Improving decision making in your organisation
The CIMA Strategic Enterprise Management (SEM) initiative
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1 Executive summary

• Not enough time for effective strategy development
• Not receiving the right information to improve strategic decision making
• Your organisation’s employees have not got the information they need, when they need it and as a result are not empowered to make the decisions required to manage the business on a daily basis
• You are battling to manage your business operations in the way that you want
• Your finance function needs to evolve its role so it can add value to executive decision making

If any of these statements ring true for your company, a better approach to decision making based on new technologies and well implemented management accounting techniques may assist you in your efforts to improve the quality and effectiveness of your strategic management processes and the running of your company. On many occasions, the common basis of poor performance and failed companies is bad management and in most cases this rests squarely on the decisions that have been made by executives.

The literature from SAP and other major enterprise software providers, and from leading commentators in this field, has been advocating SEM systems as a basis for improving both the role of the finance function and decision making in organisations. The latest book by Cedric Read and the mySAP Financials Team, The CFO as business integrator, is designed to help CFOs take advantage of information technology and to leverage current investments in ERP and SEM systems. There is much marketing material on the benefits of emerging technology tools such as analytical software to improve decisions in the areas of human resource management, supply chain management and product life cycle management and SEM modules which can leverage the data that you have residing in your business warehouse.

As software vendors also recognise, improving the performance of your company is more than about investing in technology. And what the marketing does not always mention is that there are many cases where new technology and systems have not improved the integration of management accounting into the business to improve decision making.

This report considers the progress of SEM in organisations and why there is often a difference between rhetoric and reality. For many companies the ERP and SEM technology has not necessarily led to improved decision making and greater transparency. The SEM debate is much wider than leveraging the benefits of an ERP system with new systems. This report also shares some of the learning experiences gained from the CIMA SEM Round Table with the finance directors and chief financial controllers of large and medium sized companies. The Round Table had eight large corporate participants, employing over 600,000 people, sharing experiences and discussing case studies to assist their desire to improve decision making to improve their business performance in terms of increased stakeholder value. It has emerged from our discussions that the over emphasis of companies on technology rather than decision making in itself, and the extreme complexity of many large multinational organisations, causes difficulties with moving an organisation forward.

It is our aim to support companies’ development in this area by establishing a benchmarking service. This will enable companies to keep in touch with how other organisations are progressing in terms of implementing information technology, developing their finance functions and improving decision making. It is with this information that we hope executives can identify improvement opportunities for their businesses and finance professionals.
2 The SEM vision

The CIMA Round Table has defined the measurement of success in adopting a SEM approach broadly in two ways.

The first is by how well senior executives feel they are able to empower their employees and devolve authority to run an organisation as efficiently as it can be run in the present day.

The second is by creating the necessary space and acquiring the appropriate information to develop and execute a superior strategic management process that can take the company forward in the medium to long term.

SEM should support the notions of empowerment, better corporate governance and business performance. Good governance applies equally to the performance aspects of the business and better corporate performance is underpinned by achieving a balance between accountability and assurance against value creation and resource utilisation.

Empowered operations should be based on one single truth with one set of robust, real time (or near real time), integrated information supplemented with analytics that are both rigorous and consistent in approach. An empowered board on the other hand, should have the space and clarity to arrive at an objective consensus of the business model, which are the key levers and when and how they should be pulled. Executives need to continuously question the business model through the use of feedback loops and in the context of the market. This in turn should release time at Board level to focus on the decisions that matter in value terms.

This is not an easy vision to achieve. While technology can help enable the SEM vision, better decision making in the long term requires a broader set of competencies and capabilities.

While precise definitions cannot communicate the full nature of SEM, a working definition could be:
An approach to strategic management which focuses on creating and sustaining shareholder value through the integrated use of best practice modelling and analysis techniques, technologies, and processes in support of better decision making.
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Figure 1: A technology/technique perspective on SEM

The mySAP Financials Team describe analytics software as ‘flexible, actionable, real-time, accessible and integrated. They transform data into information and knowledge into action’. SEM is described as where strategy meets operations and strategic processes are integrated with operational execution.

SAP SEM obtains its data from the Business Warehouse (BW) and, if necessary, from external sources. Typically, the BW collects data from the SAP R/3 ERP system. Tables feeding the relational On-line Analytical Processing (OLAP) cubes are designed to support specific information/decision needs. Cubes partition information for reporting and analytics purposes. In Rolls Royce, for example, sixty-five InfoCubes exist of logistics, procurement and finance data.

Theoretically the software can be structured functionally into five components of the SAP SEM suite:

- SEM – BPS Business planning and simulation
- SEM – CPM Corporate performance monitor
- SEM – BCS Business consolidation
- SEM – BIC Business information collection
- SEM – SRM Stakeholder relationship management

Above this is the presentation layer that leverages portal technology to feed the right information to support a particular user’s decision making needs.

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1For further information on the SAP approach refer to the SAP papers, SEM, “The Functions – A Closer Look”, and “SAP Strategic Enterprise Management” available on www.sap.com/solutions/financials/sem/brochures
3 Why the emphasis on new technologies?

Having time for strategy formulation is or should be a key focus of most executives’ attention. The challenge to business leaders is to design, configure and adapt business models that deliver value to customers. Consequently, executives are continually seeking to develop strategies that produce superior financial results. In addition to their part in strategy development, senior executives also play an important role in business execution and effective control frameworks that are required to ensure operational effectiveness. For many industries, competitive advantage is transient. Companies develop new strategies more quickly and have to mobilise their operations to execute these. Adopting new strategic positions successfully depends on devolving authority to operations.

In order to support these roles, and to ensure decision making processes support shareholder value generation, executives need decision support and information systems that allow them to:

- Quickly identify changes in the market environment and react to them with new, adapted strategies;
- Evaluate and compute these strategies using scenario and activity based planning;
- Integrate planning, budgeting and forecasting processes;
- Operationalise new strategies using concrete goals and corresponding measurements and initiatives;
- Acquire actual data from different sources and consolidate financial data flexibly;
- Monitor goal achievement and benchmark the performance internally and externally; and
- Communicate efficiently with external stakeholders.

The adoption of these SEM systems and analytical applications is claimed to result in the movement away from spreadsheet software for budgeting and performance measurement and better strategic decision making because information for strategic initiatives is included in the system. It is only when this capability is in place that an organisation can begin to develop and sustain competitive advantage by enhancing strategic decision making. To effectively support the value creation process executives need knowledge and information that allows them to answer strategic questions such as:

- Which customers are delivering the bulk of our economic profit?
- Which parts of the business are creating/destroying shareholder value?
- How is our business model working?
- What are the real drivers of our business performance?
- What do these figures mean? How important are they?
- How do we know if we are doing well relative to the competition?
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Figure 2: An overview of the integrated analytics landscape

Read et al (2003) the CFO as business integrator, Wiley

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Many companies have made significant investments in enterprise resource planning (ERP) systems and top-up analytical decision support applications to help improve their management information and decision making. The technology exists or is rapidly emerging but the management accounting techniques are not new. Advanced techniques include shareholder value management (SVM), the balanced scorecard (BSC) and activity-based costing/management (ABC/M). However, they are not as widely used on an effective basis as might be thought and the integration of these techniques into a new information systems framework is extremely difficult to achieve in large complex organisations.

The Holy Grail of SEM is that the combination of technology and techniques can mean these are scaleable across the organisation on a basis that has only been dreamt of before. The reality for many is that they lack scalability and robustness, are difficult to integrate with core systems and as a result have achieved low levels of penetration. CIMA research undertaken in 2001, just prior to inception of the Round Table showed 35 per cent or less of companies have adopted such management accounting techniques. Subsequent research published in management accountant journals supports this view and shows that these challenges remain for many large and medium sized companies.

Discussions at the CIMA SEM round table suggests that having the right approach from finance is important to ensure successful strategies for creating sustainable long-term shareholder value. Particular companies outperform competitors because they are better at decision making. The basis of this is partly informed by useful analytical management accounting techniques such as ABC/M, the BSC, and SVM, and on the approach to decision making and support processes. The result of their adoption and successful implementation is better quality information and its interpretation, helping an organisation forward and supporting good governance.

Figure 3: The potential power of integrating management accounting techniques is rarely attained

The complexity of integrating the three main management accounting techniques and leveraging the potential of enterprise wide information systems and analytical applications has caused technological, behavioural and cultural difficulties for most companies.
5 The real world issues for SEM technology

Systems like spaghetti
The problem is that, in reality, many organisations’ systems resemble spaghetti. There are different operational systems running on different platforms, perhaps resulting from acquisitions and other sources of diversity. Those organisations that have pursued organic growth may be using older systems that until now have met their needs in terms of transactional processing. Traditionally, manual intervention is required to convert the tangle into useful information and insight for people elsewhere in the organisation.

The historical view of many finance functions is not the way in which many CFOs want to work. Many will recognise the following scenario. Operations people extract all the information they have and email it in to finance. Intra-group differences are eliminated, totals are checked, the entries for last month’s figures are scrutinised and checks are made for movement in inventory. The data is entered into a spreadsheet and presented to the executive committee. This is not how organisations should be working but SEM technology does not seem to have solved all the problems, and indeed has introduced others.

The reality is that the systems scenario is varied. Some organisations have no ERP in place, relying purely on Microsoft Excel or, in some cases, also using an integrating tool like Frango or Hyperion. Others have an ERP system, maybe a few SAP SEM modules, or have a planning and budgeting solution but still rely on Excel.

Many companies rely on a ‘best of breed’ solution. For example, taking ERP and integrating into Hyperion and a data warehousing solution, then feeding it into Hyperion’s consolidation system, and then into Excel and Power Point.

It is not unusual for companies to be hesitant to engage new technology. System complexity and a lack of resources are as good a reason as any to delay investment in expensive software, particularly in times when overhead control is a priority. For many, management’s attention was distracted from cost management because of the ‘good times’ characterised by year on year revenue growth. Currently, many finance professionals are focused more on cost management and reductions than on better managerial support.
6 The problematic relationship between management accounting and IT

The complexity of utilising and integrating the advanced management toolset, cannot be underestimated. Many management accountants are hindered by the problems of integrating sophisticated applications such as ABC into the enterprise-wide system. The Royal Mail, which has made significant progress in implementing new corporate information systems to improve decision making, took around a year to bridge its ABC system with the main ERP system, and even now it is not fully integrated. An important lesson learned in this case relates to the difficulty of integrating different vendor software and the high degree of customisation required to make systems work.

Field study research published in 2002 by Granlund and Malmi into the impact of ERP systems on management accounting in ten large companies, including Nokia and ABB, showed how in only half of the companies, product and customer level cost and profitability accounting was handled in the ERP environment. Those that operated cost accounting outside the ERP environment used stand-alone software or spreadsheets and either had no time for configuring costing into the ERP system or had recently invested in separate software and had currently no intention of integrating it. Those firms that operated cost accounting in the ERP system had simply transferred the previous principles into the new system which meant that costing had not become ‘smarter’ but ‘faster’. Overall, the research found that ERP systems are not driving the adoption of new accounting and control techniques.

The logical reason for the lack of integration of management accounting techniques is mainly down to complexity. The cases both in this research and within CIMA’s own Round Table discussions have shown how much time and resource big enterprise system projects consume. The features vital for basic operations are configured well before ABC or balanced scorecard capability, for example, are considered. It also important to ensure that critical applications such as the Business Warehouse are suitable. One company has created additional data warehouses independent of the ERP system to facilitate area based profitability analysis. This is simply a return to poor functionality and complexity that has negative effects on decision making capability and can occur where ERP systems are structured around responsibility centres.

In terms of the functionality of the balanced scorecard, all the companies involved in the Granlund and Malmi research and most on our Round Table which use the balanced scorecard, maintain it in spreadsheet or the Lotus Notes environment. And although some of the information contained in the balanced scorecard report comes from the ERP system, some of it (particularly the externally sourced information) comes from outside the ERP system.

IT complexity can take different forms such as integration of separate software and enterprise systems and the building of specific interfaces between these. The complexity of IT issues can make the quality of the ABC approach fragile and IT constraints on the use of management accounting solutions can lead to weak management information. Research by Willis in 2001 into the codes for cost management in field operating organisations demonstrated that in some ERP systems there is no viable functionality or coding structure to build ABC conveniently into the system.

Therefore, an initial investment in ERP systems or SEM component software should take into account the integration of management accounting techniques to improve decision making. There needs to be recognition that major shifts in managerial control and decision making may not be seen for a period of time but ABM systems that are not integrated and linked to existing financial and operations systems will be more difficult and more expensive to update and maintain.

Markus Granlund and Jan Mouritsen, in introducing a selection of research on management control and new information systems in the European Accounting Review (2003), also raise the possibility that the ERP systems are more concerned with certain aspects of manufacturing and distribution than with management control in practice. This is contrary to what the ERP vendors state about the role of these systems in supporting strategic management. They also usefully make the point that these are not permanent problems and the intense product development and the constant release of new software will inevitably introduce solutions to many of the emerged problems.

This is not to say integration of management accounting techniques with enterprise solutions does not present its own set of issues. In a Harvard Business Review article in 1998, Cooper and Kaplan warned that operational control and activity based cost systems have fundamentally different purposes and as such the two
systems can only be partially integrated, and the integration must be handled thoughtfully. The two systems cannot use the same inputs because they define cost differently and ABC has lower requirements for accuracy. ABC in giving a more strategic view of the organisation, relies on strategic costing for products, services, customers or organisational units and this allows managers to understand profitability at various levels. Costs are aggregated across multiple cost and responsibility centres. On the other hand, the operational control system measures actual expenses incurred in a responsibility centre and features costs that can be controlled. These costs are actual (rather than standard) and are updated continually as opposed to periodically.

The contextual nature of managing performance
Many of the SEM Round Table companies are showing how an SEM approach, of which ERP and SEM systems are only one driver, can allow large corporates to balance the trade-offs between size and agility allowing them to enhance shareholder value. The key driver of their efforts is faster and better decision making at various levels of the organisation and not the technology. The way it is being achieved, however, varies between organisations and each has a different and contingent emphasis.

There exists a tension in many organisations between accepting a degree of standardisation in terms of processes and decision support systems, and customisation. How similar can information flows and processes be to those of competitors before sources of differentiation begin to be undermined? Some vendors have been accused of not wanting to deal with companies which wish for a large amount of customization to the vendor’s systems and approach. One response is to only deploy those SEM modules that are required to support specifically identified processes and keep existing systems where adequate.

In reality however, there are a number of critical variables that need to be considered that affect crucial issues of balance and integration when designing, implementing and using performance management and hence SEM systems. Stan Brignall, based at Aston University, has identified a number of institutional factors that need to be considered in the design of integrated costing and performance measurement systems. The first set of factors relates to the business and product lifecycle, which includes the strategy being pursued, mission and the competitive environment. The second are those related to an organisation’s production or service delivery process type. These factors vary across organisations and within any one organisation over time. Different production and service process types raise different issues for management and require different management accounting systems, and some like ABM for example, may not be universally applicable. He argues that the customisation of SEM systems is necessary to enable each organisation to align its systems to the context in which it operates (using the factors identified as a guide).
Management accounting change is not rooted in new technologies but is about improving managerial work and decision making

As Fahy identified in his book on SEM systems in 2001, an SEM approach can release finance professionals from the drudgery of monthly corporate monitoring allowing them to concentrate on more valuable analysis so that their role takes on a more business and support oriented perspective. In subsequent research by Scapens and Jazayeri (2003) based in the European division of a large US multinational, although there were no fundamental changes in the nature of the management accounting information used following the implementation of SAP, there were changes in the role of management accountants. In particular, they identify:

- The elimination of routine jobs;
- More forward looking information; and
- A wider role for management accountants.

The company does not, however, claim that SAP was the driver of these changes but rather that the characteristics of SAP (such as integration, standardisation, routinization and centralisation), opened up certain opportunities and facilitated changes that were already taking place in the company (Scapens et al). The information from the SAP system was improving management information (including the speed of delivery of reports) in the ‘bottom-half’ of the company, but beyond operations managers tended not to use SAP as their source of information.

New technology is therefore enabling change of the management accounting function but on a different basis than some companies have perhaps expected. In the past, finance professionals have either been criticised for not meeting the decision making needs of business executives or perceived to be undertaking only a policing role. Businesses want finance professionals who can help them create shareholder value. To do this, organisations need to design and configure a sustainable business model and this in turn requires a finance function which can provide decision support and analysis capability across the range of strategic management and operational activities. This involves finance professionals interacting regularly with other parts of the business. As a supply chain manager commented in recent CIMA research (entitled The future direction of management accounting practice 2003) – ‘the finance controller says that he is happiest if he can stand up in the accounting department and cannot see anybody – because they are all out where they should be – having meetings with non-finance managers’.

One Round Table member, the Head of Pharmaceutical Finance and Controlling for a large multinational pharmaceutical company, described how all his reports spent around eighty per cent of their time in multi-disciplinary teams. The finance professional is viewed as central to navigating the work of a particular function and providing the appropriate information to support decision making and the advice where required to improve decision making processes. In such an environment, the credibility...
of individual finance professionals is crucial and relates to their understanding of the business model and its value drivers. The progress of the finance function has been based on their mix of highly skilled people with diverse backgrounds.

In thinking about the development of the finance function in your organisation, it is worth taking a step back to consider the development of management accounting over time. This is useful in understanding what management accounting tools and techniques should be used to help business and the vital skills that business accountants require to support the business. This will allow you to review the type of role your business accountants undertake in your organisation.

It is also important to appreciate that SEM is not simply some new magic technology. SEM as a management activity has been around for decades, ever since companies began to recognise the need for better strategy formulation and execution. Finance professionals such as management accountants and others have been providing SEM type support using spreadsheets, extract programmes and a lot of hard work. Over time, there has been a continuous stream of decision/executive support type software such as EIS, data mining and dashboards. Many of these technologies were sold as a panacea for all firms’ reporting and analysis shortcomings. SEM technologies draw valuable lessons from the less than successful experiences with these earlier technologies by recognising the primacy of the executive and relegating the technology to a supporting role.
The managing director of the division of an international energy company described to the Round Table how the key decisions the board needed to make were largely based on the following reports prepared by the finance function in conjunction with others:

- Weekly and monthly finance reports;
- A balanced scorecard performance measurement report;
- Commodity market prices;
- A monthly risk management committee report;
- Project implementations report.

In the SEM environment that is being fostered, a range of information needs is supported with finance, risk based and externally sourced information to complement internally derived data. The emphasis at this strategic level is on timely and accurate information, flexible reporting and the minimisation of duplication of information.

Such developments have allowed management accounting to play an active role in supporting strategic decision making and monitoring the implementation and success of strategic plans. But the development of the finance function and finance professionals as strategic business managers is a trend restricted to only some organisations.
Improving decision making in your organisation

8 Broadening the view on SEM

CIMA SEM is very much about enhancing the role of management accountants to add value constantly as part of a management team by taking a value creation perspective and properly integrating advanced management accounting techniques and enabling technologies into the business.

Leading organisations can excel in their decision making where they get the right information and analysis, to the right people at the right time. Operational managers, workers, and suppliers where appropriate have broader access to operating information. But information provision is only part of the story. Executives and senior managers should receive the information that they need to steer the business forward. Some organisations continue, however, to struggle in formulating and delivering strategic objectives because they have failed to effectively decentralise their management accounting function and improve their data interpretation. This is partly down to people and approaches, in particular the interface between management accountants and other disciplines, and partly down to technology. What organisations know is that they need finance professionals who can help create shareholder value. This can only be achieved by finance functions providing decision support and internal consultancy across a range of strategic management activities and to different management levels. The role being performed by many management accountants should be based on being a change agent and selling the idea of what can be done with information.

Insight box: The shortcomings of management accounting and control systems in some organisations can be identified as:

- A lack of strategic focus on competitors, customers and products and the failure to address the information needs of wider stakeholder groups.
- The absence of the balanced scorecard approach and the focus on mainly financial historical measures of performance. The financial bias in reporting systems leads to a lack of focus on the drivers of performance. This also makes it difficult to provide adequate support for cost reduction programmes.
- Reporting under traditional legacy systems is cyclical in nature and often restricted to batch and month end reporting.
- In many cases IT is a constraint on an organisation’s ability to implement new reporting processes and measures, and to develop unique processes.
- Important business knowledge and understanding of the underlying processes is often embedded in poorly documented spreadsheets.
- With business models and corporate strategies continually changing many organisations find that their reporting systems do not reflect the changing corporate strategy.
- An excessive control focus has led to neglect of decision support for important areas such as business problem solving and direction setting.

Improving decision making in your organisation

CIMA research published in 2003 on the future directions of UK management accounting practice puts strategic management accounting as the second vitally important tool/technique for development in the period up to 2005. Advanced techniques such as value added accounting, ABC and the balanced scorecard all make the top ten. It is also interesting to note the changing skill set of management accountants required in their role working alongside and supporting their managerial colleagues, and integrating strategic, financial and operating dimensions of a business.

The research found that the new approaches to control are effectively based on the notion of empowerment, which relies on trust, teamwork and co-ordination. The management accounting function is becoming decentralised (i.e. more integrated into the business) while the financial accounting function is experiencing an increasing centralisation where routine tasks are outsourced. Where the focus is now on business processes, responsibility will cut across traditional functional boundaries leading to the increasing use of team based performance measures. Management accountants within a process should be working with other managers more closely than their accounting colleagues. To undertake this role, they need to understand the industry and business that they are in and the products produced and customers served. It is also interesting to note that Scapens, in his field research, identified that the integrated nature of SAP led to a lack of confidence in the system, and increased cross-functional co-operation and teamwork ultimately overcame this. The key change was for the finance function to look at the business as a set of processes rather than as functions, resulting in a more process orientated organisation.

Skills diversity in the workforce

Many organisations across most sectors have one issue in common which is competing in the market for talent and ensuring a diverse workforce where jobs are filled with the best and most appropriate people. It is the technology and systems space that is probably one of the most competitive because of the shortage of skills. And many finance professionals lack skills in this area which can slow down implementation and increase risk of failure.

One big issue for finance teams relates to the skills updating that is required to work with new technology such as SAP SEM. Some finance professionals need to understand the structures that underlie the SAP software, the database and on-line analytical processing (OLAP) technology and how data can best be manipulated to suit management need. Finance professionals involved in enterprise systems projects need to develop new skills in:

• The creation, manipulation and provision of the information set and deployment of processes; and
• The use of information and analytical capability to make better decisions.

And above all they must understand the business.

Before a SAP SEM implementation, it is important that the finance function has a clear idea of the information set upon which different parts of the business will rely to manage the business going forward. If this is not identified, it is likely that the SEM implementation will fail to live up to managers’ expectations.

Deloitte and Touche Consulting recommends that the strategic development process within the company is at an advanced stage before the technology is implemented. Working within a value based approach, companies need to start by understanding the governing objective and the strategies which could drive maximum profitable growth. The tendency in many companies was for the chief information officer to work from the wrong starting point.

Finance people with the right skill sets who can work with new technology are required. Although with OLAP tools it is possible to process the vast amount of data found in companies in many ways, many managers do not have the skills or time for this. It is also apparent from our Round Table discussions that SAP and the large consultancies seem also short of the right people to develop these tools. The Royal Mail in the UK has secured specialists in OLAP technology through the contract market but retention is a key issue. Skills development of in-house employees has become a focus and there are in-house ERP (R/3) technicians who have developed new skills to work with the business warehouse. The renewed focus on process and skills development is certainly helping many businesses.
Information systems that reflect a strategic view of the organisation are sold on the basis that they typically include:

- Analysis of costs and business drivers;
- Indicators of progress towards achievement of a ‘total quality’ environment in the organisation; and
- Information relevant to strategic planning and forecasting.

In addition, senior management’s information requirements may include both external and internal, as well as both financial and non-financial information. As a result, senior managers require:

- Substantial flexibility in the type and format of information which they can obtain from their information systems, i.e., the types of information which managers require for strategic planning purposes is likely to vary over time;
- Flexible modelling capabilities to enable them to analyse data and information in whatever manner they consider appropriate in given circumstances.

The focus for CIMA members and students is that they have access to:

- Excellent analytical skills using not just financial analysis, but customer/market analysis, statistical and in some cases more sophisticated modelling techniques including simulation;
- A realisation of the need for multi-disciplinary team approach to inform key decision making (for example investment, marketing), including the ability to integrate inputs from diverse experts;
- Strong commercial acumen characterised by strong product, process and market knowledge, typically gained from an early stage by their practical experience when studying;
- Effective interpersonal skills which allow them to adopt a more consultative approach;
- A strong coaching ability that helps managers to be more focused on adding value;
- Forward looking perspective where they appreciate value rather than cost;
- An openness to sharing of best practice and a willingness to partner with the business managers.
A summary of the key components of SEM

Creating and sustaining shareholder value

Without doubt, one of the most influential drivers of change in recent years has been the growing demands of individual and institutional shareholders for greater value creation. However, there is increasing dissatisfaction among senior managers with the quality of the strategic management processes in their organisations. It appears that growing stakeholder demands and increasing organisational complexity have revealed a shortcoming in many organisations’ ability to respond to the increased velocity of change and enterprise management. A properly managed value based approach provides top management with a framework for supporting decisions around strategy and structure.

Under the existing approach to strategic management processes, many companies have failed to redesign the reporting and performance management systems to take into account the governing objective of shareholder value. Consequently, many of the systems currently in place reflect a bottom line profitability perspective rather than a value perspective. The rhetoric of value management is not matched by the reality of performance management and business execution.

Until the transition to a value based management approach is adopted by an organisation, and the management accounting process supports this, the governing objective in your organisation could still be based on the interests of the institution rather than the shareholders. The promotion of growth, the need for prestige and the retention of the existing boundaries of the firm can all destroy value over time. Central to a SEM approach is managing for value and maximising shareholder value by generating, choosing, and implementing the best alternatives for business strategy. The successful pursuit of a value based approach cannot be reserved for parts of the organisation and needs to be accompanied by disciplined decision making with a single governing objective and the right performance management approach.

It involves finance professionals moving their horizon from the monthly profit and loss statement to providing relevant information that reflects the competitive environment and advising on real value creating elements of the organisation. The value based view of the organisation should cover four important areas:

1. A value assessment where a review of economic profit across invested capital by product leads to priorities being based on growth and return
2. Value driver analysis, which looks at operational initiatives to create value. Some companies select the key value drivers behind each major P&L item and also take into account strategic drivers
3. Management processes redesign so that management processes within the activities of planning, budgeting and performance management support value objectives
4. Value reporting where performance is communicated in an improved way internally and externally.

When Lloyds Bank in 1980s and Boots plc in the 1990s explicitly voiced their overall governing objective of managing for value, the CEOs and directors spent much time in face to face meetings with the main fund managers to explain what this meant for the management of the company internally, and how it would affect their reporting to the markets. The success of VBM and business performance in these companies was down to understanding what factors drive value, what decisions are creating or destroying value and establishing value as the criterion for decision making at all levels.

Improving the process of decision making

The CIMA Round Table has also considered the psychology and process of decision making within a SVM approach. Evaluating the quality of decision making is very much about having the right process. Good outcomes do not inform managers whether a good decision making process has been pursued. Improving decisions involves understanding what a good process is – deciding how to decide – before undertaking any actions or diving into a SEM approach.

Executives and managers need to spend time on answering the question, What is it that we need to decide? Only when the crux of the decision has been understood can the actual decision making process kick in. Understanding when a decision has to be made is also just as important. Technology does not improve the dynamics of decision making. Peoples’ attitudes and behaviour does. People can draw feedback from related decisions and experiences and judge the context of each situation. Without analysing the decision making process it is difficult to understand what decision support is required.
For finance professionals, decision making is a key issue. Taking an initial step back to view their context and environment is an essential part of improving decision making. In a world where there is so much information, care has to be taken to challenge perceived reality and not be lulled into believing that our decision making perspective is complete.

In terms of improving strategic decision making, there are six key choices and challenges for managers. These are:

- Which decisions?
- Which decision making process?
- Who is involved?
- When a decision has to be made?
- What kind of decision support?
- How to get consensus on quality?

Companies rarely treat decision making as a distinguishing competence of the business. Within a structured framework for decision making, the two main issues that managers need to focus on are identifying the opportunities for profitable growth and understanding the strategic threats (whether internal or external) and the possible management responses to these.

Broadly, the intervention by the finance function can occur at different levels from undertaking the rigorous analysis upon which decision information needs to be based to being the ‘high priests’ of SVM. The latter requires setting financial goals to deliver the governing objective, setting key financial metrics such as cost of capital and lease capitalisation and setting reward measures.

Many boards and managers need strategic insights and guidance on establishing a structured and high quality decision making procedure. Senior managements’ information requirements will include both external and internal, as well as both financial and non-financial information.

As providers of decision information, the finance function needs to determine what decision support is appropriate so that decisions are based on fact. For example, managers need to understand which products are making an economic profit (loss) and, the structural forces behind the economic profit (loss). Forecasting of each structural factor allows the profiling over time of profitability and growth. Such analysis should be accompanied with quantitative and qualitative information on competitors such as relative pricing by product market and relative economic costs, customer needs and competitor offerings. A complete assessment includes an analysis of the financial performance based on the current strategy. This requires creating income statements and balance sheets at business unit level so information is generated on the economic profitability of individual products and customers. This type of comprehensive assessment allows insight into current strategic performance and a management consensus on alternative strategies.

The rigour of analysis required to enable management to understand a business' value drivers and potential for value creation can and should arguably be, at least in large part, delivered by the finance function. This is a significant move away from basing decisions on intuition and experience and can hone management’s attention on the business issues that may enable an organisation to achieve and sustain a competitive advantage over time.
Empowering operations
As discussed earlier, rather than focusing solely on control and transaction processing, the finance function can move towards a business advisor role based on supporting business decisions. Various tools and techniques can be deployed to facilitate the transformation over a period of time. These include effective communication, Investors in People accreditation, the creation of a benchmarking culture and the deployment of a SEM approach. The success of SEM in many companies on the Round Table has so far been based on improving decision making in the ‘bottom-half’ of the organisation.

Better informed decisions are based on:
• A common reporting model across operations;
• An optimised reporting process;
• Single version of the truth;
• Quicker decision making (although not always in real time).

The implementation of an integrated data warehouse for Rolls Royce, which included both company and supplier information, rationalised operational processes to deliver a common base for effective Global Management Reporting. This enabled faster product development, assembly, manufacture, and supply, and getting the right information to the right people quickly and easily.

The business benefits included:
• Improved business and management reporting;
• Complete and up-to-date picture in one single point of access;
• Multi-business views and analysis;
• Facilitation of the transformation of data into knowledge;
• Empower employees to make better informed decisions. This included supporting people not only in manufacturing but also in R&D and marketing functions. Product planners and senior corporate executives alike can monitor and improve performance.

Financial and non-financial information is sourced from all parts of the business to feed the planning process and to support decision making on sales volume planning through materials requirements, cost, capacity and headcount planning, to profit and loss planning, financial budgeting and balance sheet planning.

The utilisation of portal technology to facilitate the process of empowerment
The development and utilisation of an Enterprise Portal allows users one-stop access to all types of information. It covers the range of information needs of different users to include:
• Unstructured and structured content
• Transaction processing
• Collaborative data
• Internal and external sources
The capability of portals varies. Cedric Read and the mySAP Financials team report in their new book that tasks which traditionally require navigating through multiple systems are now accomplished with a few clicks of the mouse from the desktop. Read argues that CFOs need to drive portal development which includes selling the benefits of portal usage and involving end users in portal planning and design. Non-financial users will generally require different applications and reports. Tools for non-financial users may be less powerful but more intuitive and easier to use than for the management accountant.

The enterprise portal is marketed on the basis that it has potential for cutting across functions and business units, allowing employees to manage their own data and transactions, and providing a ready made vehicle for sharing information and knowledge. Depending on the design of the portal, it also could allow for the standardisation of business practices among employees, suppliers and business partners. The Royal Mail is currently considering the decision making and information needs of different types of user and may feel the need for different types of portal for different users.

Business-to-employee (B2E) connectivity, as some people have termed it, involves using Internet technology to develop a relationship with the employee by acting as a corporate home page. It can provide an entry point for finding and connecting other sites on the corporate Intranet. The B2E portal is a personalised, ever-changing mix of news, resources, applications and e-commerce options; it becomes a desktop destination for everyone in an organisation and the primary vehicle by which people do their work. Its content can be divided into four application categories:

- Connecting employees: comprising corporate financial information, competitive intelligence and corporate communications, connected to online learning, employee self-service applications and pay-related information;
- Operational systems: including cross-functional management reporting, workforce planning, performance measurement and other operational applications;
- Workgroup collaboration: ranging from discussion forums and newsgroups to document management, web conferencing and instant messaging;
- External connectivity: linking customer extranets, partner portals and external intelligence feeds to the Intranet.

The value proposition of the portal encompasses qualitative benefits such as enhanced productivity, improved management information, improved connectivity and employee satisfaction, and quantitative benefits focused on reduced transaction processing costs, elimination of redundant infrastructure and associated maintenance costs.

The advent of web services has now also meant that portals are increasingly customisable. The key factor for management accountants is helping to ensure that the content is meaningful otherwise portals will not be exploited by users.

Strategic orientation of finance professionals

In his book, SEM Systems, Fahy suggested that to be genuinely effective at dealing with strategic business decisions which senior executives face, finance professionals need to move away from simply dealing with their traditional focus on internal controls/transaction process. This in turn requires the following renewed emphasis on:

- Pro-actively suggesting options in business decision making rather than only evaluating strategic investment decisions, understanding the behaviour of costs with respect to changing volumes and market conditions, including which activities, products and customers are adding value;
- Evaluate the organisation and business unit performance and review its strategies on a continuous basis helping communicate strategic objectives to employees in a manner which allows them to operationalise strategy, using their analytical skills to unlock the value in customer and cost information in evaluating proposals;
- Monitor the progress towards strategic goals through performance tracking measures;
- Fine tune and re-configure the business model in the face of competition and help build a culture of value creation in the organisation;
- Evaluate new initiatives aimed at achieving profitable growth;
- Move to a system of allocation of resources on the basis of value creation. This is not the same as asking how much more capital investment is required to make the business more profitable at the margin.
Understanding the business model and effective performance measurement

The characteristics of a good performance measurement framework can be framed regardless of the enterprise systems architecture being deployed or contemplated. The software providers supply products that are aimed at supporting the key features of a good performance measurement system i.e. measures are defined using several perspectives: financial and non-financial, predictive and historical, external and internal. The key criteria for performance measurement is to inform management that there is a link right through from the corporate level to the management and then operational level so that decision making and resulting actions and control are in line with strategy. The common difficulties that companies face, identified in discussion with PricewaterHouseCoopers at one Round Table, are firstly around an ambiguous corporate or business strategy. Ambiguity at this level will mean that the senior executive management team will struggle to translate the business strategy into specific tangible strategic objectives and clear measures that reflect strategy and core processes that underlie it, and will help employees achieve it.

Secondly, performance measures are not aligned to strategy. It is not uncommon for managers to flood their organisations with many different performance measures without assessing whether they are actually measuring performance against strategic objectives. This is often caused by a lack of understanding of which factors (particularly intangibles) drive corporate performance and value. Without this knowledge there cannot easily be an understanding of how information, control and reward systems can facilitate change in peoples’ behaviours so that they add value.

Two organisations delivered presentations to the Round Table demonstrating how a balanced scorecard type approach and strategy mapping had been used to understand the main intangible drivers of performance and interrelationships and to measure performance.

Shell’s implementation of a balanced scorecard approach began in 1996 and has evolved into a robust framework that now also forms the basis of employees’ appraisals. This has led to a project being undertaken by Cranfield School of Management, which is helping to bring the organisation’s performance data together so that relationships between identified value drivers can be empirically tested and future analysis of the business model and performance continues to have a robust foundation. The Scorecard has been developed to fit Shell’s unique circumstances and culture and the perspectives found on the generic Scorecard, initially developed by Kaplan and Norton, have been adapted.

The aim of Shell’s work is to:
1. Supply a powerful analysis of the levers of management;
2. Build on Shell’s current strengths and ensure increased knowledge and data collection;
3. Understand where all the data is, the format needed etc, so that it is quick and easy to collect and analyse in future;
4. Validate the structure of the Scorecard; and
5. Facilitate double loop learning where existing assumptions can be challenged.

The Inland Revenue identified the balanced scorecard as the best means to create and communicate strategic alignment throughout the organisation, and for being a good framework for a decision support tool at board level. A process of strategy mapping with executives and senior management was used to understand the business model and create an iterative process for change, which was seen as the best way forward for developing the organisation’s direction. The Inland Revenue pursued this approach to:

• Ensure shared goals and objectives;
• A strategy and its drivers brought to life;
• Focusing the organisation on delivering value for customers and other stakeholders; and
• Less and more relevant information to the board to enable strategic decision making.

The result of this project has been a better shared understanding by the board and senior managers of how the business works. Value trees have been created that systematically link the operating elements of the business to value creation. This enables a better dialogue with stakeholders such as the HM Treasury on where money is best spent.
Tracking how companies are developing SEM and evolving their finance functions – a new benchmarking service

Different companies are at different stages of implementing an SEM approach. Indeed, some are taking different paths depending on their existing strengths and weaknesses. A number of presentations have been given to the CIMA SEM Round Table from companies including Shell, South African Breweries, Roche, PowerGen, Rolls Royce, Lloyds TSB, Boots and the Royal Mail.

For many organisations, SEM has been a part of the process of reconfiguring the finance function to focus on supporting and improving decision making rather than only focusing on historical and actual reporting. It has been part of an integrated long term plan to improve processes and information flows, thereby ensuring that the right people have the right information and quickly. It is also about the finance function assisting in creating strategies and improving management control. Better informed decisions at both operational and strategic level is the nirvana. The rate of change in most companies is at an evolutionary rather than revolutionary pace.

To support companies’ development in this field, CIMA is considering establishing a benchmarking service for companies which will enable them to keep up to speed with how other organisations are progressing in terms of implementing information technology, developing their finance functions and improving decision making. Potential outputs would include:

- Six monthly anonymous summaries to be released publicly; and
- More detailed feedback to each company as to where they are against leading companies.

If you are interested in this service and wish to discuss your participation, please contact Stathis Gould at CIMA on 0208 849 2379 or email stathis.gould@cimaglobal.com

This service is at an early stage of development and we wish to engage a number of companies so to make the service of greater value to participants and to understand all the areas and activities that we need to benchmark before we launch.
Participants

The following organisations and individuals have participated in the Round Table:

- Unilever
- Powergen
- BBC
- Elan Corporation plc
- Allied Irish Bank
- The Royal Mail
- Roche
- Allied Domecq
- Shell and Cranfield School of Management
- Lloyds TSB
- Rolls Royce
- BNFL
- Inland Revenue
- Deloitte and Touche Consulting
- PricewaterhouseCoopers
- Bellis-Jones, Hill and Prodacapo

Partners for Change

- John Barbour
  Corporate Value Improvement Ltd

- Martin Bryant
  (former Director of Corporate Development at Boots and Managing Director of Boots Retail International)

- Steve Marshall,
  former chief executive of Railtrack and Thorn EMI

- Martin Fahy
  (Round Table Convenor)
  Senior lecturer in Accounting and Information Systems at National University of Ireland.

For more information about SEM and the Round Table look at www.cimasem.com or contact stathis.gould@cimaglobal.com
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SAP Strategic Enterprise Management Brochures and White Papers
www.sap.com/solutions/financials/sem/brochures
Improving decision making in your organisation: The CIMA Strategic Enterprise Management (SEM) initiative

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