis) to better support the business.

The IBM Business Consulting 2005 CFO survey also shows that finance transformation has stalled. It has stalled both in terms of efficiency and in terms of effectiveness. According to IBM’s research, it was largely the implementation of ERP systems and SSCs that enabled F&A functions to reduce the cost of transaction processing.
IBM considers the proportion of F&A time spent on decision support as a proxy for effectiveness. In 2005, 27% of the F&A function’s time was still spent on stewardship activities with only 26% on decision support. As can be seen in Figure 8, IBM estimate that the proportion of F&A’s time spent on decision support needs to increase to 40% at the expense of transaction processing if F&A is to be effective as a finance/business partner. Even in 2005 transaction processing was still absorbing 47% of F&A’s time on average. But leading companies may already be at the 40% level. (Statistics: reprint courtesy of International Business Machines Corporation, copyright 2005 ©, International Business Machines Corporation.)

3.2 Systems and applications

Douglas Flint FCMA, says that one of the greatest challenges facing F&A functions today is that ‘they are increasingly faced with dealing with legacy systems that were developed some time ago largely on a product basis, when today’s demands from management, and indeed from investor markets are to do with channels, customers groups; a much greater segmentation than underlying product systems were ever designed to deal with.’

Douglas Flint, Group FD, HSBC Holdings
CIMA webcast, 2006

ERP systems have limitations. They can improve transaction processing efficiency but CIMA Forum members find that their F&A modules do not support more strategic activities such as decision support, performance management and ad hoc analysis.
Until relatively recently there has been a distinction between the enterprise reporting provided company wide by these ERP systems and the analytical, decision support provided to particular users by decision support applications. There is now a trend towards integrated reporting and analysis.

The major software companies’ recent acquisitions in this area confirm their confidence in these systems. SAP acquired OutlookSoft in 2007, soon after Oracle had acquired Hyperion, having previously acquired PeopleSoft.

Despite expenditure on these decision support applications, there is evidence that these are not yet being used as intended and that companies still rely on analysis conducted offline in Excel spreadsheet models. These models often belong to the individuals who develop them. They accumulate complexity over time and can be amended without version tracking. This practice is labour intensive, is prone to mistakes and gives rise to control problems. Yet CIMA research confirms that most accountants still prefer to use spreadsheets offline for analysis and ad hoc reporting despite the inherent problems (Business Objects, 2006).

Roger Tomlinson of Rolls-Royce commented that ERP systems initially created more work for management accountants; keeping them busy with spreadsheets. However with the addition of front-end reporting and analysis systems to the ERP systems, information is provided to business managers in a format that they can readily understand. Rolls-Royce’s experience is that this has significantly reduced the effort expended on re-working figures and increased finance/business partners’ capacity to support the business.

Chief Financial Officers (CFOs) need to work with their company’s information, communication and technology (ICT) department to address data quality issues to avoid multiple versions of the truth. They should also work with ICT to build consistency between financial and non-financial information. Responsibility for the accuracy of data also needs to be agreed. Anomalies can distract from the F&A function’s credibility when providing strategic advice or finance/business partnering.

Enterprise performance management (EPM), corporate performance management (CPM), business performance management (BPM) applications, executive information systems (EIS), online analytical processing (OLAP) and data mining, are all supposed to provide more efficient means of extracting, analysing and reporting management information including the provision of predictive analytics to better support performance management and decision making.

Gartner Research recommends the following CFO finance system priorities to 2009:

1. Streamline transaction processing, centralise and standardise core financial applications.
2. Implement CPM applications to provide the right systems to support strategic finance activities.
3. Build consistency between financial and non-financial data.

Gartner, Inc., CFO Finance System Priorities Through 2009, Nigel Rayner, August 24, 2006
3.3 Shared service centres

‘At American Express when we migrated our financial activities from 46 different locations around the world to just three locations, Phoenix in the US, Brighton, England and New Delhi in India, our objective was to achieve the benefits of lower cost, economies of scale and improvement in quality and service through standardisation and process redesign. I can tell you that a couple of years later that we have made tremendous progress on all these fronts. Our success in driving efficiencies has in fact enabled us to close one of these centres and now we operate only out of Phoenix and New Delhi. These centres have also mastered the art of process improvement using tools such as Six Sigma, so now they are predisposed towards contributing higher up on the service chain by extracting value out of the information they process and they are using this information to make contributions to the bottom line, significant ones, in areas other than traditional cost reduction. This has brought our shared services centres into the mainstream of our business and I can truly say a couple of years later that our finance centres are truly a strategic asset of American Express.’

Priyan Fernando, Chief Operating Officer American Express Business Travel CIMA webcast, 2006

Shared service centres were originally set up to perform more routine tasks such as transaction processing and financial reporting. In addition to serving internal clients, they can deal directly with customers, for example enquiries, billing and service support. With their concentration of expertise, they have the capacity to provide higher value services such as routine management reporting and performance analysis (as shown in Figure 9). Shared service centres also have the scale to provide training programmes for accounting personnel. Some personnel could even be deployed to operational areas to help drive value and support strategic decision making.
Few companies apply performance management, quality assurance and business process improvement disciplines to sustaining efficiency improvements. Fewer still have implemented the full range of service centre management mechanisms used by leading companies. These include:

- service level agreements
- charge-backs
- physical consolidation of operations
- joint business and service department management of overhead cost
- performance based compensation based on key performance indicators
- benchmarking of performance against outside companies

- providing access to external services if business units are dissatisfied with internal services.

Many companies have already located routine F&A functions in shared service centres to achieve economies of scale through being able to apply standardised processes. For some this has been an interim step towards outsourcing these services, sometimes offshoring in a lower cost economy. As confidence in business process outsourcing grows, companies that have not yet formed shared service centres may see an in-house SSC as an unnecessary interim step towards BPO (see Figure 10).

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**Figure 10** Onshore or offshore, in-house or outsourced

<table>
<thead>
<tr>
<th>In-house</th>
<th>Outsourced</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Onshore</strong></td>
<td>Most shared service centres e.g. 3M, Eaton, RBS, Nestle, Michelin (UK)</td>
</tr>
<tr>
<td><strong>Nearshore</strong></td>
<td>Diageo, Allied Signal, Phillips Typically CEE</td>
</tr>
<tr>
<td><strong>Offshore</strong></td>
<td>Reuters (India) and Caltex (Manila)</td>
</tr>
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**Shared service centres**

**Business process outsourcing**

Fahy and Fuller, 2007
3.4 Business process outsourcing

Most companies still hesitate to outsource F&A processes, however, the BPO market has developed. Important lessons have been learned from the initial wave of business process outsourcing. The leading BPO providers now have competencies in business process improvement that few can match in-house. Initially only low value, transactional processes were outsourced. Many higher value F&A processes now have the potential to be outsourced.

‘The real revolution in globalisation is linking educational systems and the resource pools that come out of those educational systems into the global economy.’

Douglas Flint, Group FD, HSBC Holdings
CIMA webcast, 2006

Globalisation gives access to the best people and assets worldwide and is helping to improve performance – not just cut costs.

The initial phase of finance and accounts outsourcing (FAO) was about replicating processes, often termed ‘lift and drop’ or ‘your mess for less’. The providers’ proposition was simply that they could take over these routine tasks and perform them for a reduced cost. Important lessons have been learnt from the many unsatisfactory initial BPO experiences.

• Cost minimisation is an adversarial approach from the outset and is not best suited to developing a relationship with a long term business partner working together to mutual advantage.
• BPO providers have much greater expertise than their clients in negotiating the terms of a BPO agreement. A third party adviser with the relevant expertise should be engaged.

• The workload in the implementation phase of a BPO project tends to escalate. BPO providers may underestimate this and not price the project enough to be able to apply their best people to the task – Equaterra’s research supports this observation of the CIMA Forum (EquaTerra, 2007).
• Project management and change management disciplines have to be applied when implementing outsourcing. The project has to be properly resourced with a governance structure that ensures people at the right level are engaged.
• Ongoing relationship and performance management requires service level agreements, benchmarks, charge-backs, for example, but it also requires a commitment to work together to resolve problems and improve processes. The BBC, GSK and Kimberly-Clark all emphasise this partnership dimension in the decision to outsource.

• The risks in BPO can be managed. As their regulator, the UK’s Financial Services Authority considered the risks in Aviva’s outsourcing to India to be acceptable and probably no greater than conducting these processes in-house and onshore in the UK.
• Despite the vast population of English speaking graduates available, the demand for suitably skilled staff in established BPO centres is causing wage inflation and the poaching of skilled staff. The greatest risk in outsourcing to India is the resulting attrition rate of experienced staff. Dependence on individuals can be offset by staffing levels and career development programmes.

A series of major BPO deals over the past year including the BBC, Linde, Kimberly-Clark, GlaxoSmithKline and ICI suggests an increasing confidence in business process outsourcing.
BPO is no longer seen as just an opportunity to save costs through wage arbitrage. It can also provide an opportunity to achieve a step change more rapidly than can be achieved in-house. BPO harnesses the expertise, for example in systems implementation and business process improvement, now available offshore through BPO providers.

Many are still wary, but BPO has developed and therefore should be considered.

Choosing not to outsource

Geoff Lewins, Director of Finance Strategy at Rolls-Royce explains that they have no current plans to outsource finance and accounting activities.

For Rolls-Royce, F&A processes are key business processes that should not be outsourced.

Rolls-Royce is not averse to outsourcing. In fact it has outsourced IT since 1995 as it is not regarded as providing a source of competitive advantage. It has even recently sub-contracted some engineering design work to Bangalore – with Rolls-Royce engineers providing quality control.

But the F&A function has more points of contact with its customers (the business, suppliers, employees and customers) so Rolls-Royce sees it as being more difficult to outsource. Outsourcing underestimates the number of these interfaces where quality controls are required.

Systems vendors advocate single instance ERP. This forces process standardisation but it is not necessary for, and will not necessarily deliver, a single version of the truth. The quality of data and the ETL (extract, translate and load) layer is the key issue.

‘Process excellence’ is required to ensure data quality. For Rolls-Royce, the Kaizen discipline of lean management has contributed much more to business process improvement than a statistical approach such as Six Sigma.

Processes have to be rules driven to be suitable for outsourcing and the treatment of finance processes is often too subjective. For example, the three-way matching of invoices, purchase orders and goods received should be straightforward. First time clearance is the service standard. Rolls-Royce believes an in-house service centre has the best chance of achieving that standard; they have the benefit of proximity to the business. They can also spot anomalies and can promptly resolve any discrepancies.
The decision to outsource
Simon Newton, Vice-President North Atlantic Finance and Shared Services at Kimberly-Clark, made a presentation to the CIMA Forum about Kimberly-Clark’s recently announced decision to outsource finance activities to Genpact.

Over recent years, Kimberly-Clark has managed to increase earnings per share faster than sales growth despite competitive pressure on margins. In response to this pressure on margins and the capital markets’ expectations, it is transforming its support functions to avail itself of global sourcing and process improvements so it can focus on creating value.

In evaluating BPO providers, Kimberly-Clark recognised that it has business process improvement competencies and cost levels that would be almost impossible to replicate. Even if a business could do this in-house, it typically would not manage to do so because of other pressures on managements’ time.

In addition to reducing costs through wage arbitrage, BPO gives access to process capabilities learned from other clients. A slight concern for Kimberly-Clark was that its own best practices may be applied elsewhere but it reasoned that it had more to gain from enhanced process management disciplines (including Six Sigma) and the potential to benefit through sharing the investment cost in next generation capability.

Outsourcers tend to over-promise innovation but they can help accelerate change; for instance, heightening data integrity, speeding up data integration and enabling integrated business information possibilities. Suppliers, such as Genpact, also offer supplementary access to a pool of business analysts including economists, statisticians and computer modellers. Options to leverage this capability off the back of data management services will be explored.

Outsourcing presents challenges in managing across geographies and developing people in the traditional way. Nonetheless, a retained organisation of finance staff who really know the business will continue to link process management to business needs.
CFOs face new demands for high quality data that drives decisions.

- Management information has become more critical to corporate decision makers – 70% of the 193 finance executives IBM polled (in companies with turnover greater than US$750m) said their companies’ senior managers are paying more or significantly more attention to management information than two years ago.
- Respondents indicated that management information is not robust enough to support the level of in-depth analysis that their companies’ decision makers are requesting. This is particularly the case when it comes to non-financial information.
- Finance executives believe they are not on track to meet their professed goal of spending more time on decision support and less time on compliance and transaction processing.
- CFOs want finance to become a clearinghouse for all financial and non-financial management information delivered to senior executives, and they are investing in ERP, data warehouses and other technologies to help them do this.
- Companies reap big rewards when their management information is robust. Top performers – companies in our research universe that reported a better-than-expected financial performance over the last three years – have significantly higher quality management information than their underperforming peers – in other words, companies that did not deliver financial performance.

Moreover, as a rule, the companies that performed the best in financial terms combine financial and non-financial indicators in a single management report, and spend comparably less time debating internally about data integrity.

PriceWaterhouseCoopers, 2007

3.5 Key messages

- Finance transformation has improved efficiency.
- Achieving further efficiency gains presents challenges.
- Accountants prefer to use Excel but vendors recommend CPM.
- Shared service centres have further potential.
- BPO offers more than lower costs; a step change can be achieved.
- The real benefit from improved efficiency is expected to come from the capacity released to provide finance/business partnering.
4 Developing finance/business partners

4.1 The role of finance/business partner varies but it is becoming more strategic

The HR (Human Resources) and ICT disciplines also use the term business partner. In the experience of the CIMA Forum members, these other disciplines use the term to identify a contact point within that department who can contribute expert support from that discipline when it is required. Their ambition is for the F&A function’s business partners to be more influential.

When the CIMA Forum members talk about what finance/business partnering means in their business, it becomes apparent that it varies. There are as yet no established best practice models or processes.

A recent discussion of the CIMA Forum about partnering with marketing or research and development (R&D) functions provided some insights into the role of finance/business partners. From a small sample, it seems that in a mature market (or a market with long product development cycles) it will suffice for business partners to provide tactical support but in a more dynamic sector, finance must be prepared to challenge strategically.

Diageo summed up its finance role broadly as a constructive irritant. In contrast, Rolls-Royce finance performs a more supportive and monitoring role – but a constructive irritant when necessary.

The job title varies too. Business partner or finance/business partner are recognised as descriptions of the role. Financial or business analyst, business or finance manager or simply management accountant are all used as job titles.

Matrix reporting relationships are the norm, usually but not always, with a dotted line to the business and a solid line to the F&A function. Geoff Lewins, Director of Finance Strategy at Rolls-Royce, spoke of the ‘duck theory’: if he/she looks like a finance/business partner and behaves like a finance/business partner, they are a finance/business partner no matter who they report to.

![Figure 11: Types of finance/business partners](source: CIMA, September 2007)
Figure 11 (page 28) illustrates the main types of finance/business partners:

1 Shared service centres, including outsourced centres, can have the capabilities to provide reporting and analysis services which would otherwise have been provided by a finance/business partner. At Ford, an accounting/business partner supports the business lines to ensure that standard systems and processes are used. But ordinarily this is not considered to be finance/business partnering.

2 Most finance/business partners are embedded in the business and provide tactical financial support, for example with budgets, planning and analysis, to line managers. They do not produce accounts but they resolve problems, reconcile differences and tailor reports to the line managers’ requirements. Generally they have a matrix reporting relationship with a solid line to the F&A function and a dotted line to the business unit manager. Some of this financial support can now be provided by SSCs.

3 Some finance/business partners are more definitely expert members of the finance function, reporting directly to the finance directorate. These may provide finance/business partnering in specialist areas such as risk management or merger and acquisition activity. Or they may be strategic finance/business partners who support the group’s finance director. They may not have the close understanding of the business usually expected of business partners but their distance can make it easier for them to challenge the business.

4 Only a select sub-set of finance people embedded in the business can combine the business understanding and close working relationships gained through proximity, with financial expertise and strategic thinking to provide finance leadership. These are regarded as ‘true’ finance/business partners by the CIMA Forum. They can challenge line managers as sparring partners. They do not produce financial or management information but they promote the application of finance disciplines to decision making, challenging the business to generate more value and having a significant influence on the business’s direction. They provide as much leadership as support. They can be embedded in the business or have a matrix reporting relationship.
A lot of thought has gone into finance/business partnering at Kimberly-Clark. ‘Services’ refers to backward looking roles, reporting historic information. It is very easy for finance personnel to get comfortable in a finance silo. Finance/business partners need to be enterprise driven. They need to be looking at what might happen in the future.

CIMA hosted a similar forum in Australia, the CIMA Business Partnering Forum, and for one global company member, finance/business partners have to understand the drivers of value in the business. Their focus is on: planning, strategy, control, commercial, supply chain and corporate. Finance/business partners should be proactive in engaging (internal) customers.

For Ford, the role of finance in the manufacturing environment is clearer because of the process certainty in terms of the inputs, controls and outputs. Finance has been able to shift its focus over time from merely measuring outputs to deciding on inputs and the control environment.

For Rolls-Royce, business managers help line managers to achieve their milestones/targets. It is all about resource management. Developing new jet engines are complex long term projects. Business managers help to apply financial disciplines. Estimating is a key discipline (Rolls-Royce have developed an estimating tool encompassing all the best practices about the discipline). It is a challenge for finance people to fill these roles. Accountants have a tendency to over focus on spreadsheets. They need to be able to speak about finance in the engineers’ jargon. An engineering background provides a keener understanding of the business. But management accountants have a good grounding and can be developed into business managers.
4.2 Finance/business partners’ skills

'I think there is going to be a divergence between skills required for technical outside reporting to stock exchanges (SEC and the like) and that which is necessary to inform both management and outside investors. I think the technical requirement of financial reporting now are beginning, in some respects, to distort the value of information from a management perspective and I suspect we will unfortunately end up with a greater divergence than we have today between management reporting and financial reporting. Of the two, I think management reporting is going to be more relevant because it will actually describe the processes through which value is created as opposed to putting financial data elements into a technical framework for compliance with international finance and US GAAP rules.'

Douglas Flint, Group FD, HSBC Holdings
CIMA webcast, 2006

No finance/business partnering model, processes or metrics may yet be established as the best practices to be applied. However it is clear that a finance/business partner needs to possess a broad range of wider business skills in addition to the core skills and financial disciplines of the traditional accountant skill set.

One member of the CIMA Forum noted that having introduced shared service centres, they still have about 800 finance managers but only 100 of these could be considered to be strategic finance/business partners. Many of the remainder may not have the potential to become this type of finance/business partner. They may not have the aptitude to develop the broader ‘soft’ and business skills to complement their core financial skills. Even those that do have these skills may find that their core financial skills will not suffice for the form of quantitative analytical analysis often required to support decision making.

The CIMA Forum agrees that the selection criteria used by high end strategy consulting organisations are instructive as to the qualities required of finance/business partners.

Primary responsibilities of a finance/business partner:
• partner the Chief Commercial Officer to plan/implement commercial strategies
• proactively challenge the business with alternative strategies which maximise value
• partner the Chief Technology Officer and Business Transformation Director to plan and control budgets.

Source: Extract from an executive appointments advertisement
Ford has had to invest a lot of effort into ensuring compliance with Sarbanes-Oxley (SOX). The expertise of its management accountants has been very important for this purpose. Ford has found this to be a valuable exercise as it has improved the understanding of business processes and identified opportunities for improvement. But Ford also recognises that the skill set required of the accountants for finance/business partnering are different from those required for SOX compliance.

Different capabilities, including softer skills such as communication, relationship management, change management, project management and teamworking, are required. Also, they need to be business savvy and be able to use more sophisticated analytical and creative problem solving techniques.

Alberto Bonacini shared some of his insights into business partnering gained through his current experiences at Roche and his previous finance roles with GE.

• What a finance person brings to the table is clearly his or her financial expertise. This is the initial non-negotiable foundation that gives a business partner the necessary peace of mind to run the business. The role of finance is both to ensure this ‘financial peace’ and to act as translator of financial terms and financial measurements into terms and events the business can easily relate to.

• Finance people need to become ‘sparring partners’, able to challenge in a positive way as the people with the financial skill set.

• Co-decision making and optimisation of solutions are the ultimate goal, rather than imposing financial control and discipline. Ideally others should want to include the finance person in the decision making processes. He should be invited to contribute because his view is respected rather than simply asked if we have a budget for this.

• At GE, finance was so linked to the business that the term business partner did not arise. There was a clear role for finance and it was unthinkable to imagine a CEO not working closely together with a CFO. You couldn’t move without the endorsement from finance, but you could move faster because finance was already involved and committed.

Leading companies are very clear on behavioural expectations for finance/business partnering. These behaviours include:

• challenging
• adaptable
• living our values
• accountable
• motivating
• collaborative
• forward thinking
• growing people.
A guest speaker from a leading edge technology company made a thought-provoking presentation on analytics, a seemingly technical topic. Interestingly, although he shared with the CIMA Forum how his company had used analytics to achieve a step change in their business model, he emphasised the need to develop finance/business partners’ soft skills over the need to develop technical analytical skills. Without these soft skills, impact will not be achieved.

Key learning points included:
- in talent development it is important to acquire expertise in business process improvement and experience by rotation through the range of finance roles (back, head and front office)
- the communication and influencing skills required to get from analytics and insights through to achieving impact are higher priority areas for focus and development than sophisticated analysis and modelling skills
- intuitive logic can be more valuable for finance/business partners than scientific analysis in achieving impact.

When the CIMA Forum considers how management accountants can better support decision making, the discussion is never about how to provide numbers. For example, they might share views on providing a managing for value or a risk management framework or the metrics and analytics to support evidence based decision making, but the challenge is never to produce a measure. The challenge is always to achieve impact.

A recurring theme is that effective business partnering is not just about providing management information and having technical skills. It is about understanding relevance, sharing insights, influencing decisions and managing performance to achieve impact and adding more value (see Figure 12).

**Figure 12 From back to front office**

![Figure 12: From back to front office](Source: CIMA, September 2007)
4.3 Developing future finance/business partners

Figure 13, as provided by PA Consulting Group, shows the Herrmann Brain Dominance model developed by Herrmann International to illustrate the thinking processes of a sample of FTSE 100 finance directors. Their findings may illustrate a fundamental challenge to developing accountants to partner with the business. Having cerebral and left mode thinking processes, these FDs are logical, analytical, quantitative and fact based thinkers. These are valuable qualities for them to contribute to decision making. However, their nature may make it difficult for them to develop empathy with more emotional or intuitive colleagues.
The challenge in developing finance/business partners has been described by the CIMA Forum as being the need to help accountants to become 'T shaped'; meaning that they should acquire a broad range of business skills to top-off core finance skills acquired through training in business as a management accountant.

This requires a development programme that includes experience in F&A roles and in working closely with, or even within, business lines.

Finance people need to be trained not just to furnish and assemble financial information but to draw insights and to communicate these effectively to support decision making. They will be expected to use their understanding of the numbers and metrics to evaluate opportunities and support decision making about investment opportunities and resource allocation.

Unilever’s progress towards finance/business partnering has been driven by the Unilever Finance Academy. This unit is leading the change in Unilever’s global finance community, developing tools and techniques and promoting and dispersing them to business units.

Regional finance information centres support business units’ adoption of the range of tools and techniques and their consistent application. Cross-functional teams in the business units consider and agree roles, expectations and accountabilities in brand management processes. Contributions are from IT, finance and customer development. Finance’s contribution to marketing and customer development varies depending on the service target area and process. In some cases, finance assumes an advisory and supporting role and in others a performance monitoring role. Finance integration into the business also depends on the maturity of the market and such factors as market share and availability of local finance skills.

A web portal of resources, e-learning modules and a range of other communication tools support the diffusion of best practice and the development of skills in the finance decision support/business analyst community.

The experience of a major British bank that has invested in developing finance/business partners supports this view. The organisation recognises a need for finance/business partners but the accountants given this title are more in their comfort zone preparing spreadsheet models to supplement the management information provided by the shared service centre. This bank has now provided business performance managers to assist the finance/business partners and remove this excuse. But it is clear that many finance/business partners are more comfortable dealing with numbers than business issues.
4.4 Key messages

- The nature of the finance/business partner role varies but an emerging ideal is that of a ‘challenging sparring partner’.
- The skills required are the core F&A skill set with a broader business understanding and a range of soft communicating/influencing skills.

> As a total enterprise, Kimberly-Clark uses an Objectives, Goals, Strategy and Measures (OGSM) tool extensively. Long term objectives (words) and goals (numbers), together with strategies (words) and short-term measures (numbers) cascade in a disciplined and transparent way from the total enterprise through functions and into individuals’ personal objectives. The resulting integrated approach to activity planning means that they are now less precious about what is owned by finance. For example, manufacturing facility staff with a finance background are focused on analysis only and belong to the facility management. Their careers may take them in and out of finance but they are embedded in the business. Finance business partnering (business analysis) continues to be a career development bridging point from function to the business.

Along with all areas of the organisation, the prime concern in people development is to develop future leaders for the enterprise rather than individual functions. The disciplined activity planning process for individuals and groups is combined with an objective measurement process. All staff follow a standard development process focusing on developing leadership skills at three levels:

- leading self
- leading teams
- leading leaders.

For each level, six leadership qualities are assessed and developed – building talent, collaboration, decisiveness, inspirational, innovative and visionary. Results are plotted on a nine-box grid with forced distribution which enables absolute transparency of the best talent in the enterprise.

In the business partnering role, the leadership development expectation is the same as with business roles and organisational result expectations are closely interwoven with the business area being supported. As a result, the partner is highly integrated.

Functional expectations and development are secondary but continue to be provided. Indeed there is still recognition that the specific skills of process and risk management that traditional, experiential finance training provides is an excellent background to supporting the business and inserting level-headedness into business planning.

- Leading companies have invested in training programmes and career planning to develop finance/business partners.
- The challenge for accountants is to overcome their stereotype.
5 Improving decision making

The role of the management accountant can be mapped on to the decision making process to show how finance/business partners can support decision making.

A more compelling case for the engagement of management accountants as finance/business partners is made by showing how they can help apply financial disciplines to the decision making process.

The application of finance disciplines such as managing for value, performance management, risk management or analytics can improve decision making.

5.1 Managing for value

The rise of private equity seems to have increased the focus on managing for value. Private equity organisations have the advantage of not having to be as transparent as publicly quoted companies but they are usually funded by much more debt than equity. This high leverage carries financial risk and can mean they need to manage for cash to service or reduce debt.

Management might learn from the private equity houses’ strategic focus, implementation, remuneration and possibly corporate structure or gearing. Management may not have an exit strategy but they may have the advantage that they can manage for value to maximise shareholder value in the longer run.

In 1999, as the potential of the internet became clear, Jack Welch famously exhorted GE managers to ‘destroy your business’. This framed decision making. Benchmarking against potential e-enabled competitors identified cost savings and suggested new business models. Likewise, ‘what would a private equity house do to our business?’ can frame decision making today.

In March 2007, Cadbury Schweppes, which has long been a champion of managing for value, issued a press release confirming that private equity investors held 3% of its shares. Just two days later it issued a press release announcing its intention to separate its confectionary and US beverages divisions and that the board was evaluating the options for separation to maximise shareholder value. It also announced that it was addressing its operating costs to improve margins that had lagged behind peers.

Cadbury Schweppes claims it was planning to make these changes in any case but it is interesting that the private equity stake seemed to have prompted it to make these announcements as though to assure investors that the management was already doing what private equity owners might do.

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**Press release**

**Cadbury Schweppes – re: market speculation**

13 March 2007

In response to market speculation, Cadbury Schweppes confirms that it has been informed by Nelson Peltz that he and certain of his affiliates have interests in 62,465,267 Cadbury Schweppes shares, representing 2.98% of Cadbury Schweppes’ issued share capital.

Cadbury Schweppes press release, 2007
Cadbury Schweppes announces separation of confectionery and beverages
15 March 2007 (extract)

Cadbury Schweppes announces that it intends to separate its confectionery and Americas Beverages businesses. The Board is evaluating the options for separation to maximise shareowner value.

Strategic rationale

In 1997, we adopted our Managing for Value philosophy. Since then we have consistently managed our portfolio of businesses to deliver superior shareowner returns. We have substantially strengthened the position of both our confectionery and beverages businesses through a series of acquisitions and disposals, and through organic investment. We have acquired faster growing, higher return businesses, and disposed of those which were slower growing or less competitively advantaged.

In confectionery, the acquisitions of Hollywood, Dandy, Kent and Adams transformed our confectionery business, giving us the broadest category participation and geographic footprint in the global confectionery industry. Since then, we have continued to strengthen the business through a significant increase in investment and have grown our share to become the leader in global confectionery.

In beverages, we have built critical mass and strengthened our route to market, primarily through acquisition. At the same time we have sold those businesses where we believed we could deliver value to our shareowners via a strategic premium on disposal. Since 1999, we have sold our beverages businesses in over 180 markets. In 2006, we sold our beverages operations in Europe, Syria and South Africa for £1.4 billion.

We have actively sought to significantly improve the performance of our business in the Americas over the last three years, first through restructuring and then by a focus on core brands. This culminated in 2006 when we secured and strengthened our route to market through the acquisition of several of our third party bottlers (including Dr Pepper/Seven Up Bottling Group).

The Board has continued to keep the position of the beverage business under review. Over the last six months, we have successfully integrated the bottling acquisitions and have seen the performance of the enlarged Americas Beverages business strengthen as we have started to deliver the cost and revenue synergies.

In addition, we have conducted a rigorous benchmarking exercise on selling, general and administrative (SG&A) costs, and commenced an intensive review of our global confectionery manufacturing footprint. These initiatives have identified further significant opportunities for increased margins and enhanced returns in the confectionery business.

Cadbury Schweppes press release, 2007
XYZ Inc (name withheld), a member of the CIMA Forum, tells us that its CEO championed an initiative over five years ago to double shareholder value. This challenge framed decision making. Business as usual or improving trend lines would not suffice. It would have to out-perform their sector.

Its ‘double our value’ initiative was based on benchmarking and total shareholder return.

To set itself benchmarks, it reviewed the performance of 20 competitors to identify what they did well and what they were doing to increase their shareholder value.

Acceptance of the target of doubling total shareholder return meant that incremental growth would not suffice. New initiatives and enablers to achieve them had to be identified.

To double shareholder value was a tall order for its sector at the time. Having set itself this challenge, to match the returns that shareholders might hope to achieve in other sectors, XYZ had to develop business plans for each business unit to achieve it.

The potential new initiatives identified five years ago included growth in the USA market, developing new supply lines, new technologies and new products. These were tangible actions that were pushed down to the actual departments and functions to implement.

Within XYZ, finance is seen as the one function that understands and is able to reach out to all other parts of the business. The nature of finance, for example payables, touches all functions. Finance led the planning process for the ‘double our value’ initiative as they own the business planning process.

The role of finance initially was to ask the challenging questions – for example, what initiatives could we take? What are the enablers? How are we going to unlock this value?

XYZ has a central finance group which deals with all the other finance departments in the other functions – each functions’ finance department does its own business plan and this is then fed into the central finance group.

An interesting point is that in this business plan, which is led by finance, there are no financial details in the first six or so pages.

This reflects a recurring theme. Accountants must resist presenting figures as the answers. They are often more useful as adjectives for description and measurement to improve understanding. Finance is not just about crunching numbers. Opportunities, risks and insights, all have to be considered before appropriate actions can be determined and managed through to completion.

Following this initiative’s success, XYZ has set itself the same challenge again for the next five years. The CFO fully supported the CEO’s original initiative and is now the main sponsor for the next five years’ initiative.
A survey of 300 leading companies conducted by PA Consulting in 2003 showed a strong positive correlation between companies that take a systematic approach to managing for shareholder value and total shareholder returns over the period from 1997 to 2002. In their survey, PA Consulting found 68% of companies do not apply this discipline.

Managing for value requires cultural change. In a business that is managed for value, finance/business partners provide much more than metrics. They provide a value based framework for decision making. They share insights and help educate the business to be focused on value creation.

Figure 14 Performance impact of implementing managing for shareholder value (MSV)

Although Figure 14 demonstrates the superior performance impact of fully implementing managing for shareholder value (MSV), CIMA Forum members noted that applying the principles and processes generated only marginally lower returns than full implementation – and a lot better than a no MSV or a principles only approach. This suggested that significantly improved performance could be achieved by recasting the key performance indicators and related processes to reflect value creation, without all the complication of a full-blown managing for value programme.

Having a greater understanding of the business and its potential, finance/business partners can challenge the business to accept ambitious but achievable goals. They determine how alternatives should be assessed and performance managed to optimise value. They also understand that the risks inherent in these stretching targets have to be assessed and managed if value is to be created.
5.2 Performance management

Christopher Ittner and David Larcker have found that businesses find it difficult to make or validate the linkages to value generation or to set the right targets to measure and reward performance correctly (Harvard Business Review, November 2003). Many businesses have a fundamental difficulty in performance management because they do not have this clear understanding of the drivers of value to be able to develop an effective balanced scorecard.

Identifying the causal connections of performance measures or strategic mapping necessary to develop effective dashboards or balanced scorecards is always a challenge. Performance management can be enhanced by embedded finance/business partners’ understanding of the drivers of strategy and value.

Their understanding of the business enables finance/business partners to challenge the business managers to deliver results in-line with the business’s actual potential. Thus budgets need not be agreed by negotiations based on last year’s figures as the starting point.

The ability to communicate an organisation’s core values and mission so as to engage employees depends on having this understanding. Tesco is widely recognised as a success story. Its ‘steering wheel’ is an example of a balanced scorecard that is a clear means of communication. It focuses attention on key drivers of the business’s success and is understood by management throughout the business.

Performance management at Tesco

Tesco’s ‘steering wheel’ is its own customised balanced scorecard. It communicates strategy-aligned goals and manages strategic performance. It monitors progress and measures success. The organisation’s core purpose – ‘to create value for our customers and to earn their lifetime loyalty’ – has been delivered on a clear and simple strategy of long-term growth.

Tesco’s steering wheel framework comprises four perspectives – people, customer, financial and operations. Each is driven and monitored by demanding but achievable business targets. Throughout Tesco’s retail operations, every store has its own individual steering wheel, to which all staff members’ objectives are linked, and which relate strategy to day-to-day work. At every organisational level, where the key performance indicators (KPIs) are not on track and targets are not being met, the steering wheel group investigates the reasons why, and plans corrective action.

Performance is reported quarterly to Tesco’s board and a summary report is sent to the top 2,000 managers in the company to pass on to staff. Further, the remuneration of senior managers is shaped by KPIs, with bonuses based on a sliding scale according to the level of achievement on the corporate steering wheel.

Tesco’s values and priorities (concerning customers, staff, business and compliance issues) are embedded in the steering wheel through appropriate KPIs. These values pervade operations and are instrumental in securing staff commitment to the steering wheel.

CIMA Insight, 2005
5.3 Risk management

In recent years there have been a number of policy developments in the field of risk management and internal control, for example the Turnbull review (Internal Control: Guidance for Directors on the Combined Code) in the UK which sets out best practices and the legal requirements of Sarbanes-Oxley.

Risk management has also focused on risk mitigation, for example the disaster recovery planning that allowed Lehman Bros to continue trading after 9/11.

Many members of the CIMA Forum feel that there is too much emphasis on compliance with risk mitigation requirements and not enough attention paid to enterprise risk management. One participant said that ‘too much time has been spent complying with the risk management requirements under Sarbanes-Oxley without enough spent on strategic risk areas which are the true, fundamental risks that can make or break an organisation’.

Jon Fundry and Mark Dixon of The Linde Group made a presentation to the CIMA Forum about the risk management practices developed at BOC which are now applied by their new parent, The Linde Group.

The Linde Group see risk management as a tool to gain competitive advantage through being able to take on and manage risks. Their objective is not to be risk averse but to see risks as opportunities as well as potential threats.

The Linde Group take a qualitative (based on managerial judgement) rather than quantitative approach. Advanced techniques are used for project costing but quantification is often fraught with difficulty. It is more important to put descriptions, actions and controls against risks rather than numbers.

The Linde Group’s qualitative approach is also taken by other members of the CIMA Forum. Ford and the DWP (Department for Work and Pensions) for example, use low, medium and high indicators to identify and track risks. They too have centralised risk management teams but these are within their treasury function. Other CIMA Forum members, Kimberly-Clark for example, use quantitative analysis, such as Monte Carlo simulation, but this is used to provide insights to inform a similar qualitative approach.
Risk management at The Linde Group

The Linde Group, through its BOC roots, is an example of a good practice case study in how to get the right approach to risk management.

- The finance team at The Linde Group provide risk management because there is a demand from the business. Meeting the corporate governance standards is a secondary but still important objective.
- Risks are owned and managed by employees throughout the organisation in their day-to-day duties.
- The central risk management team provides specialist expertise and encourages the embedding of risk management principles in day-to-day thinking. The risk framework coordinates input from a wide range of disciplines.
- Qualitative (based on managerial judgement) rather than quantitative approach for strategic risks; although advanced techniques are used for project costing.
- Harnessing the experience and judgement of management through a strategic risk process helps the company to think of the key risks facing the group and sense check them against current plans.
- The strategic risk process involves the use of risk workshops. On average, 80 to 100 workshops per year are delivered. Specialist software supports this process.
- There is a formalised quarterly risk reporting system for material entities which looks at risks for the next three years. It provides executive board reports on a six monthly basis.
- Tools and techniques to analyse decisions are available on the intranet to encourage the rest of the business to do their own day-to-day risk management responsibilities.
5.4 Analytics

Companies have access to unprecedented levels of data captured by ERP, customer relationship management (CRM) systems, point of sale (PoS) scanners, loyalty cards and through business conducted over the internet.

Finance/business partners do not usually possess the technical analytical and modelling skills to conduct the analysis of this data but the analysis can usually be provided by experts or, increasingly, by analysis applications.

For example, both Unilever and DWP sometimes use economists and statisticians to conduct detailed analysis to predict market demand.

However, the combination of predictive analytics and CPM or BPM systems offers enormous potential for providing insights to improve performance.

For example, OutlookSoft, now part of SAP, offers a predictive performance management tool that includes built-in strategic planning, budgeting, forecasting and consolidation, reporting and key performance indicators (KPI) analysis. It is designed to deliver actionable information to the desktop and provide a complete view of the business.

Several software providers that offer business intelligence and corporate performance management products, including Cognos, Hyperion and SAS, have expanded into predictive analytics too.

The finance/business partner needs to combine an understanding of the analysis provided with knowledge of the underlying data and the business to communicate financial insights and frame evidence based decision making.

Through using CPM systems finance/business partners may already be able to provide more analysis than is traditionally expected by the business. Finance/business partners may have to communicate the relevance of this analysis to the business to ensure that decision making is based on the latest evidence available.
Unilever can assess brand valuation and performance. They use econometrics or multivariate regression analysis. They have created sophisticated tools and techniques to improve decision making with regard to brand ROI (return on investment). These cover a range of drivers of brand health and potential value creation such as choice on pricing, media and the marketing mix. For example, they have a keen understanding of the relative value of investing in trade incentives or advertising and promotion. They have found through analysis of empirical evidence accumulated from past campaigns that there are just a small number of key variables which will determine a campaign’s success.

Analytics at Tesco

Working out how we can differentiate ourselves is very difficult. There are no real economies of scale in this business. Take Morrisons: it was half the size of Safeway, but it still had the clout to take over its business. It’s about doing what you do better than the rest.

But we don’t worry too much about our competitors; we worry about Tesco and what our customers are saying to us. The clubcard is a huge benefit. We run the business on the clubcard information we obtain from how people shop in our stores. We also have monthly surveys of shoppers. One of their big bugbears was long queues at the checkout, for example, and people gave us credit for trying to improve that situation for them.

That’s how we work – we are out in the stores all the time.

There are no secrets to Tesco’s success. It’s all on display.

Andrew Higginson FCMA
Finance and Strategy Director, Tesco
CIMA Financial Management, March 2005
5.5 Key messages

- Finance/business partners can contribute at each stage of the decision making process.
- Moreover, they can help the business to apply financial disciplines such as managing for value, performance management, risk management and the analytics to improve decision making.

Case study

A guest speaker at the CIMA Forum, from a leading technology company, shared how the F&A function used analytics to help change the business model.

- Finance recognised a need to amend the business model to reduce costs. It entered the frame uninvited, explaining the burning platform and telling manufacturing and the supply chain where the company needed to be. Supplier relationships were ramped up and TQM (total quality management) principles applied.
- The organisation set out to reduce costs and increase volumes significantly. Competitive analysis provided a grounding for cost analysis and sensitivity analysis.
- The strategic reduction in costs required could not be achieved through incremental continuous improvement. It required a paradigm shift in the understanding of the organisation’s cost curve. It had to re-think which costs should be considered to be controllable.
- Analysis made incredible goals credible. Gap analysis and scenario modelling confirmed the burning platform but also showed how the strategic reduction in costs could be achieved.
- This was a three year programme. Periodic analytical refreshers tracked progress.
- Dramatic improvements have been achieved. Costs and space were reduced by 60%, labour productivity improved five-fold and an 80% increase in volumes was achieved.
6 Conclusion

Finance transformation provides an opportunity for the F&A function to become more efficient and collaborate with the business to improve decision making.

Leading F&A functions are already empowered to support the business. They have the people, systems, processes and structure to provide timely and accurate financial and management information in a user friendly format. Their finance people are business literate as well as financial experts. They operate within a culture that values their contribution to evidence based decision making.

Companies that are not availing themselves of this opportunity risk putting their company at a competitive disadvantage.

Determining a shared vision for the F&A function’s role in your organisation could be the first step in a change programme to improve decision making.

6.1 A vision for finance as finance/business partners

An important insight from the CIMA Forum is that progress towards finance/business partnering will falter if the finance function unilaterally promotes itself as a partner to the business. There has to be a demand from the business for them to perform this role. The starting point has to be a vision for the future of the finance function that is shared by the CEO, the CFO and the business.

Before the blanks in the change agenda (see Figure 15) can be completed, the CEO and CFO must first develop and communicate a vision for the finance function and share this with the business so that there is an expectation and a demand for finance/business partners to improve decision making.

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**Figure 15** Change agenda

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Unilever, Kimberly-Clark, BBC, Ford and Diageo, among others, already have initiatives to influence/transform the orientation of the finance organisation. In some cases, there are revised structures, accountabilities, tools and techniques in place for finance to partner with business units and other functions such as sales and marketing and research and development.

As with other major changes, transforming the F&A function and developing the finance/business partner role requires change and project management disciplines. People, systems, processes and structure need to be aligned.

The cultural and behavioural change should not be underestimated.

Decision making could be the key step in the value chain that leads to superior performance. Any business that has not engaged finance to help improve decision making could be putting its competitive position at risk.

We hope this report will be useful to you in considering your vision for the role of the F&A function in your organisation.

Comments should be sent to:

The CIMA Innovation and Development Department
CIMA
26 Chapter Street
London SW1P 4NP
E. technical.services@cimaglobal.com
Decision support at London Underground
London Underground recently undertook a transformation of its finance organisation to form a leaner, more professional and customer focused organisation with its key aim to act in a finance/business partnering role to the operational business.

What London Underground did:
• refocused higher qualified staff on volatile areas of expenditure and away from easily controlled and stable areas
• redesigned team structures and upgraded skill levels by appointing proactive, communicative, strong willed accountants prepared to challenge assumptions and be business aware
• encouraged behavioural change by bringing down physical barriers and bringing teams together to create synergy, share lessons and keep consistency
• developed partner role to business managers in financial analysis and discussion to better understand requirements and business needs
• elimination of non-value added reports, analysis, reduced service levels to non-budget holders and implemented stretch targets.

How they did it:
• strong central finance leadership, with clear communication lines
• finance goals clearly linked to strategic business objectives
• finance support reports directly to finance through the Head of Accounting with a strong dotted line to the business
• the finance support team physically located together to build finance cohesion and to share lessons, but encouraged to go out to clients for face-to-face contact
• development of enhanced understanding of the business through closer relationships with the business managers.

What the result has been:
• customer satisfaction and confidence in the decision support service has improved significantly according to surveys of customers
• the number of full time employees in decision support has more than halved
• improvement in staff satisfaction measured through staff surveys.

Noel Cullen and Thomas Wildgoose, PA Consulting Group and John Graham, Head of Accounting, London Underground
For example, one leading FMCG (fast moving consumer goods) company, that is well advanced on the journey towards effective finance/business partnering, has set out a clear vision for the role of finance. In the next three years finance/business partnering will continue to evolve. Going forward it has identified the following priorities:

- a need for the continued evolution of business services/finance/business partnering
- a need to continue to invest in finance capability
- a need to continue to reinforce finance/business partnering with the business
- a need to refine finance/business partnering structure for business evolution
- a requirement for ongoing focus to better leverage systems
- a need to be able to measure finance’s performance and progress.

How it works in practice – a case study
Does finance/business partnering really work? Serendib Business Solutions has been involved with a number of organisations who are making the transformation.

One is a private wealth management company with funds under management of A$12bn. Its finance function used to be entirely operationally focused and non-value adding. The company began the change around 18 months ago by separating the operational finance functions into a captive shared service function and a specialist function. It then established a finance/business partner function, called business performance, with a mandate to partner the business. The company also began building a data warehouse and introduced business intelligence software to enable data mining and analysis to support business insight.

Internal surveys have indicated that satisfaction with finance has risen by around 20% since the partnering function was established. Business performance is also now seen as a vital partner of the business with a seat on the business unit management teams. Business performance staff will eventually be embedded within the business with a dotted line to the CFO.

Paul Thambar ACMA, CEO, Serendib Business Solutions
CIMA Insight, 2006
References and further reading


CIMA/AICPA and CMA Canada (2007), *Outsourcing the Finance and Accounting Functions, Management Accounting Guideline (MAG)*. Published in October 2007, only available to CIMA members via MyCIMA. www.cimaglobal.com


Improving decision making in organisations


EquaTerra (2007), *EquaTerra Advisor and BPO/ITO Service Provider Pulse Survey Results 2Q07*.


IBM Business Consulting Services (2005), *The agile CFO, acting on business insight*.


The Hackett Group. www.thehackettgroup.com

The definition of management accounting

Management accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors. Management accounting is an integral part of management. It requires the identification, generation, presentation, interpretation and use of relevant information to:

• inform strategic decisions and formulate business strategy
• plan long, medium and short-run operations
• determine capital structure and fund that structure
• design reward strategies for executives and shareholders
• inform operational decisions
• control operations and ensure the efficient use of resources
• measure and report financial and non-financial performance to management and other stakeholders
• safeguard tangible and intangible assets
• implement corporate governance procedures, risk management and internal controls.

CIMA Official Terminology, 2005 Edition
The work of the chartered management accountant

Chartered management accountants help organisations establish viable strategies and convert them into profit (in a commercial context) or into value for money (in a not-for-profit context). To achieve this they work as an integral part of multi-skilled management teams in carrying out the:

- formulation of policy and setting of corporate objectives
- formulation of strategic plans derived from corporate objectives
- formulation of shorter-term operational plans
- acquisition and use of finance
- design of systems, recording of events and transactions and management of information systems
- generation, communication and interpretation of financial and non-financial information for management and other stakeholders
- provision of specific information and analysis on which decisions are based
- monitoring of outcomes against plans and other benchmarks and the initiation of responsive action for performance improvement
- derivation of performance measures and benchmarks, financial and non-financial, quantitative and qualitative, for monitoring and control
- improvement of business systems and processes through risk management and internal audit review.

CIMA Official Terminology, 2005 Edition
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