

An underwater photograph of a large manta ray swimming horizontally across the frame. Two smaller pilot fish are swimming in a line below the manta ray, following its path. The water is clear and blue, with light filtering down from the surface.

CGMA[®] REPORT FINANCE BUSINESS PARTNERING

The conversations that count

The relationship between pilot fish and manta rays is an example of a type of symbiosis; where both organisms receive benefits from their relationship.

Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant (CGMA®) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMA® designation holders are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

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1. EXECUTIVE SUMMARY

The post crisis political, economic and social environment and the pace of change will not provide an easy era for business. The world has become flatterⁱ and it is becoming more volatile. This means that there will be fewer opportunities for companies to find sources of competitive advantage and there will be new crises ahead. Increasingly, the quality of decision making will become the discriminator of business success.

It takes professional rigour to ensure that decisions are not subject to bias but are taken in the interests of stakeholders on the basis of proper analysis of the evidence available. The discipline of management accounting as applied through ‘finance business partnering’ could provide the solution.

In many organisations, the accounting and finance function is being transformed to be more efficient. This is being enabled by developments in information technology. This transformation can provide the capacity for the role of finance to be extended to include finance business partnering.

Finance business partnering begins after standard reports and analysis have been produced. At this point the focus then shifts from accounting to management. This is when the disciplines of management accounting are applied in the business and insights developed to inform decisions and improve performance.

Providing effective finance business partnering is still proving to be a challenge for many businesses.ⁱⁱ There are capacity constraints and accountants may not be recognised as having the business acumen or soft skills required. It is important that businesses and accountants address this challenge.

This report, based on 25 interviews and roundtables globally with senior executives, shows the kinds of decisions these management accountants support. It also shows how they contribute to these decisions. We have found that this is not only by applying their accounting and analysis tool kit,ⁱⁱⁱ their overview of the business and their professional objectivity but, most significantly, through relationships, participating in conversations and asking the right questions.

It is questions and conversations that can lead to the insights needed to improve performance. We show the important topics to be considered in such conversations: How do we really generate value? What is our business model? How do we need to develop our business model for the future? What do we need to measure to manage both our performance in this period and for the future? What data do we need to consider for this purpose?

Finance people can be deployed to work closely with managers and help them improve decision making and business performance in the long-term interests of stakeholders. To compete for these roles, accountants must complement their core technical skills with additional analytical skills, business understanding and soft skills.

The CGMA[®] designation provides a strong professional and ethical foundation for business partnering, on which management accountants can build to gain effective and valuable influence over the quality of organisations’ decision making and performance management.

Finance business partnering can make an important contribution to improving decision making and ensuring the sustainable success of business. It also widens the career opportunities for management accountants, providing another route to senior management.

2. INTRODUCTION: THE NEED TO IMPROVE DECISION MAKING

The VUCA world

The term VUCA was first coined almost three decades ago to describe the geo-political world at the end of the Cold War: Volatile, Uncertain, Complex and Ambiguous. More recently, the term has acquired new significance as it is being used to describe the world of business. We are in a VUCA world and it is not likely to become any less VUCA in the foreseeable future.

Challenges of the VUCA world include:

- Many economies are now in a recovery phase and there is reason for optimism. However, there is still a high burden of debt in many countries and the world is so interconnected through global trade that a fiscal crisis in one location can cause problems elsewhere.
- Political instability in any one country can lead to a regional crisis and consequences for distant countries through advanced weaponry, modern terrorism or the migration of refugees.
- Developments in technology are enabling new business models that could threaten long established incumbents in many industries and bring structural changes to the world of work.
- The digital age and Big Data provide new opportunities for business but keeping up to date with the pace of change is a challenge. Cyber security is a growing concern.
- Global trade provides opportunities in new markets but exposes business to competition from new overseas competitors. Imbalances in global trade may cause economic power to shift to emerging economies.
- The scale and complexity of global businesses and the pace of change lead to competition for the most talented individuals. This adds to disparity due to the high levels of unemployment or under employment in many countries.

- Many developed economies have aging populations while developing countries are experiencing rapid rates of growth in population and urbanisation.
- Climate change and the depletion of finite natural resources pose a threat to our ways of life and the sustainability of our planet.
- Stakeholder concerns about the ethics of business or its social and environmental responsibilities could lead to a burdensome volume of regulation and reporting requirements.

The challenge for business

In a period of volatility, businesses need to be constantly alert and ready to address new risks and opportunities. Uncertainty means that businesses need to build their adaptability and resilience. Resources should be constantly focused on the market segments, products or channels where rewards and prospects are greater. Better management of risk is required to be prepared for potential events. Complexity requires more incisive analysis and clear forward thinking. Ambiguity demands agility in analysis and forecasting to inform decisions and enable swift action.

The public sector, government funded organisations and those in the not for profit sector face similar challenges. In addition, as they are usually focused on achieving policy objectives rather than generating revenues, market forces seldom provide them with the feedback needed to ensure efficient resource allocation. Not only are these organisations expected to do more for less but more transparency and accountability are also expected to enable due governance.

Management information is central to the management control cycle, as illustrated in Figure 1. It informs decision making at the planning stage and ongoing performance management. Unfortunately, business managers do not always use the evidence

available to them as well as they might. The potential for bias in decision making is well known but not always addressed.^{iv}

FIGURE 1: The management control cycle



Sales volumes, global expansion, prestigious projects and size of business unit can be motivational for managers but sustainable net cash flow is what generates value for shareholders. Academics consider this dilemma as ‘agency theory’. In the commercial world, management accountants recognise this disconnect or potential conflict in interest as “Vanity versus Sanity”.

The following major causes of bias in decision making can be addressed with management information:

- If managers do not have confidence in the management information available to them they will make a judgement based on their perspective rather than the evidence.
- If the relevant information is available, it must be analysed diligently with a focus on the value to shareholders and not swayed by self-interest or personal preference.

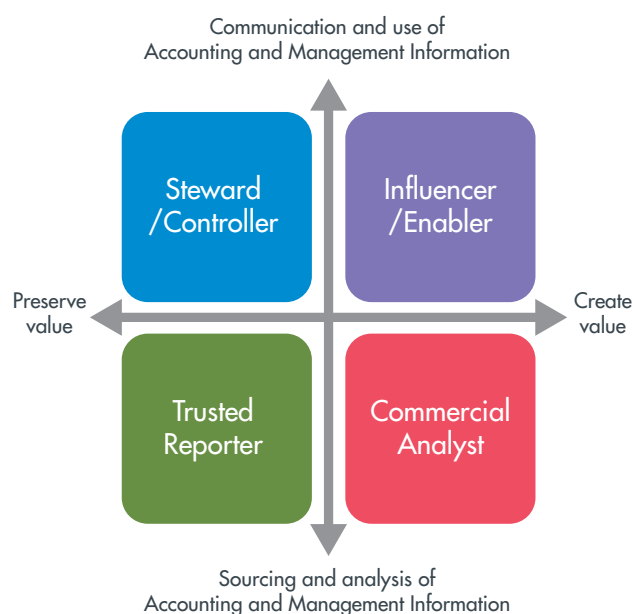
- Analysis of all the evidence available seldom yields definitive answers. There is a risk that findings or aspects of analysis that support a preferred option will be given undue weight.
- If there is not a culture of governance and accountability, then even trusted information, properly analysed, might not be influential in decision making or performance management.

The need for finance business partnering

Management information is what management accounting is all about: “The sourcing and analysis of accounting and management information and its communication and use, both to preserve and to create value”.^v Management accounting can enable rational, measured and responsible management.

The role played by management accountants in providing accounting and management information positions them as professionals who can help improve decision making. With their unique combination of professional rigour and objectivity, technical accounting and analysis skills and an overview of the business, management accountants engaged as finance business partners can cascade the influence of a CFO throughout a business.

FIGURE 2: A definition of management accounting



“Finance transcends business disciplines. We work with other teams. You might support that lead but also other business unit leads, the marketing lead, the supply chain person and the sales person. A finance business partner gets an overview across business units and specialist areas so he/she can contribute a combined insight.”

Customer Finance Director,
Consumer Goods Company, South Africa

Unfortunately, the accountants in a business are not always engaged to provide management accounting in this influential finance business partnering sense. This could be a missed opportunity as research has shown that businesses where the CFO has taken on a broader management role are in a stronger position to seize the opportunities and meet the challenges that lie ahead.^{vi}

3. HOW THE ROLE OF FINANCE IS CHANGING TO BETTER SUPPORT DECISION MAKING

The term business partnering is also used by other support functions in the business, particularly HR and IT. It usually means working with the business to share expertise from their domain to help the business to perform tasks related to their function. Domain business partnering means working with business colleagues to improve the actual business' performance. This is what finance business partners do.

Finance business partnering cannot be put into effect unless it is as part of a more comprehensive finance transformation programme. 'Finance Transformation' is a major change programme that can be described under the headings of efficiency, information and influence, as illustrated in Figure 3.

Efficiency: Systems standardisation and the automation or migration of routine processes to shared service centres increase the efficiency of accounting processes and can provide the capacity for finance to take on a broader role in supporting the business.

Information: To increase profitability in slower growing markets, businesses need better management information. Employers look to

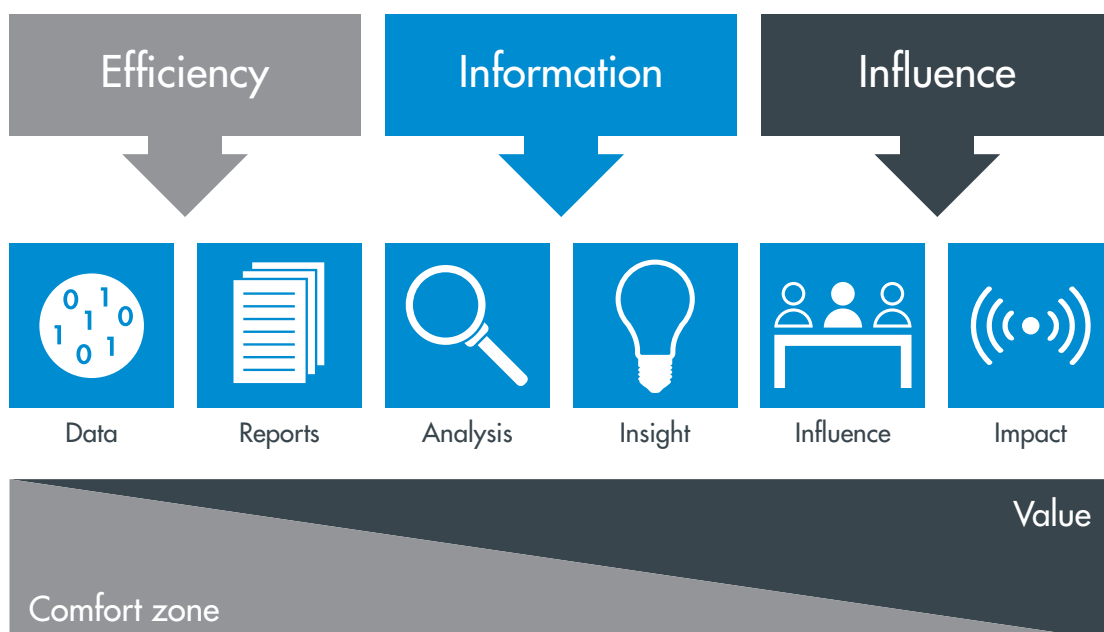
management accountants to provide much of this analysis. Accountants need to embrace the potential in technologies such as cloud, business intelligence and developments in Big Data and analytics.

Influence: In order to help businesses to survive and thrive in a VUCA world, accountants are expected to play a more influential role in supporting decision making and performance management.

The impact of these three trends is such that management accounting's expected role in business is broadening to be about improving decision making.

Providing evidence in the form of financial reports, management information and analysis has long been the basis for accountants' roles in decision

FIGURE 3: Finance transformation



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Financial leaders play a key role in making sure that there is a clear link between the strategy, the priorities, the operational execution and the company resource allocation behind those priorities. At the same time, using performance management they are tracking results to influence management decision making.

Felix Langenbach, Finance Director,
Nestlé Nespresso

As the finance function becomes more efficient, the priority in finance transformation is shifting from how to take cost out of an overhead function to how to get more value from finance disciplines. And as management accounting becomes more influential, it is increasingly valued for its contribution towards ensuring business success.

“There’s a race against the advance in what the Business Service Centre can do which is raising the game for business partnering.”

Financial Controller, Automotive Company, UK

making. Finance business partnering begins after standard reports and routine analysis have been produced. This is when insights are developed to inform decisions and improve performance. These insights might be based on further analysis but are more often developed in conversation with peers. Insights gained must be communicated in a compelling manner if they are to be considered before an actual decision is taken. This is not the end of the accountant’s role in decision making. Effective decisions achieve impact so they must be articulated in terms that allow them to be implemented. Progress has to be measured and performance managed through to the intended outcome.

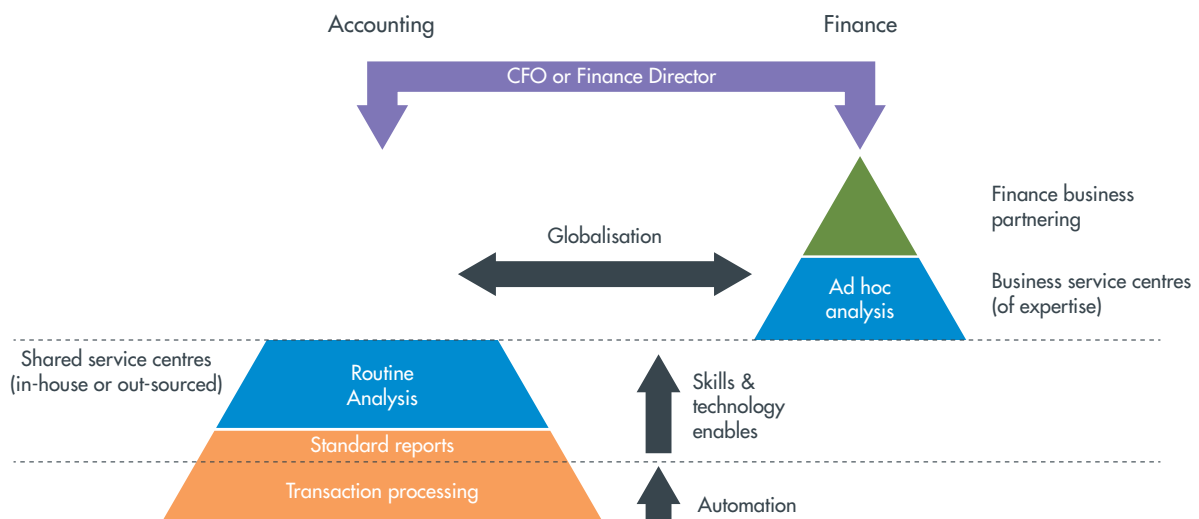
A related change which can occur, especially in companies of sufficient scale to have shared service centres, is the segregation of accounting and finance, as illustrated in Figure 4.

Globalisation can allow a significant distinction and geographic distance between the roles of those in shared service centres, whether in-house or out-sourced, and those closer to the business in onshore or retained finance who provide technical advice, analytical decision support and business partnering.

The CFO or finance director is responsible for both areas but is often closer to business partnering as he or she usually operates as a business partner to the managing director or CEO.

This trend is raising the bar for shared service centres and for those in business partnering roles who must provide a level of support that could not be provided by a service centre.

FIGURE 4: The segregation of accounting and finance



4. HOW FINANCE BUSINESS PARTNERING IMPROVES DECISION MAKING

Figure 5 provides an overview of the range of services that management accountants might be engaged to provide. In a large business these service areas can represent job families but it is more usual for individuals' roles to span service areas. Whichever of these services they provide, when supporting business colleagues, management accountants might be said to be partnering with the business.

For example, when engaged in external reporting or other areas of subject matter expertise including tax planning, treasury, mergers & acquisition and investor relations, accountants liaise with business colleagues to provide advice. They may even coach them on technical accounting matters.

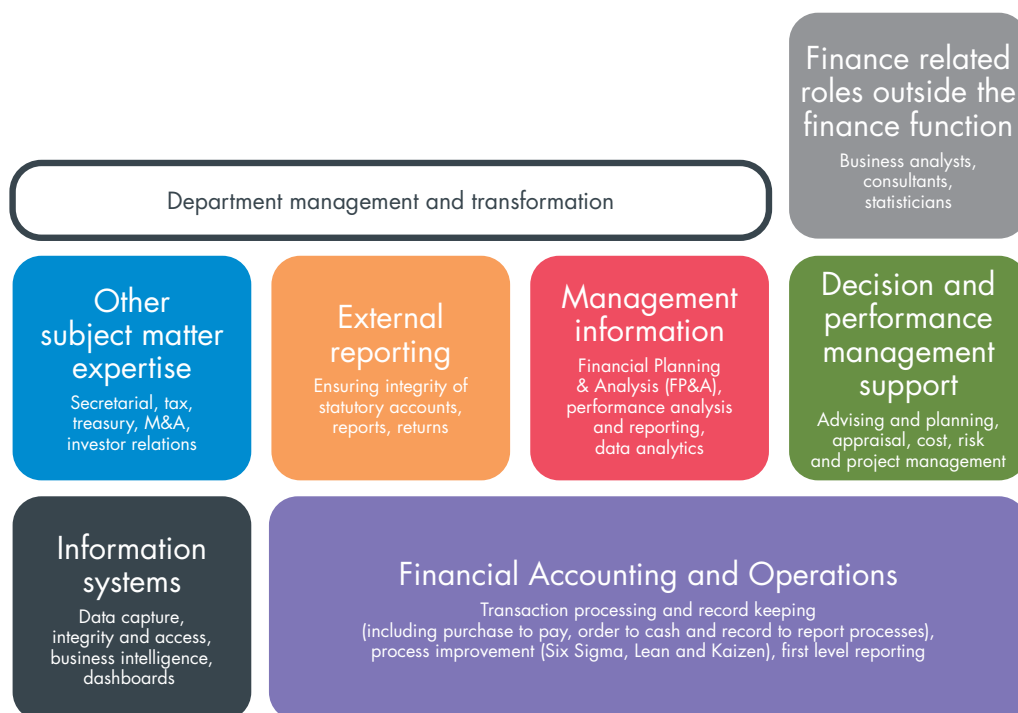
So too, accountants engaged in areas like information systems or financial accounting and operations may support the business with their expertise in systems or process management. They can help to identify activities which can be handled more efficiently, at lower risk and to a higher standard more consistently by being automated or

being migrated to a shared services environment. This can lift a burden off a business unit allowing it to focus its resources on higher value activities.

However, as we are using the term finance business partnering to mean when a CFO or a management accountant operates as an internal consultant or business adviser, then this is closest to the service areas shown as 'Management Information' and, especially, 'Decision and performance management support'.

The management information area works closely with the business to provide the information and analysis that management need to assess current performance and progress towards intended outcomes. Its emphasis is forward looking and includes forecasting or modelling of the future. This area may be stretched to analyse a wide range of digital data while also providing management information ever more efficiently. Dashboards and self-service analysis are priorities. Key challenges are to ensure that the information provided is relevant to business managers and actually used.

FIGURE 5: The services management accountants might provide



The ‘Decision and performance management support’ area is where management information and analysis are applied to inform and influence decision making. This relates to big strategic planning or investment decisions as well as to the ongoing management of performance, projects and risk.

Business unit managers might have ‘their own’ finance professionals supporting them in finance related roles outside the finance function. This is dubbed ‘shadow finance’ or ‘grey reporting’. There can be a duplication of effort and potential conflicts about different versions of the truth. Best practice to ensure objectivity and rigorous analysis, whether business partners are based in centres of excellence or embedded in the business, is to have a matrix reporting structure where the main reporting line is to the CFO.

Driving business performance

In most businesses, a formal strategic planning cycle happens ahead of the annual planning and budgeting period. The competitive environment is reviewed and a planning horizon of three to five years is considered. Strategic initiatives are selected and priorities are set for the next period.

The operational planning cycle turns much more frequently. It is also where most finance business partnering happens.

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The vast majority of business partnering is operational. The highest level of finance does have a role in strategy but it is a very small percentage. Business partnering is about driving business performance.

Anton Broers, Finance Manager,
Royal Dutch Shell

In the research to inform this report we found examples of finance business partnering in the sense of contributing to decision making and driving business performance under each of the following three areas:

1. Supporting decisions at group level
2. Decision support at business unit level
3. Performance management

1. Supporting decisions at group level

The CFO and other directors share fiduciary and stewardship responsibilities. Having responsibility for external reporting often positions the CFO as the lead on ensuring good governance practices.

In large organisations, the CFO’s immediate team are generally the only finance personnel engaged in the business group’s annual strategic planning process. They will often own the planning process, assembling the external market information, accounts and management information necessary to inform discussions and provide analysis to assess risks and opportunities.

Important decisions about the business group’s strategic direction and how it should develop its business model will be taken. The expectations of business units will be reflected in their plans and budgets, which are negotiated at a subsequent stage.

In a big business, the CFO cannot participate in the planning or management of each business unit. This is the role of the finance business partner, which is about cascading leadership, decision support and enabling effective performance management.

a. Cascading leadership

The finance business partner’s job title might be finance director or financial controller in a large business unit; if two or more small business units are supported, they might be known as a finance manager or business partner. The reporting line will usually be to the CFO but a dual reporting relationship with a dotted line to the managing director and thick line to the CFO is also common.

The finance business partner is an important conduit for management information. Information about the business unit is filtered up to the CFO (and the board) and the CFO’s expectations are cascaded to the business unit(s).

“Business development people take the lead. Finance have to guide them to where the value is; what is expected; how to prioritise. They provide clarity.”

Financial Controller, Automotive Company, UK

b. Supporting change management

This reporting relationship to the CFO both underscores the finance business partner’s objectivity and provides a connection with the wider business. This equips the business partner with an overview of what is happening across the business, which can include an appreciation of its brand and culture.

The group’s strategy may require some development of the business unit’s business model. The finance business partner will be alert to the changes expected and can play an important role in ensuring personnel understand why change is needed.

2. Decision support at business unit level

The finance business partner supports the business unit’s managing director, just as the CFO supports the CEO.

a. Planning and budgeting

Just as the CFO owns the planning and budgeting process at a group level, the finance business partner provides the framework for developing the business unit’s budget and plans.

“Our business is part of a German group. They may not be familiar with the term business partner but they have a strong tradition of dual sign off whereby the business manager works alongside a controller. A decision has to make sense to the business and when considered more objectively, in commercial terms too.”

Commercial Manager,
Engineering Company, UK

“I filter up information about my region as do other finance managers. This allows the CFO to take strategic decisions about where to invest or divest etc. and then that strategy is cascaded down through us. Business partners keep the business aligned to the strategy.”

Anton Broers, Finance Manager,
Royal Dutch Shell

b. Supporting big decisions

Capital expenditure

The finance business partner’s responsibilities will usually entail assembling the relevant accounting or other management information and analysis necessary to consider the matter properly.

Having a reporting line to the CFO, the finance business partner is expected to contribute objectivity to ensure that the decision taken is aligned with the group’s strategic objectives and the decision is considered with a focus on the benefit to shareholders; increasing rather than diluting the return on capital employed. It is the finance business partner who ensures the information provided is not furnished for information only but is understood by the decision makers and taken into account.

It is then the finance business partner’s responsibility to ensure that the decision is reflected in plans and budgets and that the right performance measures are monitored so that performance can be managed through to the intended outcome.

Mergers and Acquisitions (M&A)

Research suggests that more than half of mergers and acquisitions destroy shareholder value. This may be why, when a publicly quoted business announces that it is about to make an acquisition, its share price will often fall.^{vii}

Businesses that grow by acquisition successfully learn to handle M&A activity as a process. They assemble an M&A team, including finance business partners, to manage the sequence of steps which must all go well if the transaction is to generate value for shareholders.

The logic of the deal must make sense to investors; the scale of the deal might add additional financial or operational risk so there has to be a clear strategic fit; the deal must enhance return on capital so a

favourable price and transaction structure has to be negotiated; the due diligence exercise has to be thorough; talented personnel must be assigned to the implementation project as flexibility may be needed to address the technical problems and cultural issues that can arise when integrating.

“When it comes to mergers and acquisitions, a panel of four or five directors meet with our managing director for the UK and Ireland. They will consider the logic of the proposed acquisition, for example, how does it fit with our business? Is it big enough to be worth the effort? Is it making enough profit? At the price, is there a satisfactory return, over our hurdle rate?”

Commercial Manager,
Human Resources Consultancy, UK

c. Supporting regular ad hoc decisions

In most business units there will be significant decisions related to the operational nature of the business that need to be taken regularly.

Promotion and advertising expenditure

Promotion and advertising (P&A) campaigns are conducted regularly by Fast Moving Consumer Goods (FMCG) businesses. Business partners in FMCG companies appreciate that advertising to promote brands is necessary to ensure that customers see them as premium products that represent better value than competing cheaper products. So alongside promotional activity associated directly with sales campaigns there will be ongoing advertising to invest in the brand.

Ensuring the effectiveness of P&A spending used to be notoriously difficult.^{viii} Nowadays, the financial analysts or finance business partners in leading FMCG businesses have proprietary models for assessing this mix of promotional expenditure. Developments in Big Data provide new opportunities to track the impact of campaigns and inform decision making.

Business partners in this sector work closely with marketing colleagues and data scientists to ensure that decisions about promotional expenditure are properly considered and provide good value.

New product or new market initiatives

If investing in a new product or the development of a new market, future revenues are unknown but decision making can still be very rational. The level of investment might be kept within a guideline level relative to the business’ turnover or profit in line with its appetite for risk. A ‘stage gate’ approach may be taken to ensure expenditure is limited until there are grounds for confidence in investing further.

When a media business considers a proposal to invest in developing the first series of a new television programme, they know the level of revenue cannot be forecast. The concept for the program will usually have been developed because of anecdotal evidence of a gap in the market. They might expect the programme to be successful and run for several series on TV channels across the globe, yet the level of demand is still a risk. The business will have confidence in its ability to produce the first series to a high standard within budget. These risks might be shared by co-producing with a joint venture partner. The second series might not get the go ahead until the first series has achieved sufficient sales.

New project appraisal

In major engineering manufacturers, preparing the business case for the development of a new big ticket product (e.g. an aircraft or a submarine) can itself be managed as a project. If so, the finance business partner will work closely with the engineers on that project first to prepare the proposal.

“The engineers would love to gold plate everything. Finance can question to determine what is actually needed.”

Finance Director, Engineering Company, UK

Buy or build decisions

A business might be able to make custom designed components in-house or buy them in. This makes it important to be able to weigh up the cost of production against the cost of buying in. Having an estimate of the production cost is useful when negotiating a purchase. Other considerations might be capacity, the opportunity cost or the quality of the supplier’s products.

“We try to get the best price for what we go out to buy but we have to make a lot in-house too. So we make buy or build decisions.”

Business Partner – Operations Support,
Automotive Company, UK

Pricing products or contracts

In business to consumer sales, the market’s price points may be the starting point. Products might have to be produced at a cost which will allow a profit to be made at the price they can command.

“Where we make or lose money is in the design process and the cost of the product. We use target costing as the products are sold at price points. Designers engage finance from the outset to ensure the product can be sold at a profit.”

Helen Carey, Head of Group Finance,
Petland Brands PLC

In business to business sales, it is prudent to have finance professionals support salespeople when negotiating the price of big ticket items or service contracts. Salespeople tend to be overly focused on the top line and sometimes do not have an informed appreciation of the costs.

“Landing new contracts and increasing revenues can look great but it is not necessarily a good idea if you are simply adding more people, increasing your fixed costs and reducing margins. Ultimately, such pricing decisions could limit your ability to invest in the future.”

Jerry Bird, Finance Director, Accenture

3. Performance management

a. Cost leadership

In good times, a business can inadvertently put on cost and tolerate some sub-optimal performance. Costs have a tendency to escalate to the level of the budget available. However, companies will

need to become more focused to succeed in a less forgiving, post-crisis era of slow growth. Processes must be efficient. Projects must be managed tightly. Resources must be focused where returns or prospects are better.

“As a low cost airline, we obviously pride ourselves on being efficient in everything we do. But we’re not perfect, so there will always be pockets of opportunity. Knowing how, and when, to tackle these opportunities is a key skill.”

Paul Cullen, Managing Director – Financial
Planning & Analysis, Southwest Airlines

Budgetary control

The shared service centre or automated paperless systems will take care of the purchase to pay process for most items purchased so that a senior finance business partner will not ordinarily be engaged in routine cost controls.

Similarly, finance business partners will seldom be expected to produce reports analysing performance against budget. Business partnering starts after the reports and analysis have been produced.

Management accountants are alert to how budgets can be inflexible, leading to short-term thinking and false economies. Rolling forecasts have advantages but budgets are still regarded as a very useful management tool. They provide a means of measuring performance against what was expected so that variances can be identified and discussed.

“Our business partners crawl all over the numbers. They consider everything, not just financial data. They are looking for the key drivers and root causes. They track what is making money for us, looking from every angle; by our people, by customer, by unit prices, by mix and margin.”

Commercial Manager,
Human Resources Consultancy, UK

It is important that finance business partners ask probing questions in these discussions to identify root causes because it is through this engagement with peers in the business that opportunities to improve performance can be identified.

Process management

Process management disciplines improve the efficiency of regular tasks by enabling the ‘industrialisation of processes’ so they can be automated or handled by lower-cost staff on a rules-based basis. In most big businesses these disciplines have been applied to accounting operations; many accounting processes have already been automated or migrated to shared service centres where scale improves efficiency, standardisation improves consistency (reducing risk) and where concentrated expertise enables quality to be improved.

These disciplines include process simplification and systems standardisation; the elimination of wasted effort; quality controls to reduce error rates and the expense of reworking errors; and the development of a culture of continuous improvement.

Finance business partners should be familiar with these disciplines and alert to opportunities to apply them. They can help to improve processes or migrate them to a shared service centre as appropriate.

Resource allocation

Resource allocation is about ensuring that resources are invested where the value generated for stakeholders can be optimised. In a challenging business environment, it is important to be alert to the returns being achieved and agile in redeploying resources to ensure better returns or outcomes.

“Cost leadership? I’d prefer the term ‘efficiency manager’. As a business partner, you don’t want to come across as cost cutting. If you can grow your revenue, we can give you more resource. Take action when the unit is not growing revenue or when cost is growing faster than revenue. The idea is to grow revenue faster than costs. It’s about optimising resource management to achieve the strategic ambition which is growth (both revenue and margin).”

Customer Finance Director,
Consumer Goods Company, South Africa

b. Performance appraisal

Performance management requires insightful management information that enables the analysis of performance across dimensions (by segment, product, channel or activity) to inform not only occasional big decisions but also the ongoing performance management that can lead to incremental innovation. Finance has to embrace developments in information systems to provide this information in self-service formats such as dashboards that can be interrogated.

Tackling sub-optimal performance

When times are hard and opportunities to save costs or improve performance can be found, this suggests that the business was performing sub-optimally in the good times. If a business is managed in the interests of its stakeholders, it should be running at optimum performance at all times.

“We are making information as transparent as possible so that conversations will come about that will drive out sub-optimal practices and performance.”

Alastair Connell, Section Head – Finance
Operations, UK Department of Health

Expectations as to what can be achieved are often anchored by past performance. The budget for next year will look remarkably like what was achieved last year. This may seem acceptable but, ideally, business managers should be challenged to achieve the business’ true potential.

“Satisfactory or ‘deeply average’ underperformance is always an issue. OK is not really good enough.”

Commercial Manager,
Human Resources Consultancy, UK

Addressing gaming

Most business managers will agree that there can be an element of gaming in the negotiation of budgets

“Everywhere I have been, there have always been elements of that [gaming]. Some people really squeeze their budget submissions, but yes, others like to leave a cushion in there. That’s why it’s important to know your internal customers, and their respective styles.”

Paul Cullen, Managing Director – Financial Planning & Analysis, Southwest Airlines

Ensuring alignment of Key Performance Indicators (KPIs)

Management measures can have unintended consequences, such as a focus on achieving the measures themselves rather than the outcomes, particularly when used to set targets or reward behaviour. Targets or personal objectives might be achieved, but the intended outcomes missed. Even incentives intended to align with shareholders’ interests can lead to dysfunctional behaviour that destroys value, as seen in recent high-profile corporate failures and the banking crisis.

“KPIs and measures in isolation quite often lead to the wrong behaviours, for example hitting sales targets but not margins.”

Richard Watson, Finance Director, BT Global Services CIO

Selected measures must be kept under review and improved iteratively through an ongoing dialogue. Top-line sales measures might have to be complemented by measures of contribution; quantitative measures by qualitative measures; individual targets by team targets; and short-term measures by longer-term measures.

“Workers used to be rewarded on a piecemeal basis, meaning pay was linked to an individual’s output but this leads to working capital being tied up in Work In Progress, potential for stock-outs as people work at different paces and a risk to quality. We now display KPIs on the shop floor. These include safety, the number of bikes produced and quality.”

Lorne Vary, Finance Director, Brompton Cycles

Balancing short-term versus long-term

When budgets are tight, there is a risk that it is easier to make false economies than invest to improve operational efficiency. Expenditure on projects to develop differentiating competencies that may be needed in the future can look the easiest to cut. Soft targets include training, marketing, brand development, product design, research and innovation. These are, however, the sources of intangibles that may be needed to ensure long-term success.

“Balancing the short-term and long-term is always a challenge. There is not enough conversation in the business about next year. They are inclined to focus on the short-term. We have a role to play in helping the business to understand that it is all about incremental profitability. We have a scorecard. Half of the measures are financial and half are non-financial. The non-financial measures are essentially about growing the earning base.”

Commercial Manager, Human Resources Company, UK

“Balancing current and future performance? This is entrenched in our culture and ways of working. That is embedded in our business.”

Customer Finance Director, Consumer Goods Company, South Africa

Managing intangibles

A CGMA[®] survey of more than 300 executives found that intangibles such as customer relationships, knowledge and human capital, strategic vision and intellectual property are an organisation's most important assets in determining its value.^{ix} In most businesses, measuring or monitoring intangibles so that they can be managed effectively remains a challenge.

c. Project management

Some business partners tell us their business is very process driven, while others say that their business is managed as a portfolio of projects. Generally, current operations are managed as processes, while longer-term initiatives to generate revenues in future periods are managed as projects.

When reviewing project performance, assessing the value earned to date involves considering the amount spent and progress achieved to date, alongside the likely cost to complete the project.

"Projects span from design, develop and manufacture to support phases. Project accounting is important for earned value management, especially long-term design and build projects. Finance business partners need to measure and manage performance against plan both for schedule and for budget."

Matt Miller, Finance Director, BAE Systems

d. Risk management

The board should provide governance of risk, determining risk appetite and regularly reviewing the risk register. While the CFO or CRO maintains the risk register, it usually falls to business partners to take responsibility for risk management at business-unit level.

The risk management and control cycle is similar to the planning and control cycle. It has five stages: review, assess, plan, monitor and control.

Potential risks are first identified in dialogue with business managers, then assessed. A heat map^x showing probability by potential impact helps prioritise the risks for which the business should plan (e.g. how the risk should be avoided, accepted, hedged, mitigated or how the business should be future-proofed against it). Contingency plans should be prepared to enable a prompt response if a risk event or scenario occurs.

Business partners maintain their unit's risk plans and ensure that the level of risk is monitored so risks can be controlled and necessary action taken. They may also be responsible for internal audit and limiting risk by ensuring compliance with business processes.

The business partner brings objectivity and a concern for the business as a whole and its shareholders interests to conversations about risk. Much of business partnering is about conversations.

5. CONVERSATIONS THAT GENERATE INSIGHTS

Stimulating conversations

Anecdotes of success in business partnering often start with mention of an insight gained and go on to tell how people worked together to solve a problem or make something happen. Sometimes, a business partner can contribute an insight into how to reduce cost, improve revenues, mitigate risk or improve cash flow. Finance business partners don't always come up with a definitive right answer, but they do engage with others in conversations that provide viable options. The insights needed to improve performance are usually generated in collaboration and conversation with peers in the business.

These conversations might be initiated by having the courage to ask basic questions or opened by 'holding a mirror to the business.' This might be a matter of discussing issues such as an unexplained escalation in a cost or an unintended consequence of a performance metric.

"Strong business partnering begins with providing transparency into what is going on – or what will or could happen and translating this into the financial impact. That starts the discussion where, jointly, the solutions can be found."

Anton Broers, Finance Manager,
Royal Dutch Shell

Finance business partners bring accounting and analysis skills and professional objectivity to these conversations. This includes providing a commercial perspective, in the proper sense of being concerned that actions are taken in the long-term interests of the business, its shareholders and its stakeholders.

“”

An effective business partner is the one who makes connections between people and between issues. They will have the courage to speak up, to challenge, to hold up the mirror to the business and ask questions. They will be sitting in the middle of the table brokering and linking up points, adding an overview and the financial angle.

Anton Broers, Finance Manager,
Royal Dutch Shell

Professor Paolo Quattrone and others suggest that rather than trying to provide answers, management accountants should focus on asking questions to stimulate conversations; "Management accountants should design and then drive a 'maieutic machine'. We propose that this machine is characterised by four key features: visualise, define, mediate and ritualise. Mastering these features will make management accountants gain a central role in the orchestration of decision making processes." ^{xi}

A sequence of important topics of conversation can help to make connections and provide insights about how to improve performance:

1. The business model
2. Horizon scanning
3. Performance measures
4. Data sources.

1. The business model

Essentially, a business model tells the story about how a business generates value.^{xii}

This story starts with the value proposition that the business has to offer target customers; products or services with features and intangible benefits. It identifies the resources and relationships the business needs to deliver its value proposition to these customers, and the key processes, competencies and intangibles that enable it to meet customers' needs competitively. How the business is structured and governed are also part of the story. This leads to an understanding of the business' cost base, how it 'monetises' its offer and how value is generated for investors, customers, employees and other stakeholders, as illustrated in Figure 6.

Considering the business model helps us to begin to address a series of important questions:

How do we generate value?

What are the causal links between inputs, activities, intangibles, outputs and outcomes?

What are our non-financial success factors and intangibles?

How do we develop our business model to ensure long-term success?

What do we need to measure and manage?

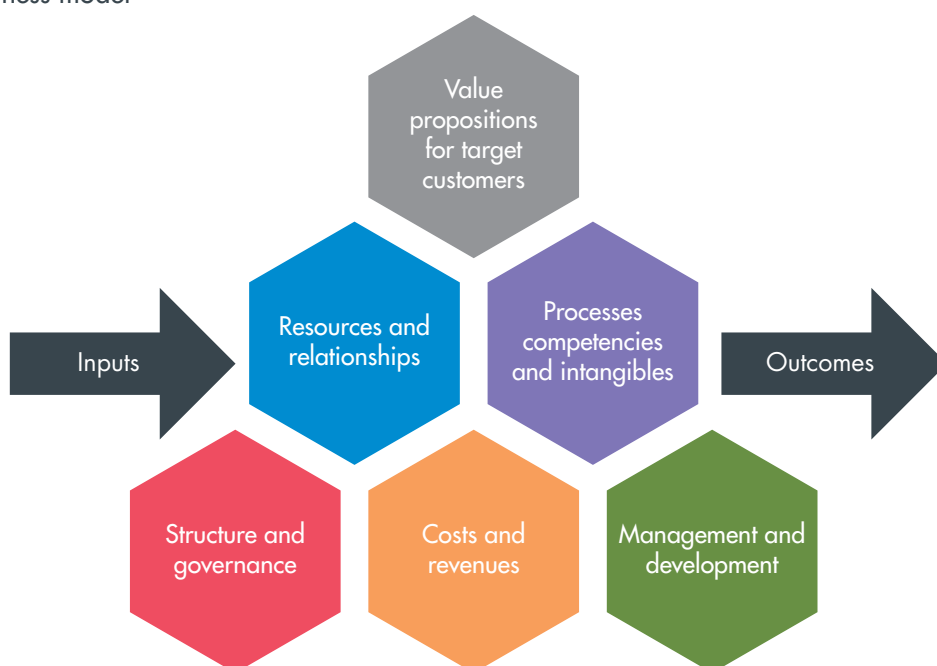
What data do we need to manage our performance?

These are important questions because they can improve understanding of the business' position, performance and prospects, helping us to focus our resources on how we actually generate value.

Understanding business models may not be easy but the management accountant's understanding of the business' financials, especially its sources of income, where costs are incurred and what cross subsidises what, gives a strong foundation. Value chains and the balanced score card are familiar tools which are also useful. Integrated Reporting <IR> is a new approach which should be considered too.

An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short-, medium- and long-term.^{xiii} The AICPA and CIMA are championing integrated reporting as it can improve management by lifting focus from short-term financial results and encouraging integrated thinking. This improves understanding of the strategic context and how value is generated, leading to improved performance management in the long-term interests of its stakeholders.

FIGURE 6: Business model

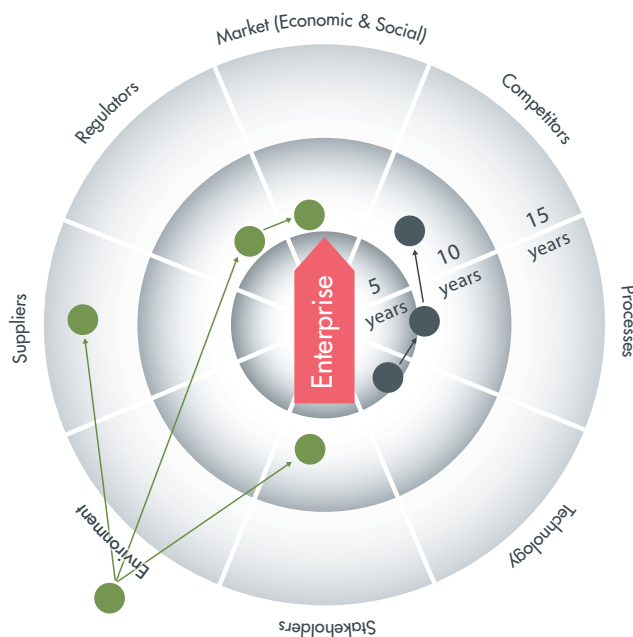


2. Horizon scanning

The number one reason why businesses fail is because they fail to address a risk that was long known about but not tackled.^{xiv} A long-term risk might be expected to have little impact over the next year. Although business leaders might consider the next three to five years, operating plans and budgets are usually set for just the next year. There is a need to consider potential future scenarios and what actions should be taken to build the resilience needed to safeguard the business' future.

This CGMA[®] horizon scanner diagram (Figure 7) can frame conversations about the future business environment, adding a time dimension and integrated view.

FIGURE 7: CGMA[®] horizon scanner



Risks and opportunities may be interconnected in ways that mean they have a more immediate impact. For example, customers might be concerned about the issues; regulators might respond sooner and investors or stakeholders might need assurance that the business is prepared; and competitors might respond faster, perhaps taking advantage of new technologies.

Climate change, the eventual depletion of natural resources or changes in demographics may seem unlikely to have any significant impact over the

next three to five years. Nevertheless, as long-term strategies may be needed to address them, these risks must be considered sooner.

3. Performance measures

Research shows that the organisations with the best prospects of emerging successfully from a recession balance cutting costs to improve operating efficiency while investing in their competitive position.^{xv}

Long-term value creation is a far greater challenge than meeting this year's budget. Achieving both at the same time requires more advanced performance management than can be achieved using financial measures alone. It involves managing both how the business is performing and how it is transforming to ensure its sustainability (Figure 8).

Financial accounts report outcomes, not current performance, risks along the value chain, leading indicators of future performance nor how well the business is transforming.

Outcomes can seldom be used as timely measures of recent performance. Potential leading indicators and non-financial (or "pre-financial") measures are needed to measure performance that will lead to future outcomes. Comparable descriptors may have to suffice for what cannot be readily quantified. Determining these measures requires an ongoing dialogue to continually refine a shared understanding of how the business creates value. Causality is seldom linear, and the measures selected are unlikely to be the only relevant variables. New sources of non-financial data should be considered.

4. Data sources

The use of Big Data is becoming a way for leading companies to outperform their peers.^{xvi} Big Data can be described as the huge volume of digital data generated by digital technologies that is too vast and complex to be accessed or analysed by conventional means of data processing.^{xvii}

From the perspective of a management accountant, Big Data can be viewed as financial data plus the digital data captured on the business' systems; these can include external data feeds and machine-generated data, plus the huge volume of new forms of digital data that might be relevant, such as data from mobile phones, social media, voice recordings, photographs, music and video.

FIGURE 8: Performance measures to balance performance for today and the future^{xviii}

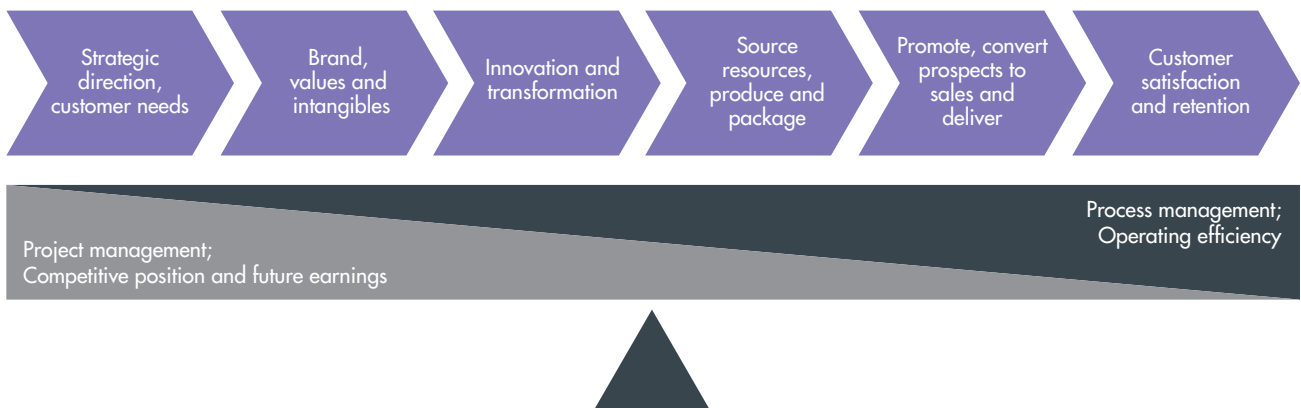
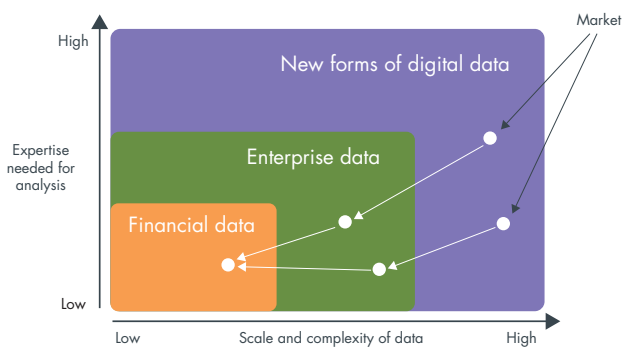


FIGURE 9: Big Data



To benefit from data and its analysis, businesses need to develop new competencies. The advanced analytical techniques necessary to mine data, identify correlations and develop algorithms to predict behaviours are in the domain of data scientists. However, few companies have the complementary skills required to translate these analytical insights into commercial impact.

Management accountants have the potential to make an essential contribution. First, they must develop an understanding of the data sources in the business and work closely with colleagues in IT to capture and extract data from the organisation’s IT systems. Second, they should engage with data scientists to help ask the right questions of the data and interpret insights and patterns arising from the analytical process. Finally, they must work closely with managers across the business to help ensure that data is gathered and interpreted properly to help inform business decisions.

“”

It’s not our job to go down to the lowest level of data, but to know how to aggregate outcomes so it can be converted into an insightful report.

James Miln, Senior Finance Director,
Global Operations Finance, Yahoo! ^{xix}

There is much hype about new data-based business models, and the potential to explore new forms of Big Data to derive new insights or ‘unknown unknowns’ about customer behaviour. For most businesses however, the higher priority is to get better at interrogating the enterprise data on their systems to help them manage performance.

Big Data could provide new ways of measuring or assessing leading indicators of performance. For example, customer sentiment can be gauged by linking the analysis of comments on social media to operational product data and then to financial sales figures.

At Unilever, the finance function has created a data dashboard that pulls in a diverse set of sources, from social media through to market-research agencies, to provide a set of globally relevant, consistent and tangible KPIs that can be linked back to P&L reporting and cash flows.^{xx}

6. THE SKILLS AND TRAITS NEEDED FOR EFFECTIVE BUSINESS PARTNERING

FIGURE 10: Skills and traits needed for effective business partnering



In essence, management accounting is about the combination of accounting and analysis skills with business understanding to provide management information that is used to improve a business' performance. The CGMA® designation provides a firm foundation; business partnering requires the development of each of these skill sets.

Major organisations have clear role specifications and competency frameworks for the range of roles through which accounting and finance people serve the business. This helps them identify gaps in skills and behaviours and enables them to put appropriate development programmes in place. The CIMA syllabus and examinations have been designed to ensure that CGMA® designation holders possess the essential accounting, analysis and business competencies that an employer expects of qualified accountants in the finance function.

The term 'business partnering' can mean the interface between the finance function and the people in the business whom they help with accounting processes. However in competency frameworks finance business partnering usually refers to finance

people with the credibility to cascade the influence of a strong CFO through the business and challenge senior managers to improve business performance in the long-term interests of its stakeholders.

To become an effective business partner, management accountants must develop an understanding of how their business works and business specific analysis skills to complement their core accounting and analysis skills. When management accountants apply these technical skills in the business context they can gain professional credibility and a seat at the decision-making table. Their accounts and management information are trusted and can be used to improve business performance.

Yet, providing credible accounts and management information is not enough. Management accountants need to develop a keen interest in, or even a passion for, the business. When this is combined with the commercial curiosity to explore how things actually work and the professional objectivity to ensure that opinions are supported by evidence, then management accountants can contribute insights about the drivers of cost, risk and value.

These insights may be based on financial analysis but, as we have reported, they are more likely to be developed in conversation with peers in the business.

The ability to contribute insights is an important enabler, but effective business partnering relationships require a further layer of skills. Insights have to be communicated in a compelling format as appropriate to the audience. This is less likely to be in the form of the underlying analysis but by way of storytelling.

“Challenging is important. Sometimes I raise a matter but I might find that I have to drop it. You have to pick and choose your fights.”

Finance Business Partner, SME, UK

When necessary, a management accountant may have to challenge business colleagues to improve performance in the long-term interests of stakeholders. If his or her analysis and insights are to be applied in decision making or performance management, a management accountant has to have good working relations with business peers, based on mutual respect and shared objectives.

The traits needed for effective finance business partnering are behavioural:

1. The courage to speak up, to challenge managers, to hold up the mirror to the business.
2. Influencing, building relationships and communication skills, being able to get the message across and get a discussion going.
3. Persistence, the message might not get through on the first attempt.
4. Business knowledge, business partners must understand the business.
5. The ability to translate the numbers into a business story.

Anton Broers, Finance Manager,
Royal Dutch Shell

7. CONCLUSION

In a period of volatility, businesses need to be constantly alert and ready to address new risks and opportunities. This requires more incisive analysis and clear forward thinking. Ambiguity demands agility in analysis and forecasting to inform decisions and enable swift action.

The CFO cannot participate in every decision made across the business. Developing and deploying finance business partners to work alongside the managers of business units can ensure that financial disciplines and the influence of the CFO permeate the business. As businesses adjust to a new post-crisis reality, management accountants have an ever more important role to play in ensuring that the information decision makers need is filtered up to them, and that the CFO's influence is cascaded through the business.

Finance business partnering is where accounting disciplines and business understanding are combined to provide analysis or insights to inform and influence decision making and performance management, preserving or improving value generation in the interests of a business' stakeholders.

Finance business partners cannot exercise influence without the business having confidence in the relevant information, the diligence of the analysis and a culture of governance. This is consistent with the Global Management Accounting Principles^{© xxi} developed and promoted by the AICPA and CIMA.

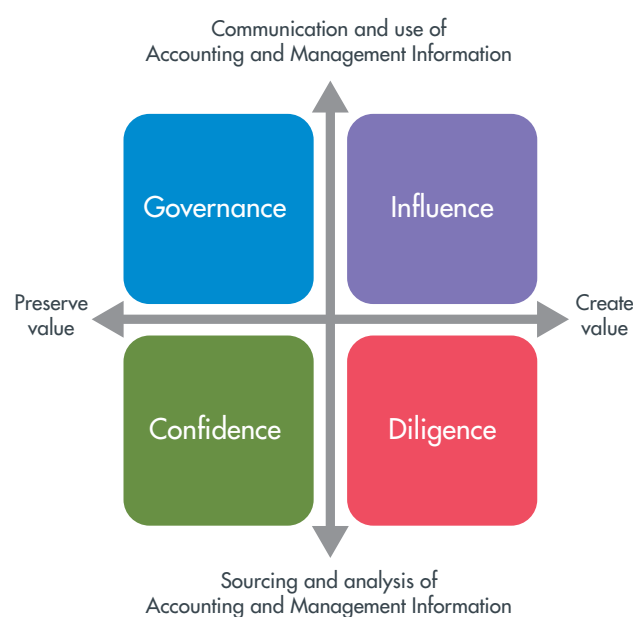
Accountants produce accounts and financial reports which provide a fair presentation of the business' financial position and past performance. Their professional expertise is respected. The disciplines and rigour applied in producing historic financial accounts can also be applied to give confidence in analysis of performance and forward looking management information. Their analysis and projections can be reconciled to financial truth and grounded in commercial reality.

Accountants bring ethics, integrity and professional objectivity to their fiduciary and stewardship duties. They help foster a culture of accountability and trust where decisions are taken on the basis of relevant information and diligent analysis and performance is managed in the long-term interests of stakeholders.

Combining accounting skills with business understanding enables accountants in Financial Planning and Analysis roles to ensure diligent analysis is conducted with a focus on the value generated for shareholders. They can inform bigger decisions and contribute to understanding the drivers of cost, performance, risk and cash flow needed to enable performance management.

As finance business partners, influential finance professionals can support decision making and enable this effective performance management. Achieving this requires a transformation of the finance function to support better decision making. It also requires accountants to develop their core skill sets so they can take on a broader role and be recognised for their wider potential in management.

FIGURE 11: Influence is part of a bigger picture



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Key CGMA® resources to support finance business partnering:

Global Management Accounting Principles, CGMA®

CGMA® competency framework, CGMA®

Essential tools for management accountants, CGMA®

The inside track: partnering for value, CGMA®

Global state of enterprise risk oversight, CGMA®

What does it take to be a risk leader, CGMA®

Key performance indicators, CGMA®

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NOTES

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