



The changing role and mandate of finance

Creating a vision for the future
Research emerging themes

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Creating a vision for the future

You can't see the future, but with the right insight you can prepare for it. We've created this briefing paper as part of a year-long, worldwide project to understand the future form and direction of the finance function.

Change is the new norm in many organisations – particularly within the finance function. Yet, because of this rapid evolution, there isn't a composite picture of the finance function of the future. It is this vision that we, at the Association of International Certified Professional Accountants, aim to create.

With 650,000 members and students in 179 countries, we are uniquely well-positioned to work with global stakeholders to investigate, analyse and document how the finance function is changing.

Using interviews, roundtables and surveys, this comprehensive global research project brings together different organisational views – to deliver insight into the process of change and to synthesise a picture of the finance function of the future.

Our research aims to answer the following questions:

- ▶ How will the future be different for your organisation?
- ▶ What are the drivers of change for your organisation?
- ▶ What are the implications for finance?
- ▶ How should finance prepare for these changes?

To do this, we conducted more than 300 interviews and 50 roundtable discussions on the future of finance and identified several common trends emerging across a range of topics. These trends provided our research team with a series of insights into the finance function of the future and this paper is the first of four that explore the key themes from our research. These themes are:

1. **The changing role and mandate of finance**
2. Changing technology and finance
3. The changing shape of the finance function
4. Changing competencies and mindsets

Theme 1:

The changing role and mandate of finance

This briefing paper will:

- ▶ explore the basic activities that are the essential DNA of every finance function. These are the building blocks that make the changing mandate of finance possible
- ▶ explain the broad roles within the finance function. This will enable you to see where your finance function lies in its journey to realising the changing mandate
- ▶ explore how the finance function must transform in order to meet the changing mandate.

Reading time: 20 minutes.

Recognising the changing mandate

Our research shows that the finance function has a mandate to go beyond its core accounting role. This changing mandate doesn't discard core accounting; it's still an essential foundation of the finance function. However, enabled by new technologies, the function is now capable of assessing a broader range of information and becoming a more influential player within an organisation. It's time to step up and occupy the space that senior finance and non-finance people – as revealed in interviews with us – believe the finance function of the future must own.

To some, this isn't anything new; their finance functions are already there. Others who are used to the finance function working in isolation, however, find it daunting. This reflects our findings that one organisation's current mandate is another organisation's past. As part of our ongoing research into the future of finance, we aim to emphasise a harmonious approach and best practice so that practitioners, organisations and finance functions evolve to reap the benefits of the changing mandate.

The mandate, articulated in interview and roundtable research, sees the finance function contributing more to organisational leadership – as a guardian of the business model and value. This is a broader, more strategic mandate, where finance defines, enables and articulates how an organisation creates and preserves value.

Consequently, the finance function changes from being a centre that simply generates products, such as reports, budgets and plans, to a function that works with its customers to provide innovative experiences that deliver organisation-wide value. This includes engaging with

external stakeholders and building new relationships in the organisation's ecosystem, to redefine the business model for the digital age. Parker, Van Alstyne & Choudary, note that:

Finance is shifting its focus from shareholder value and discounted cash flows of assets owned by the firm to stakeholder value and the role of interactions that take place outside the firm.ⁱ

Defining the changing mandate

“Finance is playing a strategic role for an organisation in transition.”

This is what one employee at a South African telecoms company told us during our interview research. They explained that the future mandate for the finance function will move away from pure reporting and instead develop and deploy solutions for an organisation.

Another interviewee explained how, through value partnering, the finance function has evolved beyond bookkeeping to carry out more strategic organisational thinking. More respondents revealed that their finance functions had been transformed so that the management accounting discipline in their business enables value generation.

This emerging mandate is based on a twin belief: firstly, that the finance function has a unique end-to-end view of an organisation; and secondly, that the Chief Financial Officer (CFO) has the business understanding to work alongside the Chief Executive Officer (CEO) as a co-pilot.

The finance function is well-positioned to meet the changing mandate for a number of reasons:

- ▶ It is uniquely situated with an overview of the business, as every activity has a financial consequence
- ▶ Its accounting information is trusted; it is auditable and reconcilable with financial realities
- ▶ Management accounting already provides the framework for performance management
- ▶ The accounting profession has credibility and plays a leading role in stewardship
- ▶ Finance is a rational, measured discipline, which brings evidence-based rigour and professional objectivity to decision-making.

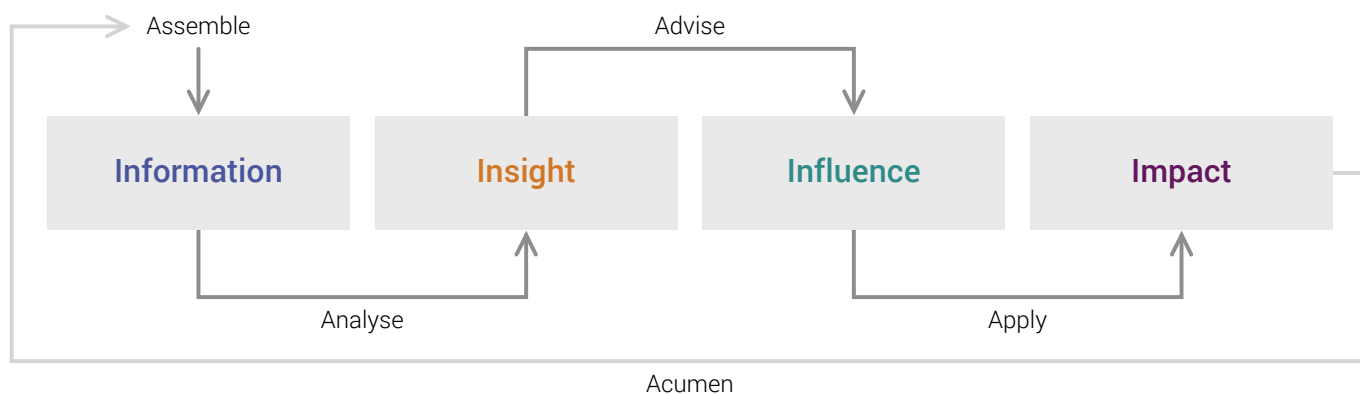
The changing role of finance: from core basic activities to custodians of organisational value

Historically, the finance function's mandate was to focus on organisational efficiencies and reduce operational costs. In many organisations, this focus has heralded lean operational processes, and now there is no more fat to trim. Technology is also at a point where machines can be left to monitor process-costing and highlight patterns of efficiency. This allows the finance function to refocus its energy on revenue and value creation. Now, it's time to take on the role, working with others across the organisation, to drive business transformation that creates shareholder value. To do this, finance functions must build on their basic activities. And they must find new capacity and capability, so they can fulfil the broader roles that interviewees in our research are demanding.

1. Basic finance activities: from information to impact

Peel back the layers of the finance function and at its heart you will find the basic activities – the function's DNA. Whether you are assessing finance risk, reconciling accounts or compiling management information reports, the process activities remain constant.

Figure 1: Basic finance activities: from information to impact



The function's basic activities (Figure 1) are:

Assembling information: the finance function assembles data from a range of sources – collecting, cleaning and connecting data into assembled information. As well as preparing accounts and returns in prescribed formats for external reporting, the function prepares management information in accessible formats for managers.

Analysing for insights: the finance function analyses both financial and non-financial information to draw out patterns and relevant insights for its customers.

Advising to influence: the finance function then communicates these insights and contributes an objective, responsible perspective to influence decision-making.

Applying for impact: to guide actions and help ensure organisations achieve the required impact, they enable and use control systems, such as strategic planning, budgeting, performance measures and performance reviews.

Acumen: the finance function ensures it assembles valuable information to inform the consideration of subsequent proposals – information ranging from reports to analysis of the outcomes achieved or experiences gained from relevant initiatives.

Together, these basic activities are the backbone of the changing mandate and are performed regularly by finance professionals under the broad finance function roles.

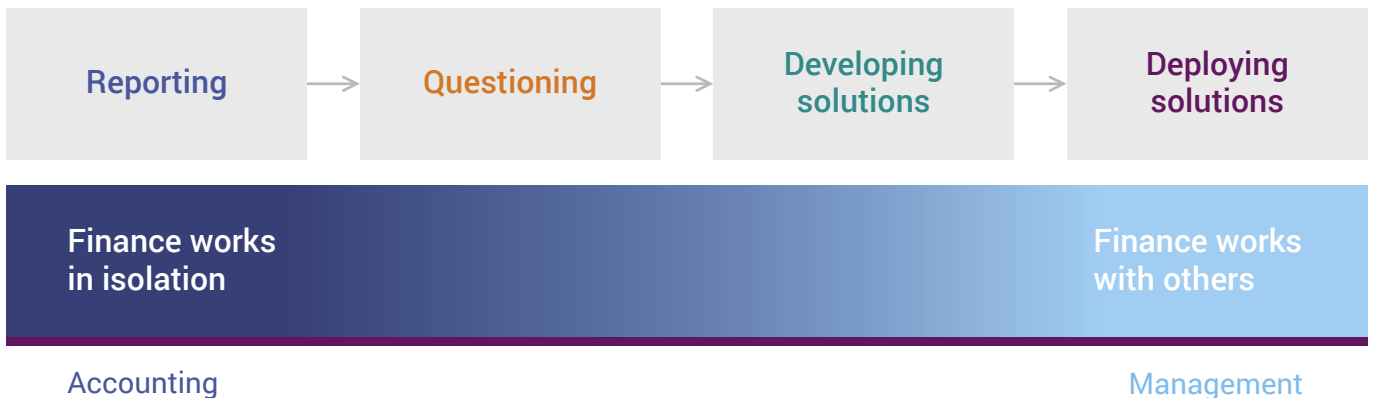
2. Broad finance roles

Insight into the broad finance roles came from an interview with a CFO at one of the Big Four accounting firms, who explained:

“In the future, the finance function will need to be more involved in developing solutions with the rest of the organisation. This is because the function initiates the root cause analysis, and has the understanding that links through to developing solutions. Once the finance function is working with others, it must also move into deploying solutions. Both of these broad areas will require a change in skills focus, from technical and business to problem-solving and change management.”

This insight expresses clearly how the changing mandate is expanding from a core accounting role to one which involves developing and deploying solutions for an organisation. In a diagrammatical format, the broader roles of the finance function sit beneath the umbrella terms of ‘reporting’, ‘questioning’, ‘developing solutions’ and ‘deploying solutions’.

Figure 2: Broad finance roles



Once we had discussed the four broad roles of finance (Figure 2) in our interviews and roundtable, the research enabled us to plot finance function capabilities. The research revealed that most finance functions are excellent at reporting and the activities associated with this, especially when working in isolation. However, moving from left to right through the broad roles, finance functions tend to perform less well. Functions that have built up their business and analytical skills to focus on root cause analysis tend to perform well in the ‘questioning’ broader role. In the ‘developing solutions’ and ‘deploying solutions’ arenas, there are some lone finance function innovators. The reason many still operate only in the ‘reporting’ and ‘questioning’ spaces is because few finance functions currently have the capacity and capability to move to the right-hand roles.

Reporting: a trusted source providing data integrity

The finance function is usually the most trusted source of information in an organisation because it can ensure the integrity of the data used in its analysis and reporting. Its professional objectivity means the function provides information that’s less likely to be subject to bias than the views of others in the business. One interviewee described it as “sanity over vanity”.

The CFO of a UK government agency revealed that it’s the finance function that’s expected to assemble the information the agency is obliged to disclose under the UK’s Freedom of Information Act. This is a clear demonstration of confidence in the information provided by finance functions.

Questioning: a commercial analyst that enables values

Finance functions are usually the masters of producing reports. However, these products are then handed to others to debate and discuss. The changing mandate needs finance functions to move from being reporting factories to providing experiences that wrap around the reports they produce.

The analysis in most reporting seldom generates insight alone. More often, it raises questions. The commercial curiosity, questioning and analysis by dimension (for example, by relationship, product, channel or segment) that the finance function prompts, can identify opportunities to innovate or reduce risk. Questioning also initiates collaborative conversations with colleagues around the organisation, leading to identification of root causes and opportunities to improve performance.

The finance function's questioning role involves constant horizon-scanning and alerting the business to strategic opportunities or threats.

Developing solutions: a subject matter expert providing stewardship

Finance functions have subject matter experts in their teams to guide strategic decision-making and decisions about major investments, initiatives or strategy. However, they are rarely seen at the debating table. This is a shame; as stewards with professional objectivity, they are well-positioned to question constructively. They also provide transparency and can facilitate organisation-wide conversations to generate innovative solutions. Quattrone, Busco, Scapens and Giovannoni recommend a:

Return to being a cross-functional means of users' engagement and motivations by forcing different stakeholders to take part in decision-making processes to overcome the silos mentality which has relegated the finance function to a mere provider of information rather than an active player in such processes.ⁱⁱ

Deploying solutions: partnering for value

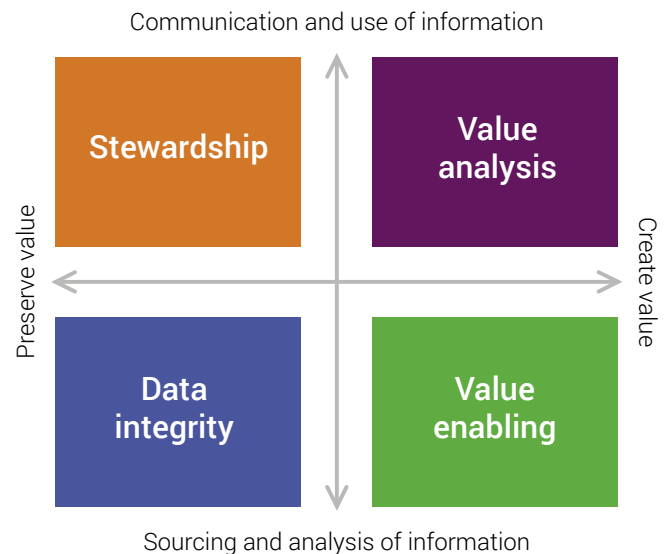
Through partnering with others across the organisation, the finance function is able to cascade the value creation focus to local-level planning, decision-making and the ongoing performance management in business units. They also help to deploy major initiatives and solutions by engaging in change management, strategy implementation and project management, in addition to ongoing risk management, process management and performance management.

In the expanded role, CFOs promote value creation by serving as strategic advisors to business leaders, overseeing performance across the organisation and communicating a persuasive equity story to investors.ⁱⁱⁱ

3. The value matrix

It is the fusion of the four broad roles that will allow finance functions to step up and become the custodians of organisational value. The Global Management Accounting Principles define management accounting as 'the sourcing, analysis, communication and use of decision-relevant financial and non-financial information to generate and preserve value for organisations', and this links directly to the changing role of the finance function.^{iv} Finance now has the mandate to define, enable, shape and tell the stories of how an organisation creates and preserves value.

Figure 3: The finance function value matrix



We have labelled this focus the 'value matrix' (Figure 3), where:

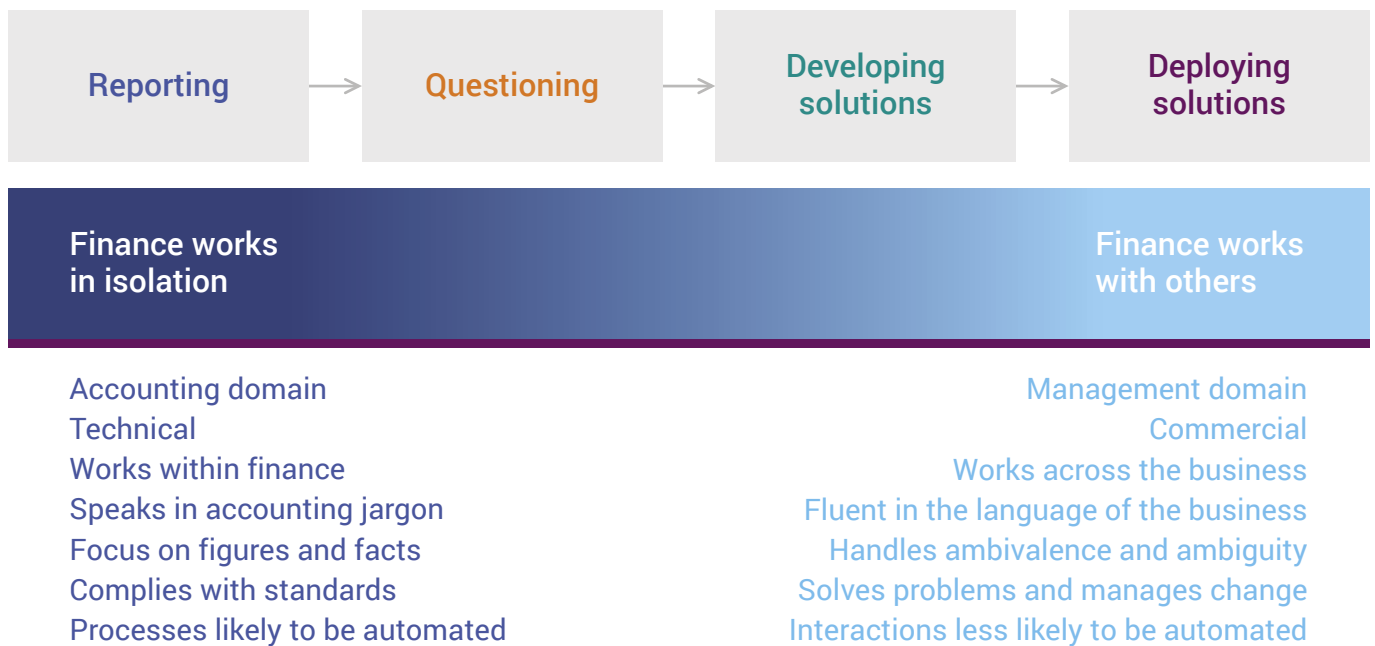
- ▶ finance, as a trusted source of the management information, provides data integrity
- ▶ finance, as a commercial analysis, provides the insights into the drivers of organisational value
- ▶ finance, as the subject matter expert and steward, contributes to strategic decision-making, including defining objectives with regards to developing the business model
- ▶ finance, through partnering, uses insights to address performance issues and enables solutions to create value.

Finance is well-positioned to take on the wider mandate. Indeed, we know from our research that this future for finance has already arrived in some leading organisations.

The journey to the finance function of the future

The following diagram (Figure 4) demonstrates the refocused emphasis that finance functions will need to exhibit in order to fully embrace the changing mandate and remit of the broad roles. It represents a shift in emphasis from pure accounting to management. This will require more fusion between tasks and activities carried out within the finance function, and far greater interaction with the business.

Figure 4: Skills underpinning the broad finance roles



The journey also requires the following shifts:

- ▶ No longer requiring technical accounting skills alone, but more general commercial and social skills as well. Accountants won't just work alongside other finance personnel but will work with colleagues from diverse disciplines across the business, and with external stakeholders.
- ▶ Transitioning from an environment where accounting terms are considered the language of business to a world where business people regard them as jargon.
- ▶ Moving away from the accountant's domain or comfort zone of expertise to the sharp end, where problems are solved and business is completed.
- ▶ Developments in technology provide the potential to automate routine processes, but relationships and interactions are still needed between peers.

Of course, our research also reveals the concerns of some interviewees about the obstacles they currently face in the journey of transforming their finance function. These obstacles sit under three interconnected headings:

- ▶ **Capacity:** accountants are too busy with workarounds and legacy systems, or simply don't have the capacity to engage with and support the business in broader roles.
- ▶ **Competence:** accountants may need to develop one or more of the skills needed for a more business-focused role, whether that's business understanding, data analytics, interpersonal skills or a commercial, ever-learning mindset.
- ▶ **Credibility:** even if they have the required capacity and skills, accountants can be highly regarded for their professionalism and accounting expertise, but – due to their organisation's culture – they may not enjoy a reputation for the commercial skills that would enable them to fulfil a broader role.

Whatever happens in the future, as organisations become increasingly complex and dynamic, the role and mandate of finance will continue to evolve. However, as our research reveals, finance functions already have a wider mandate to become the custodians of organisational value.

The future of finance: join us on our journey

Our briefings on these emerging themes will enable us to discuss a new delivery model for modern finance, with certain key features. Ultimately, all organisations face the same obstacle of building capacity, competence and credibility within their future finance functions.

The difference is that some organisations are innovators on the journey to the future, while others are lagging behind.

With this research, we want to help more organisations lead from the front.

The keys to transformation

Based on our interviews, it appears that an organisation's top priorities to transform its finance function should be to:

- ▶ make use of the latest technologies to release the full capacity of the finance function
- ▶ widen the remit of finance to cover a broader range of management information, generating new insights and business solutions
- ▶ provide and empower finance professionals with new competencies and growth mindsets to help your organisation create and preserve value.

That's what this project is all about.

So, armed with this briefing, why not start a conversation on the future of finance in your organisation? Read one or all of our briefing papers on emerging themes and share them within your network.

You can then ask yourself:

- ▶ how do the emerging themes resonate in your organisation?
- ▶ where are you and your organisation on the journey to realising the finance function of the future?
- ▶ how, in light of these themes, will you reconsider your strategies to meet the future finance function's innovative mandate?

Five things you can do in light of this briefing

1. **To begin transforming your finance function, you can use this briefing as an opportunity to start a conversation within your organisation about your finance function mandate.** From this, you'll gain a greater understanding of your customers' expectations and the types of products or experiences they want from their finance function in the future.
2. **You can then build on this insight by investing time to understand where your finance function is on its journey to embracing the four broad roles of reporting, questioning, developing solutions and deploying solutions.** Where there are gaps, you can then make plans to address them.
3. **Consider whether capacity, competence and credibility are obstacles in your organisation.** If they are obstacles, this presents an opportunity to assess how you and your organisation can tackle them.
4. **To align your finance group's capabilities with what's needed in the future, begin to develop skills around empathy, building relationships and business partnering.** These skills will become increasingly prized when developing and deploying solutions, and partnering with others in your organisation.
5. **To help us develop a knowledge-sharing community, please do get in touch and share your experiences, observations and opinions with me.**

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