Finance transformation

A MISSED OPPORTUNITY FOR SMEs?

Ever more efficient
Better information
More influential
People development
And what about SMEs?

A MISSED OPPORTUNITY FOR SMEs?

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HAYS
Recruiting experts worldwide
CIMA is now the fastest growing accountancy body for accountants in industry and commerce in the UK and Ireland. This is probably because CIMA is recognised as offering a professional accounting qualification which is developed especially for those accountants who support employers in the management of organisations.

We strive to ensure that the CIMA syllabus and our CPD support continue to meet the needs of employers and thereby enhance the career prospects of our members. We work closely with major employers and academics in order to maintain a keen understanding of employers’ needs of their finance professionals and how the role of the finance function is changing. We apply this understanding to continually develop our syllabus and help our members to future-proof their careers by meeting employers’ needs.

We find that employers require accountants who can do much more than produce accurate financial reports. The CIMA qualification is also about providing management information, analysis and insight to inform decision making and improve performance. Therefore, the CIMA qualification and a career in management accountancy is attractive to people who want the credibility of a professional accounting qualification but whose longer term career ambitions may be broader than becoming an accountant.

1 Based on CIMA analysis of data from the seven FRC bodies on the share of growth of members who are accountants in Industry & Commerce 2005–2010; POB Key Facts and Trends in the Accountancy Profession June 2011
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CIMA acknowledge Hays’ support of this report. CIMA is keen to bring the subject of finance transformation to the attention of the business community in the public interest and to our members so that they can future-proof their careers through their continuing professional development. Hays kindly supports CIMA’s work on finance transformation, allowing CIMA to produce and publish this independent report.
The UK government cannot afford to borrow to stimulate the economy. It is looking to small and medium enterprises (SMEs) to create jobs and enable the recovery.

This report shows how leading organisations have transformed their finance functions to help improve their business’ performance. New analysis of survey data conducted by the CIMA Centre of Excellence at the University of Bath School of Management finds that SMEs have not transformed their finance functions and do not engage management accountants to support decision making to the same extent as leading organisations.

If SMEs are to survive and thrive, they may need the professional support that management accountants can provide. This could be important for the UK’s economic recovery.

CIMA would welcome your views.
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Introduction

SMEs are expected to play an important role in job creation and helping the UK to recover from the current crisis. Almost 40% of job vacancies in the UK are in small and medium size enterprises (SMEs2), those with fewer than 250 employees.

There is a danger in today’s economic climate that organisations could make false economies or even damage their long-term prospects when cutting costs and limiting investment budgets. Leading organisations have transformed their finance functions to better inform these decisions and to help improve performance.

While much has been written about finance transformation in large corporations, particularly multi-nationals, little attention has been paid to how finance functions in SMEs are changing.

Research over many economic cycles has shown that the organisations with the best prospects of emerging successfully from any recession are those which can balance cutting costs to improve operating efficiency with continuing to invest to develop their competitive position3.

Achieving this balance is a challenge which requires a combination of better information and the engagement of talented management accountants; with a keen understanding of the drivers of revenue, cost and risk across the organisation’s value chain to improve decision making and performance management.

We know how some leading companies have already transformed their finance and accounts operations. They have formed shared service centres to achieve economies of scale, standardised systems and streamline processes. But in addition to increasing the efficiency of the finance function, they have also improved its effectiveness in supporting value creation. They have taken advantage of developments in information technology to generate better management information. Furthermore, they have developed management accountants and deployed them as business partners to help manage performance and improve decision making across the business.

But what about SMEs?

As SMEs are so important to the economy and over 20% of CIMA members work in SMEs4, it is important to understand how the finance function is being transformed within this sector. If they are missing the opportunity to transform the role of finance, there may be a need to alert business leaders to the role that management accountants can play.

Identifying best practice in SMEs is a challenge because successful SMEs do not remain small. For the purpose of this report, we appreciate that SMEs are formally defined as small and medium enterprises with fewer than 250 employees. However, we have also included a few contributions from accountants in organisations which have grown beyond the SME stage.

This report shares learning gained through talking to employers and hosting roundtables such as the CIMA forum and other research conducted or commissioned by CIMA, particularly a major academic research project at the CIMA Centre of Excellence at the University of Bath School of Management. It also includes insights published in white papers by experts and most importantly, the views of accountants working in SMEs.

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2 Office for National Statistics, Labour Force Survey Q2 2011; 38% of vacancies were in companies with fewer than 250 employees

3 Harvard Business Review, March 2010, Roaring out of Recession, Gulati, Nohria and Wohlgezogen

4 CIMA members survey 2006; 23% of members worked in companies with fewer than 250 employees
This report considers this important topic by looking at how finance functions are changing in leading organisations, what research suggests is happening in SMEs and insights from accountants in SMEs under the following headings:

- The roles of accountants in organisations.
- The relentless drive to improve efficiency.
- The demand for better management information.
- The need for finance to become more influential.
- The implications for people development.

The CIMA Centre of Excellence at the University of Bath School of Management conducts independent academic research into best practice in the development of finance personnel in the context of finance transformation.

The first two cycles of this long-term research project have taken the form of online surveys which were completed by over 4,000 and 3,000 respondents from a wide range of organisations across the world.

Credible commentators including CIMA contend that the role of finance is being transformed based on their work with major organisations. However, analysis of data gathered by the CIMA Centre of Excellence in surveys of a wider population found that, ‘evidence of radical change was not apparent either in structural terms (with a substantial majority still being located within the finance function and with the bulk of time being spent in a physically distinct finance/ accounting department) or in terms of the allocation of work-time: traditional activities such as the preparation and interpretation of management accounting information still dominate and business partnering is reported as a rare or specialist activity akin to internal audit or tax.

Nevertheless, the results of the empirical investigations in cycle two of this research indicate that many finance professionals are highly business oriented, for example:

- Even amongst those in the finance function, the majority see their duties as involving the support of operating units or as being related to other functions or units.
- Many spend appreciable amounts of their time in providing business advice or engaged in strategic financial planning or management accounting.
- Ratings of skill importance reveal the relative superiority of non-technical skills connected with interaction and the achievement of business objectives.’

For the purposes of this report, the CIMA Centre of Excellence has conducted more detailed analysis of 473 responses from finance personnel working at SMEs. In order to identify best practice, it has segregated these responses into quartiles based on reported financial performance relative to competitors.
Nik Pratap, Director at Hays Senior Finance, offers insight into finance roles within SMEs

Nik Pratap is a graduate from the University of Durham and spent the first two years' of his professional career with one of the Big 4 firms. He has been with Hays since 1999, during which he has undertaken a number of different roles, all of which have been involved in the accountancy and finance division. In his current role he leads Hays Senior Finance across the UK and Ireland. Hays Senior Finance specialise in the recruitment of qualified accountants from CFO to newly-qualified level.

'Most UK SMEs have experienced more issues and challenges over the last three years than at any other time in the past 20 years. Worsening trading conditions, rising commodity prices, lack of availability of credit, and a curbing of short-term ambition have had a serious impact on many SMEs. From a recruitment perspective, there has been a clear drop in the demand for qualified accountants within the sector, since 2008. However, things are starting to look up as our placements show – we filled almost 25% more permanent qualified roles with SMEs in the second quarter of 2011, compared to quarter one. And the fact remains that SMEs generate around 60% of UK private sector jobs and there is a strong belief that it will be these businesses that lead the way out of recession*.

From the early stages of the recession, we have seen many of these businesses benefit from taking a proactive approach towards adjusting their strategic plans in line with a market conditions. This has manifested itself in everything, from cost reduction strategies, including redundancies, to shifting their market or product focus. In a rising number of cases, this has involved replacing the more traditional and stereotypical finance director with a new breed of SME finance director – an individual who is capable of adding more value to all business activities and steering the company organisation through turbulent times. The appointment of an appropriate finance director is critical, not just to strategic planning but also to manage the relationships with external stakeholders, including financiers and auditors.

While more businesses are adopting this business partner approach it's worth mentioning that the concept is not new. Many SMEs with plans for growth and change had already embraced the need for the financial director to become a business partner well before the recession and those that got this right will have seen the benefits.

Driving efficiency, as a part of a wider strategy, is easy to spot in the large corporates, with the move to shared service centre environments, process and operations outsourcing, global ERP overhauls and a wide range of other high profile restructuring. But the need to find ways to work smarter is not just the domain of the multinational. Headcount issues mean that SMEs have to do more with less, perhaps not involving the major CapEx of the FTSE players but nonetheless many are also reviewing internal processes and considering outsourcing services.

While businesses will continue to face challenges in 2011 we are seeing increased activity in isolated patches across a range of sectors. The SMEs that are recruiting are showing a high demand for finance professionals with strong commercial skills. Specific roles involve modelling business scenarios, supporting bids, pricing, sales and marketing activity, contracts, investment appraisal and analysing customer profitability. It is clear SMEs are taking action to get the right skills in place in order to capitalise on the recovery.

This entrepreneurial spirit is further illustrated in the job descriptions for our more senior appointments, with mergers and acquisitions high on the agenda and more employers requesting professionals with an experience of change management and growth projects. Private equity also appears to be considerably more active but we are still seeing little need for experience of initial public offering (IPO) onto the alternative markets.
The issue with any of these conclusions is that the term SME is very broad. It is not sector specific or funding related and the difference between a £1m and a £50m turnover business is vast. An SME could be a limited enterprise with a few staff, a £3 million turnover and an autocratic owner manager. Alternatively an SME could be the same company with a democratic managing director, a strong board and solid strategy for change. The role of the finance director and the finance team is likely to be different in both situations.

In more static and very small businesses, it is generally true that finance professionals have a broader role, as there simply isn’t the scope to specialise. In businesses of this nature the need for statutory compliance can often be the greatest driver.

In the slightly bigger SMEs or those with a greater agenda for change, be that securing funding, acquisitions or product launches, our experience shows that there is need for the finance director to delegate much more in order to free their time for a more strategic focus. Beyond that we are also seeing a demand for professionals in pure commercial accounting roles as businesses look in detail at the way they win business, the way they do business and who they do business with.

It is these commercially astute professionals who can support the finance leaders that appear to be most in demand, both in SMEs and corporate organisations. It is important for SMEs to understand the motivators of professionals who may be attracted to large corporate organisations in order to structure the content of their roles and pay and benefit packages to successfully attract talent. In the majority of cases SMEs appear to be successful in doing this. The variety of the role, the appeal of the job challenge and the ultimate goal of significant personal wealth creation have contributed to a consistent migration of some of the best finance leaders from corporate world to SME world.

Many businesses are also making efforts to structure the development for studying employees, who demonstrate the appropriate competencies, through the more transactional, statutory elements of the finance function in to the more commercial roles.

The success of the UK economy depends on the success of UK small businesses. As market conditions and access to credit remain challenging it is the finance professionals that business leaders are turning to for support. They need finance directors who can help them in make more informed decisions and lead strategy in such a way to enable the entrepreneur but limit risk to the existing business.’

*Department for Business Innovation & Skills. ‘Small and medium-sized enterprise (SME) Statistics for the UK and Regions 2009’. As published October 2010*
1 The roles of accountants in organisations
Figure 1.1 Demands on accountants in business

In large organisations, the demands on accountants in business are expanding their roles in different directions. In a time of crisis there is increased emphasis on the conformance aspects of the management accountant’s role. External stakeholders need to be able to be confident in the veracity of the financial reports and to be assured that proper risk management disciplines are being applied. We have seen new financial reporting standards and calls for greater transparency. These imperatives require accountants to exercise their professional objectivity as trusted financial reporters on the business and to meet their fiduciary responsibilities as stewards and controllers of the business. There are technical accounting skills required but a keen understanding of business issues is needed also to meet these demands for better ‘conformance’.

At the same time, accountants are required to support the business internally so as to improve its performance. Again, the performance aspects of the management accountant’s role have technical and commercial dimensions. The level of analysis required to generate management information emphasises the technical accounting skills of a management accountant. However, a commercial understanding of the drivers of cost, risk and value is required to derive useful insights from this information and to ‘partner’ with business managers to help improve performance.

These demands can be shown with a two by two matrix where we consider one axis to range from commercial to technical and the other axis to range from conformance to performance. Of course in reality, management accountants’ roles are not arranged along these lines.

Source: CIMA August 2008

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5 Improving decision making in organisations – the opportunity to transform finance, CIMA 2007
The roles of accountants in organisations

Figure 1.2 How management accountants might be deployed in large organisations

<table>
<thead>
<tr>
<th>Department management (other administration etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialist service (audit, tax, treasury)</td>
</tr>
<tr>
<td>External reporting (statutory accounts compliance)</td>
</tr>
<tr>
<td>Management accountancy (information and analysis)</td>
</tr>
<tr>
<td>Management support (inc. performance and risk management)</td>
</tr>
<tr>
<td>Accounting and information systems (data capture and access)</td>
</tr>
<tr>
<td>Accounting operations (transaction processing, recording and basic reporting including ‘purchase to pay’, ‘order to cash’ and ‘record to report’ process)</td>
</tr>
</tbody>
</table>

This diagram illustrates how management accountants might actually be deployed in a large organisation. Accounting operations, by which we mean the processing of transactions and keeping proper records so as to produce financial reports, remains the basis of the accountant’s role. The monthly reporting cycle still occupies much of many management accountants’ time. Increasingly, this aspect of management accounting requires knowledge of information systems and the management of projects to implement new systems. The term management accountancy means the analysis of financial information and its enhancement with non-financial information to provide useful management information such as key performance indicators. The production of statutory reports and the filing of the regulatory returns is an important area of technical expertise. So too are roles in the technically specialist areas such as internal audit, treasury, tax etc. However, the area of greatest demand currently is where commercial management accountants apply their professional expertise in helping to improve the performance of the business.

This is true business partnering where accountants support the business in roles which may have job titles such as divisional financial controller, finance manager, project management accountant etc. These roles usually report to the finance director or have dual, solid or dotted, reporting lines to the business manager too. Alternatively, support with planning and analysis etc., may be provided to business managers by members of their own team, often by people who have a background in finance.
An analysis of survey responses by the CIMA Centre of Excellence at the University of Bath School of Management has provided this insight. Senior finance personnel were asked how the people (full-time equivalent = FTE) within their finance functions are deployed across these roles. As you can see, about 40% of the people in finance functions are engaged in what we have termed accounting operations. Other areas, including statutory reporting and specialist services as one area, each occupy between ten and 15% of the people in the finance function.

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Figure 1.4 How management accountants in general spend their time

Source: CIMA – based on analysis of the CIMA Centre of Excellence at the University of Bath School of Management
In addition to asking senior respondents how people were deployed across the finance function, all finance professional respondents were asked how they spend their own time today. More importantly, they were also asked how they felt they ought to spend their time to achieve career progression in future as can be seen in Figure 1.4. In general, accountants’ time is weighted towards providing management information and supporting the business. Also, this weighting is likely to increase at the expense of time spent on accounting operations. It seems the emphasis is shifting to performance over conformance aspects of the role. But clearly all aspects of the role are still important.

1.1 And what about SMEs?

Many SMEs are owner-managed. Being hands-on, the managers in smaller companies may not feel the same need as the managers in larger organisations for a professional finance discipline to inform decision making. Indeed, the smallest SMEs may not feel any need to employ an accountant other than to prepare statutory accounts and tax returns. For these purposes, engaging a local accountant in practice will often suffice.

So, we might expect that management accountants in SMEs would spend a higher proportion of their time in the accounting operations and conformance aspects of the role than in the performance aspects.

Figure 1.5 How management accountants in SMEs spend their time

As Figure 1.5 shows, when the data for SMEs is considered, this seems to be the case but the same general trends seem to hold true in that there is a shift in time allocation to providing more support, in particular from accounting operations to management support. Moreover, when the data from SME respondents was segregated into top, middle and bottom quartile companies based on an aggregate of reported financial performance measures relative to their competitors, we found that accountants in higher performing SMEs spend less time on routine accounting operations and other administrative activities etc. They also allocate more time to providing management information and support. The only statistically significant differences found were those between time allocation in top quartile and bottom quartile companies with regard to ‘Other, admin etc.’

Simon Jeffery of Star Reefers tells us that, ‘SME’s tend to employ ‘all-rounder’ accountants rather than employing a team, each with their own specialism, for example, a consolidation accountant with some specialised IT skills.’
With regard to the trend to expect better management information, he explains that SMEs may sometimes employ business analysts rather than qualified accountants to meet this need. ‘In the last three SMEs I have worked in, each company has recognised the importance of management information and value-added analysis and have taken on specialised business analysts (along with myself) to work in the finance function alongside the traditional ‘all rounder’ management accountants. The role of these analysts in these companies has been to (a) analyse the current business (b) look at ways of measuring future strategy and (c) evaluate the markets in which the company operates in.

On the other hand, I have come across other SME’s where they are seriously struggling with information issues – from capturing data, implementing a management information system through to efficient and effective reporting to senior management.’

So, many SMEs may not be of sufficient scale to deploy management accountants beyond traditional financial accounting roles but in smaller businesses everybody tends to be more hands-on so they often play a wider role. We certainly have anecdotal evidence that some progressive management accountants are already performing a broader role in high performing SMEs.

As Simon says, ‘In my experience, finance functions in SMEs have tended to focus more on the traditional roles of stewardship and transaction processing rather than on value-added activities but that is slowly changing. In my current company, we are focussing a lot more nowadays on these value-added activities and transforming the reporting culture within the company.’
The relentless drive to improve efficiency
Figure 2.1 Finance costs have been driven down

Figure 2.1 from The Hackett Group illustrates how the costs of the finance function in major multinational companies have been driven down over the past two decades. Top quartile – or world-class companies, as Hackett term them – reduced the costs of their finance function by 40% relative to turnover. Middle quartile or peer group companies’ progress seemed to falter while introducing new systems to comply with Sarbanes Oxley. World-class companies have increased their cost advantage. But it can be seen that the cost reduction line is bottoming out; the potential returns from cost reduction initiatives are diminishing.

Figure 2.2 Shared service centres are raising the bar

For large organisations with diverse finance functions in different divisions or subsidiaries, centralising accounting operations in shared service centres, whether on-shore or off-shore, in-house or out-sourced, is the key to reducing finance function costs. These can bring economies of scale and ‘industrialisation’ to accounting processes. Systems can be standardised and processes improved on migration to a shared service centre. Lean practices (eliminating waste, any step not of value), Six Sigma (reducing error rates and the re-working they cause) and Kaizen (engaging everyone in continuous improvement) can be applied to achieve further cost reduction.

Source: CIMA, September 2007

Improving decision making in organisations – unlocking business intelligence, CIMA 2008
Shared services are usually first formed to handle lower value accounting processes which are rules based. Through investment in systems and staff development, they can become centres of expertise and offer higher value services to the rest of the organisation. They also have the scale to offer development opportunities and attractive careers to employees.

The services provided by shared service centres to the organisation can expand laterally to related processes or vertically to higher value, more expert processes.

An activity such as paying suppliers might be seen as an accounting process but it can also be seen as a step to an ‘end to end’ ‘purchase to pay’ process. The service centre might handle the whole end to end process from the purchase decision through entering a commercial contract to maintaining a supplier relationship. The entire process could then become more efficient but much more significant savings could be achieved through better managed procurement. This lateral expansion does not respect traditional professional boundaries. For example, the payroll process can expand to ‘hire to fire’, covering both accounting processes and human resource processes.

**Figure 2.3 Shared service centres’ expansion**

As Figure 2.3 illustrates, the processes handled by shared service centres are also expanding vertically to higher value services within the management accounting discipline. A number of top quartile, world class companies are already providing services such as performance reporting or forecasting through their shared service centres. The majority of world class companies and many peer group companies plan to offer services including performance reporting, cost accounting and analysis and forecasting through their shared service centres. These are activities which are currently seen as being in the area of management accountancy rather than accounting operations.
Many leading organisations already recognise that there is a limit to how much cost can be taken out of the finance function. While driving down overhead costs remains a priority, for these leading organisations, the issue now is less about how to get more cost out of finance but how to get more value from the finance function.

Initially this can be by providing cost leadership to apply the same principles to reduce costs across the business and later to apply analysis and insights to help improve decision making and performance management.

2.1 And what about SMEs?

SMEs are unlikely to have more than one accounts department in the way that a large organisation might have regional accounts departments or different accounts departments in subsidiaries formed or acquired over the years. So the economies of scale that can be achieved by forming shared service centres are unlikely to apply.

Figure 2.4 The drive for efficiency in SMEs

![Graph showing drive for efficiency in SMEs](image-url)

Source: CIMA – based on analysis of the CIMA Centre of Excellence at the University of Bath School of Management
Analysis of survey data at the CIMA Centre of Excellence found that the majority of the SME respondents reported that their finance function:

- drives cost reduction both within finance and across the business
- is measured on its efficiency and/or effectiveness
- uses automated accounting processes, subject to continuous improvement and standardised across the business.

When segregated by quartiles according to reported relative financial performance, the higher performing SMEs seem to be more likely to have applied these disciplines. Accounting process improvement does not score as highly as might have been expected. Only the scores for the measurement of efficiency/effectiveness are statistically significantly different across these groups with those in the top quartile being the most likely to apply this discipline.

Nik Pratap of Hays says, ‘Driving efficiency, as a part of a wider strategy, is easy to spot in the large corporates, with the move to shared service centre environments, process and operations outsourcing, global ERP overhauls and a wide range of other high profile restructuring. But the need to find ways to work smarter is not just the domain of the multinational. Headcount issues mean that SMEs have to do more with less, perhaps not involving the major CapEx of the FTSE players but nonetheless many are also reviewing internal processes and considering outsourcing services.’
Miles Jones of the NEC Group provides the following insights with regard to the drive for efficiency:

a) ‘Systems standardisation, automation and no touch processing is something we are working towards, targeting the ‘low hanging fruit’ first such as the automation of expense claims. The wider projects are being wrapped up into a finance improvement project which is looking at moving towards an integrated ERP solution for both business systems (sales and ops) and finance (general ledger, accounts receivable, accounts payable, cash book etc.).

b) We are alert to the potential in process improvement. For example, accounts payable is becoming purchase to pay and requires additional purchasing and supply chain skills. This too is being captured as part of the finance improvement project – purchase to pay and sales to billing are both in scope. However, I would say that our ‘budget’ for implementing these changes is obviously lower than bigger companies so we are looking to run these projects alongside the ‘day job’. This is working and we’ll get the job done but the pace is suffering.

c) Shared service centres would not be applicable to SMEs like us as we do not have different accounting centres to combine. At this point in time we do not envisage outsourcing or offshoring any of our ‘back of house’ operations, mainly due to the volumes. But there are some quick wins for self-billing and rationalisation of the supply chain to go after first.’

So for many SMEs the opportunities to reduce finance costs are limited, not least because overhead costs have always been managed tightly. Often, the scope for improving the efficiency of the finance function is to ensure it does not grow in line with sales growth.

For example, Lorne Vary of Brompton Bicycles explains, ‘At Brompton we have experienced turnover growth of 55% over the past two years and are forecasting similar levels of growth over the next two years. All the while the finance overhead has/will remain static. The need to ‘work smarter’ ensures costs are reducing as a percentage of turnover, which goes hand in hand with standardising reporting and how we interrogate our financial systems.’

Arif Kamal says that when he joined GL Hearn in 1997 it had a turnover of £8m and 13 people in the accounts department. ‘We now have six and a turnover of £20m. That may look like a huge improvement in efficiency but it cannot be taken as a like for like comparison. Yes, we have improved the efficiency of the accounting and finance function but the firm is now more focused on a sector based approach.’
The demand for better management information
CIMA sponsored research at Nottingham University found that many UK businesses are responding to the present crisis tactically, for example, by reducing costs etc. They seem to be addressing it as a disruption to ‘business as usual’. There is little evidence of the more strategic preparation that would be necessary to address any potential longer term structural change in their markets due, for example, to deleveraging limiting consumer spending.\(^7\)

A business’ competitive position must be continually developed and its risks addressed if its success is to be sustained. Research\(^8\) over many cycles has confirmed what management accountants already know instinctively. The organisations with the best prospects of emerging successfully from any recession are those which can balance cutting costs to improve operating efficiency with continuing to invest to develop their competitive position.

Achieving this balance is a challenge. While traditional accountants focus on financial outcomes, many management accountants are trained to develop a keen understanding of the drivers of cost, risk and value along the business’ value chain. Those who operate as ‘finance business partners’ have an influential role to play in ensuring performance management is not just about the achievement of current financial targets but longer term strategic objectives too. However, their influence depends on the quality of management information and the insights they can contribute as this is the basis of their credibility.

The quality of management information expected by business users is expanding in terms of response times, the range of data to be considered, the level of analysis required and the format in which it is delivered. There is an increased demand for information at all levels. From strategic issues to routine tasks, executives, managers, information workers and staff all expect information to be readily available and provide clearer insights to support decision making. Regulators, shareholders and stakeholders also require more information and greater transparency about the company’s operations. For performance management and decision making purposes, financial data must be combined with operational, customer and competitor information to derive insights and describe opportunities in the terms that business managers find compelling, not just financial terms.

We know from evolution that is not the biggest or fittest who survive but the most adaptable. Adaptability can be the key to survival. This requires better management information.

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\(^7\) The impact of economic recession on business strategy planning in UK companies, Glynn Lowth, Malcolm Prowle, Michael Zhang, CIMA research executive summary series, September 2010

\(^8\) Harvard Business Review, March 2010, Roaring out of Recession, Gulati, Nohria and Wohlgezogen
The ability to develop plans and budget or re-forecast promptly can be important in challenging times. Preparing a budget by extrapolating financial outcomes is painting by numbers. A budget is unlikely to be achieved unless there is a supporting operating plan to achieve it. In the same way, a revised forecast is unlikely to be accurate unless the assumptions on which it is based have been informed by operational and market measures. The management accountant’s art is to ensure budgets and forecasts are based on the drivers of financial outcomes.

Since the collapse of Lehman Brothers, many businesses have found that financial information is not sufficient for forecasting cash flow beyond a few months. But where management accountants also assemble operational metrics, trading information and external market data, the drivers of financial outcomes, businesses can forecast with more confidence.

Financial information alone will not suffice. Management information must relate financial data to non-financial data. It must not just report past performance. It should help managers to understand current performance and to help predict the future too. The range of data considered has to expand from financial figures to include operational measures, customer information and external metrics. The level of contribution has to increase from simply recording and reporting through conducting analysis and providing insight to presenting information in a compelling manner or even conducting more advanced analysis (‘analytics’). This might extend to data mining or financial modelling to better understand performance and/or predict the future.

Meanwhile, business intelligence [BI] has developed and is becoming pervasive, covering financial and non-financial data and capable of making information available to a wide range of users as appropriate to their roles. There are new solutions to address problems with data quality and the integration of systems. Major companies in the financial, telecommunications, retail and some government agencies have been early adopters. But this technology is now more mature and is becoming less expensive. It is already being used across a wide range of sectors and by smaller companies.
Although leading organisations have embraced BI and their management accountants play a leading role in providing a wide range of management information, the broader research at the CIMA Centre of Excellence has found that most accountants in business are not engaged in producing non-financial information. They do not have a significant role in providing information about customers or markets and only some responsibility for providing leading information about business conditions. It is only in the area of regulatory conditions etc. that they are seen to have more than some responsibility, probably because of their technical expertise in matters of reporting, tax and regulatory compliance.
3.1 And what about SMEs?

The demand for better management information

The range of management information for which management accountants have some or significant responsibility is higher for top quartile SMEs as segmented on the basis of reported relative financial performance. The results for top quartile companies are statistically significantly different from those of the bottom quartile group across the range of measures of responsibility. In certain cases there is also a statistical significant difference between the top quartile and middle quartiles groups, namely for: markets/competitors; customers’ views; leading indicators; KPIs; social impacts; disseminating.

It can be seen from this chart that the level of accountants’ responsibility for providing management information begins to tail off when it comes to non-financial KPI and non-financial external information about markets and competitors. Other than in top quartile companies, accountants have on average, less than ‘some responsibility’ for information about customers and social or environmental issues.

Arif Kamal tells us that when he first joined GL Hearn it was a partnership but it is now an incorporated business. ‘This has allowed my role to develop so that I now operate more in the top right sector of the diagrams in this report. For example, as finance director, in addition to standard financial reports, I prepare an economic review which is considered by the board. This helps to inform a discussion on opportunities and risks for each sector of our business so we can adapt our plans as necessary. This gives us a better understanding on which to base forecasts.’

Lorne Vary at Brompton Bicycles finds that, ‘Like most businesses, information overload means it is sometimes difficult to see the wood through the trees when trying to identify the key data which will shape the future of your business. Through a standardised suite of both financial and non-financial visually impacting KPI’s we have standardised our internal reporting which in turn have been further streamlined into a summary dashboard to ensure the key business metrics can be digested at a glance.’

Source: CIMA – based on analysis of the CIMA Centre of Excellence at the University of Bath School of Management
Simon Jeffery of Star Reefers says, ‘From my experience, there is a lack of recognition of the importance of non-financial data in the finance function but I think that this picture is changing. Companies are looking more and more into drivers behind revenues and costs but once again they do not have the specialised staff to implement non-financial reporting measures. In my current company, we have implemented a new reporting system which highlights both financial and non-financial measures.

For example, we implemented a non-financial indicator which measures our efficiency in purchasing oil supplies for the vessels in the cheapest (zone 1) ports, leading to efficiencies and cost savings in the purchasing process.

The same applies for the issues of quality of data and data presentation. In the three SMEs I have worked in, it has been a real challenge to overcome the problems of data capture, data quality and presentation of data. For SMEs, these are major concerns that are not always apparent. At Star, we have worked hard to automate data capture, improve the quality of data and transform data presentation. We have recently rolled out the first phase of KPI reports to executive management which includes a dashboard summary. Nothing like this was produced before and it has been well received.’

Darren Tierney of Directski.com provides an example from a new era, internet based, SME which has implemented a successful BI project.

‘We realised that we needed to capture non-financial data about our operations and customers in a consistent, reliable way to improve financial performance. We can now access and analyse this data so as to present information to business users as appropriate to their needs.

Through the availability of better information we have seen a dramatic improvement in business performance including:

1. Fill rate on flights improved to 93% from a historical average of 80%-85%.
2. Improvement of 8% on average profit per customer.
3. Conversion up 17% (sales/traffic).
4. Significant improvement in profitability in line with challenging targets.
5. Product improvements – through a report based on customer search data we have successfully introduced various new product lines.
6. KPI’s now top of mind across the whole company.

The real proof of success has been the time spent by users within the Management Information System (MIS). This is measurable through a user log. It is now seen as the most critical tool available within the company.’
The need for finance to become more influential
Effective decisions achieve impact. Accountants’ contribution to the decision making process begins with capturing data and producing financial reports. Management accountants can combine an understanding of the business and its strategic context with analysis of cost and value drivers to contribute insight. Hopefully, management accountants can ensure decisions are taken in the long-term interests of shareholders but the actual decision may not be theirs to take. However, they can influence how the decision is articulated as a plan and performance is managed so that the intended impact can be achieved.

It may be a challenge for traditional accountants to move from back office roles to decision support roles along this continuum towards achieving impact. In larger organisations, finance is a team game and there are different roles along this continuum. Those who move from back office to front office, are moving from where the emphasis is on technical skills to where commercial skills can be more important. They also move from where major organisations are looking for greater efficiency to where they are looking for greater effectiveness. This is a journey from the traditional financial accountant’s comfort zone, to where management accountants help to create value.

Good finance directors and chief financial officers have always supported the CEO in developing and executing strategies but they are also mindful of their professional objectivity and their fiduciary responsibilities as board members. So, they are prepared to challenge the CEO to ensure that the business is run in the long-term interests of shareholders. In some leading large organisations, management accountants have been engaged as a new form of business partner to help to cascade the FD/CFO’s influence throughout their business.

Figure 4.1 Accountants’ roles in effective decision making

Source: CIMA 2007
CapGemini have described ‘3G finance’ or third generation business partners as those who can retain their objectivity and challenge the business to improve performance in the interests of shareholders. The three generations vary by who they see as their client:

1. Finance business partners are sometimes seen as contacts on the finance team who liaise with colleagues in the business in order to complete accounting and finance business processes and meet the finance team’s objectives.

2. A higher form of finance business partner sees the business unit as the client and aims to provide the manager with the support necessary. Information generated by the finance function is the starting point for the service offered. This should include sharing insights into performance metrics, showing the financial implications of decisions and helping the business to get approval for the unit’s budget and investment proposals.

3. The highest form of finance business partner serves both the internal finance function and the business unit but retains professional independence to work in the interests of shareholders.

Management accountants can talk the language of the business when explaining financial consequences so they can contribute more to ‘improving decision making’. It is the performance management process which provides the opportunity to apply this influence. They can contribute insights as internal consultants to identify opportunities to improve performance or reduce risk. Providing cost leadership is usually the first priority but insights to improve profitability through increasing revenues might be based on customer segment profitability analysis, delivery channel analysis, benchmarking or disciplines from other sectors, for example, discriminatory pricing from airlines, business process improvement from engineering or lean manufacturing from the automotive industry or project funding gates from venture capital. They can help to refocus the business on its more cash positive activities and even provide a framework for scenario planning so the organisation can be better prepared for future crises.
4.1 And what about SMEs?

Figure 4.3 Accountants’ influence in SMEs

Analysis of survey data from SME respondents by the CIMA Centre of Excellence found there was a significant difference by quartile of reported relative financial performance for each of the areas of influence listed in the above chart. It can be seen that the finance function is generally involved in the strategic and planning processes but its influence gradually fades as we move from traditional accounting areas to more commercial management areas such as remuneration policy or change management. Also, the role of the accountant in addressing environmental issues is less firmly established. Although it seems the accounts function is regarded by many as a specialist area, other than in lower quartile companies, the majority regard it as a potential training ground for future business leaders.

Nik Pratap of Hays offers the following insight, ‘From the early stages of the recession, we have seen many of these businesses benefit from taking a proactive approach towards adjusting their strategic plans in line with market conditions. This has manifested itself in everything, from cost reduction strategies – including redundancies – to shifting their market or product focus. In a rising number of cases, this has involved replacing the more traditional and stereotypical finance director with a new breed of SME finance director – an individual who is capable of adding more value to all business activities and steering the company organisation through turbulent times. The appointment of an appropriate finance director is critical, not just to strategic planning but also to manage the relationships with external stakeholders, including financiers and auditors.’

Miles Jones of the NEC Group agrees that, ‘Cost leadership is required to improve operating efficiency across the business. Our finance teams have rolled out a number of processes which allow managers to track real time expenditure for both invoiced amounts and orders yet to be fulfilled. The majority of business managers have engaged with these processes as cost leadership is increasingly important when revenue/profit performance is being challenged by economic downturn and an aggressive market place.

Accountants have a role to play in ensuring the business is managed in the long-term interests of its stakeholders but this is a joint responsibility with all senior officers of the company. Finance stand alongside the business and advise, challenge and support. This is most effective when the partnership aspect is employed, rather than acting independently.’
Simon Collins of CIMA’s own finance team points out, ‘...the good cop, bad cop or Mutt and Jeff problem. It can be especially difficult for someone in a small finance function to partner with the business because they might also have responsibility for negotiating budgets and applying cost controls. In a bigger finance function there can be front office and back office roles. Some people can work in accounting and control roles while others work in finance and analysis roles. It might be someone’s job to partner with business unit managers. They can be open with her and she can help them with the development of their plans and performance management. Someone else would have the more adversarial cost control role. He can play hard ball and challenge their plans or budgets objectively. In a smaller business you cannot have this clear demarcation. Staffing is always tight and everyone has to help out everywhere. Business managers can be reticent when they meet you wearing your business partner hat. They may not be inclined to share their plans and ideas with you because they know that at the next meeting you might be wearing your dreaded cost control black cap. They are concerned you’ll be able to use something you’ve learned against them to cut their budget. But we are building good partnering relationships over time.’

Ian Webb brought a wealth of experience from senior finance positions in major companies in a range of sectors to his role as at the Letchworth Garden City Heritage Foundation. He says that when he came ‘the function was a traditional accounting department but what we have now is an effective finance team. Finance operates in partnership with its internal customer in the business, sharing information in a timely fashion. The business managers ‘own the numbers’ and are empowered by this. Policies and procedures and how authority is delegated are properly documented so that finance is always engaged to support decision making as and when appropriate.

The challenge for SMEs is in progressing from an owner-managed or family-run business to the next stage of growth is when information has to be shared, management delegated and people empowered. This requires a different culture.’

Harold Baird, CIMA President 2011-12, had a successful career in major organisations before choosing to work with SMEs. According to Harold, the term SME may be too broad. ‘It includes individuals who offer their services on a self-employed basis or micro businesses where a person may have just a few family members or employees as assistants. These very small businesses are hugely important to the economy but they are often personal businesses, more like a person’s trade or profession than a business in the sense of a separate corporate entity. These personal businesses may need a book-keeping service and help with preparing accounts. They may sometimes need advice about filing accounts or tax returns, calculating tax or even help writing a business plan to raise money. But these services can be out-sourced from an accountant in practice.

The potential in employees is often untapped in SMEs. Sometimes, when an SME is run as a personal business, having staff is seen as a necessary cost rather than an asset. Employees may include talented individuals who could be engaged to help to grow the business and ensure that its success will endure. If the business is just a livelihood for the boss, then it can be just a job for its employees and may deliver a lower quality of service to its customers.

It can be particularly challenging for accountants to realise their potential when working alongside entrepreneurs. But when they work in a partnership based on mutual respect and an understanding that they share the same objectives, their differences can make for a rewarding combination.

Entrepreneurs are usually optimists by nature. They may have great ideas and be inclined to follow a hunch. Accountants have a more quantitative mind set. They are inclined to look for the evidence to test ideas. They will assemble information and conduct analysis, so as to avoid the unnecessary risk in following a hunch when it was possible to take an informed decision.
Entrepreneurs are excited by big deals. Accountants are prepared to consider the costs and practicalities of implementation so as to ensure the opportunity will be profitable before entering a commitment. Planning and performance management requires an accountant’s understanding of the operational drivers of success; the entrepreneur may not have this attention to detail.

Entrepreneurs don’t like to consider risks. Accountants are more cautious. They ask ‘what if?’ and look for ways to mitigate risk or limit exposure to a level the company can survive.

However, when an entrepreneur and accountant work well together, better informed decisions are taken, strategies are developed to implement ideas and risks are managed to sustain success. Also, the accountant is often better able to furnish lending bankers with the information they demand which, as recent CIMA sponsored research at Nottingham Business School\(^9\) identified, can be very important in the current climate.

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\(^9\) The impact of economic recession on business strategy planning in UK companies, Glynn Lowth, Malcolm Prowle, Michael Zhang, CIMA research executive summary series, September 2010
The implications for people development
Large organisations need management accountants with different skills and qualities to perform a range of roles. Some larger organisations already find succession planning a challenge as they have outsourced their accounting operations.

Buying-in talent is costly. Increasingly, leading organisations have comprehensive knowledge skills and competency frameworks. They are alert to their skills gaps and have people development programmes in place to develop and retain talent in-house. Often they find that finance is not just for accountants, it can provide a training ground for future business leaders.

Figure 5.1 The segregation of accounting and finance

The segregation of finance, whereby accounting operations are located in shared service centres, separate from the analytical and finance business partnering roles, poses a problem for the future. So far, this segregation is only evidenced anecdotally by major organisations with off-shore or out-sourced accounting operations. There is no evidence of this from the wider surveys conducted by the CIMA Centre of Excellence. However, if this materialises, it may become difficult for trainee management accountants to progress from back office roles via analysis roles to business partnering. However, the experience in those junior roles may become less significant for finance business partnering.

Source: CIMA 2009

Improving decision making in organisations – the opportunity to reinvent finance business partners, CIMA 2009
Experience in typical in-house accounting roles develops finance competencies. But senior finance roles usually require business capabilities.

Some people might have said these qualities do not necessarily require an accounting background. However, in the current climate there is a swing back to basics and finance business partners must combine finance competencies with the business capabilities required to strike a balance as appropriate to their client and the level of the partnering service to be delivered.

Just as there are a variety of different types of business partners there are also a variety of ways in which the necessary skills can be developed. These include:

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

5.1 And what about SMEs?

Figure 5.3 Accountancy skills needed in SMEs

Source: CIMA – based on analysis of the CIMA Centre of Excellence at the University of Bath School of Management
The research at the CIMA Centre of Excellence found little variation across the quartiles with regard to the skills that respondents report they need for their roles. Management accounting ranks more highly than financial accounting but many of the skills that would be required to be more influential seem to be only needed sometimes rather than frequently.

Miles Jones of the NEC Group says, ‘This ‘segregation of finance’ is not an issue at the NEC Group where we recruit graduates and part-qualified accountants (PQs) into more junior commercial finance roles rather than the back office functions. They forge strong relationships with back of house teams around the processing of management accounts so they get the best of both worlds. But some roles are becoming more specialised. We are seeing specialisation in tax and VAT roles and to a lesser degree in some IT/project based roles. The skill set of the business partner/commercial finance role is softer, combining the key accountancy skills with the ability to communicate strongly at all levels without using financial jargon. I am also seeing a greater blend into other support roles (HR, IT and legal) and this seems to work better moving from finance into these areas, rather than the other way round.

Training as a management accountant can give you a base level of credibility but I am not convinced it will get you there alone. The recently qualified accountants still lack the broad range of experience gained from working in a number of environments. On the face of it some of these environments would not seem to provide relevant skills and experience but the best individuals will still draw parallels between diverse sectors of employment and different processes. I think a block to development here is the recruitment agencies that tend to pigeon-hole candidates into market sectors (e.g. manufacturing) rather than look at parallel skill sets and individual personalities. Once trust is earned as a strong management accountant then internal opportunities tend to arise to move outside of finance. This is because management accountants have a good ‘business brain’ and can combine common sense business acumen with a strong understanding of the financial implications. This is very much relevant in SMEs, where the best finance people are in demand for projects or senior management teams as well as for leading finance function roles.’

Lorne Vary of Brompton Bicycles says, ‘The role of management accountant stuck at his desk working on the ledgers is long since dead. In all key projects at Brompton the accountant will have been involved at one stage or another, whether that is the design of our new Apparel clothing range or the organisation of the forthcoming Brompton World Championship.

With the intelligent software and business processes in most businesses the need for a high number of clerical accounting staff is diminishing. In my experience, this is leading to a more ambitious breed of accountant recognising the grounding in accounts and a relevant accountancy qualification like CIMA provides a great platform for senior positions both within and outside of the accounting sector.’
6 Conclusion
When we compare how management accountants in general said they ought to spend their time in future to achieve career progression with how those in top quartile SMEs spend their time we can see that even in high performing SMEs, management accountants tend to focus more on the traditional financial reporting side rather than on the management supporting side of this diagram, relative to how their peers feel they ought to spend their time.

Harold Baird, CIMA President 2011-12, says where management accountants prove their worth is after the initial entrepreneurial phase or when a person’s livelihood becomes a business which has value because it can generate wealth for more than one individual. ‘It usually takes both hard work and some good luck to get a business off the ground. Expanding the business into a valuable company and sustaining its success for future generations are challenges which require a different mind-set.

The principals of owner managed businesses don’t always recognise the need for a management accountant’s contribution as a business partner. An accountant might only be employed because it is cheaper and more convenient to have one in-house than to pay fees to an accountant in practice. If the accountant’s role is limited to preparing financial accounts and ensuring compliance then it is hard for him/her to realise his/her potential. However, if they can find the capacity to generate insights to help improve performance this can generate demand for them to provide more support of this nature.

Otherwise, the potential of the business to generate wealth may be limited too. The drivers of cost, risk and value might not be analysed to identify opportunities and manage performance for the long run. False economies will be made. This is a shame because the UK economy is looking to SMEs to generate wealth and create jobs, management accountants ought to be more engaged in the management of SMEs.'

This could be a concern but Nik Pratap of Hays notes that many SMEs are addressing this issue as they emerge from this crisis, ‘Whilst businesses will continue to face challenges in 2011 we are seeing increased activity in isolated patches across a range of sectors. The SMEs that are recruiting are showing a high demand for finance professionals with strong commercial skills. Specific roles involve modelling business scenarios, supporting bids, pricing, sales and marketing activity, contracts, investment appraisal and analysing customer profitability. It is clear SMEs are taking action to get the right skills in place in order to capitalise on the recovery.’
7. Further reading

The following reports are part of CIMA’s thought leadership and are available at www.cimaglobal.com/thoughtleadership

From efficiency to effectiveness: transforming the finance service delivery mix
This research aims to explain:
• the impact of finance transformation on how finance services are expected to be delivered in future.
• the likely service delivery models for growth and performance.
• the way in which finance professionals can facilitate the required focus on management support.
• how finance can ultimately help to better meet organisational goals and create value.
This report can be purchased from CIMA and is available to CIMAplus subscribers.

Improving decision making in organisations – the opportunity to reinvent finance business partners
Discussion of finance transformation, or the future of the finance function has long emphasised the need for ‘business partnering’. This report is based on discussions of the CIMA forum. It uses case studies to show what business partnering can mean, the skills required and how these can be developed. This report is available free to download from www.cimaglobal.com/decisionmaking

The impact of economic recession on business strategy planning in UK companies
This report aims to highlight the strategic responses made by a small but varied sample of businesses in response to stringent economic conditions resulting from economic recession.

Mastering finance business partnering
Finance business partnering is increasingly viewed as the most effective way for in-house finance teams to add value. Some high performing firms already fully embrace business partnering — in finance, HR and other functional areas — and some elements of partnering are seen in many companies. This paper from KPMG and CIMA draws on our experience of working with organisations that have mastered finance business partnering and outlines some practical steps to implementing it.

Creating and popularising a global management accounting idea: the balanced scorecard
The balanced scorecard (BSC) can be used to translate an organisation’s strategy into terms that can be communicated and acted upon. This study focuses on the success of the BSC and how it can be made practical through customisation.

Reporting and managing risk
This report summarises four case studies at Tesco, Royal Bank of Scotland (RBS), Birmingham City Council and the Department for Culture, Media and Sport (DCMS). A key finding is that while the finance function and/or risk management specialists still need to apply some of their traditional skills such as calculating value at risk, other softer skills such as influencing, communicating and the ability to exercise judgment are increasingly important. The report argues that ‘risk has broken out of the finance function’. Another point of interest is that the two public sector cases demonstrated a much more advanced approach to managing complex and interdependent risks than RBS.

Accounting for climate change
The finance team is fundamental to every organisation’s climate change strategy. This report explains how management accountants can help organisations to mitigate and adapt to climate change.

Incorporating ethics into strategy: second edition
Ethics are pivotal in determining the success or failure of an organisation. They affect a company’s reputation and help to define a business model that will thrive even in adversity. This paper sets out how finance professionals can shape their organisations’ ethical agendas and incorporate ethics into strategy to ensure long term sustainability. This second edition includes updates and new global case studies.
Footnotes

1 Based on CIMA analysis of data from the seven FRC bodies on the share of growth of members who are accountants in Industry & Commerce 2005-2010; POB Key Facts and Trends in the Accountancy Profession June 2011

2 Office for National Statistics, Labour Force Survey Q2 2011; 38% of vacancies were in companies with fewer than 250 employees

3 Harvard Business Review, March 2010, Roaring out of Recession, Gulati, Nohria and Wohlgezogen

4 CIMA members survey 2006; 23% of members worked in companies with fewer than 250 employees

5 Improving decision making in organisations – the opportunity to transform finance, CIMA 2007

6 Improving decision making in organisations – unlocking business intelligence, CIMA 2008

7 The impact of economic recession on business strategy planning in UK companies, Glynn Lowth, Malcolm Prowle, Michael Zhang, CIMA research executive summary series, September 2010

8 Harvard Business Review, March 2010, Roaring out of Recession, Gulati, Nohria and Wohlgezogen

9 The impact of economic recession on business strategy planning in UK companies, Glynn Lowth, Malcolm Prowle, Michael Zhang, CIMA research executive summary series, September 2010

10 Improving decision making in organisations – the opportunity to reinvent finance business partners, CIMA 2009
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