

1. A DECADE OF CHANGE – THE EVOLUTION TO VALUE CREATION

CIMA research has focused on identifying the types of change that have taken place within the finance function over the last decade and on understanding expectations for future change. This work allows us to better gauge the impact on the skills and development requirements for the finance organisation and the Chartered Global Management Accountant as it works to better support organisational strategy.

The survey found that the main types of finance function change were as follows:

- cost reduction
- re-engineering of business processes (BPR) either by using shared service centres (SSCs) or outsourcing
- an increased focus on the organisation’s products and services
- an increased focus on internal processes in the organisation as a whole.

These types of change have been classified on a matrix (Table 1.1) to illustrate the focus and motivation for these changes based on:

- focus – towards the internal or external environment
- motivation for change:
 - cost efficiency: the desire to make efficient use of organisational resources
 - ‘value creation’: the desire to perform tasks and roles better and in different ways so that the organisation can increase scope for profitability and thereby create value.

TABLE 1.1: Types of finance function change

		Motive for change	
		COST EFFICIENCY	VALUE CREATION
Orientation for change	Internal	COST REDUCTION <ul style="list-style-type: none"> • Reduction in headcount • Greater emphasis on cost reduction 	INTERNAL PROCESSES <ul style="list-style-type: none"> • Closer collaboration • Increased emphasis on developing future business leaders • Greater emphasis on exposing poor performance • Increased external benchmarking
	External	BPR Increased use of: <ul style="list-style-type: none"> • outsourcing • SSCs (shared service centres) for routine or non-routine tasks. 	PRODUCT/SERVICE FOCUS Increased work on product /service: <ul style="list-style-type: none"> • pricing • development or • differentiation.

Impact of finance function changes

The key to understanding the orientation and motive for change in the finance organisation is to look at those changes that have the biggest impact.

Here it is very striking that cost efficiency changes, rather than value creation changes, have generally had the greatest impact on finance in the last decade (see Figure 1.1). Our consultations point to a concerted focus on driving down costs and gaining process efficiencies as a key remit. Many organisations also working actively to reduce the actual cost of finance itself, as a percentage of revenue, to align with industry benchmarks.

The research shows some differences relating to the type of organisation. Finance functions in small to medium-size enterprises (SMEs) and public sector bodies reported ‘greatest impact’ changes in line with the population as a whole, but larger companies reported use of shared service centres for routine tasks as having had the greatest impact more often than reduction in headcount, with outsourcing of routine tasks next.

These Business Process Reengineering type cost efficiency changes can come as a package and are more likely to have greater impact in bigger organisations. This is because larger organisations can benefit from economies of scale and achieve transformational change.

This occurs when process changes are implemented together with a shift in the focus of the finance function away from traditional financial accounting roles towards more business-facing roles.

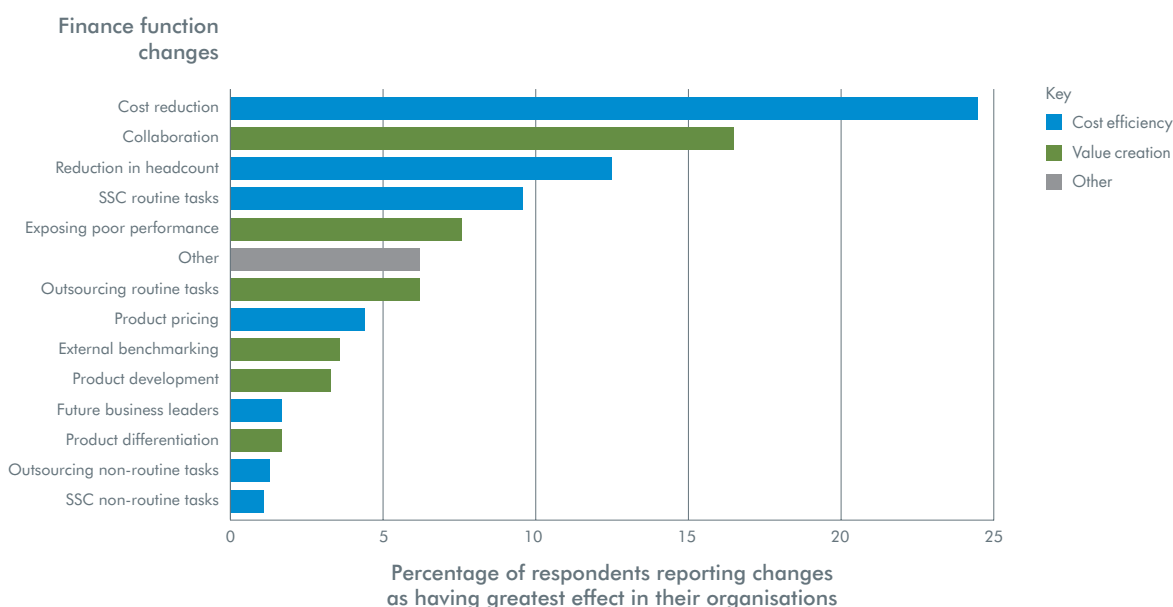
Nevertheless across all types of organisation, the fact that finance change to date has been driven so much by cost issues may highlight a call to action. It perhaps highlights a mismatch between the organisation’s vision for change (to be a driver of cost efficiency) and the vision of the transforming finance function itself as being a ‘value-creator’.

Dual focus - the shift to value creation

However, during our consultations, it was also evident that both finance and management now perceive a higher value from finance when it works to better understand profitability and support decision making for growth strategies and plans. The rationale from our consultations highlight that finance can no longer be solely perceived as an overhead, but that in fact it has a key role to play in driving growth and fulfilling strategy.

This means of course that there is substantial scope for many organisations to pursue further changes in their finance function that support this type of value creation.

FIGURE 1.1: Greatest impact finance function changes



The future: what further changes are needed?

To fully understand the requirements and demands from business that will impact finance we have worked to identify what further changes are needed in finance to maximise its contribution to the organisation's goals.

What changes are required next to improve the finance function's contribution? Will the focus be on reducing its own costs or on increasing the value it contributes by collaborating with the business?

As can be seen from Table 1.2, the answers are clear:

- Nearly two-thirds of respondents to CIMA's global survey feel further changes are needed in their organisations.

- Those in larger organisations feel the need for change more strongly:
 - over 70% of those in organisations with more than 250 employees reported this
 - and those in small to medium size enterprises (SMEs) with up to 100 employees feel it least strongly (just under 52%).

The future priorities for many, the five most popular changes, are not all cost efficiency changes but instead have value creation as their focus (Table 1.2).

Perhaps we can be encouraged that, after a decade of change in the finance function, and even given the current economic downturn, respondents see the value and are still keen to pursue moving finance to focus more on working directly with the business and on driving growth and profitability.

TABLE 1.2: The future: The next changes that we need in the finance function...

Top	Change required to improve finance function contribution
1.	Increase cross-functional collaboration and business partnering
2.	Greater emphasis on systems (IT, accounting and finance)
3.	Emphasis on efficiency
4.	Improve staff quality, training and development
5.	Produce better information to support more strategic business decisions
Bottom	Change required to improve finance function contribution
18.	Emphasis on exposing poor performance/supporting better performance
19.	Reduction in staff
20.	Regulatory issues and de-regulation
21.	Emphasis on management accounting as opposed to financial accounting
22.	Finance leadership (producing future business leaders)
23.	'Insourcing'

Of course, reducing processing costs creates value. Here, we choose to classify the finance function's initiatives to improve its efficiency as being internal cost-based initiatives rather than externally focused value creation.

What we can expect to see is the Chartered Global Management Accountant, and finance generally, acting in a more collaborative role and as a business partner. They will help the organisation to deal with the challenges faced by both improving internal accounting processes and focusing on the profitability of products and services.

Transformation – impact on the structure of finance

The CIMA research moved to analyse the impact of the dual focus of efficiencies and value creation on the levels of finance resource and their location.

Impact on finance resource

We have looked at the expectation of finance professionals with regards to changes in the level finance resource, number of full time employees (FTEs), going forward.

On average, as shown in Figure 1.2, the high level picture seems to indicate an expectation of growth, with increasing resource for finance across all types of organisations.

In SMEs growth is expected in all service areas, as these respondents envisage overall net growth in finance staff numbers. However, it is notable that the greatest growth required is in the management support and management accounting areas.

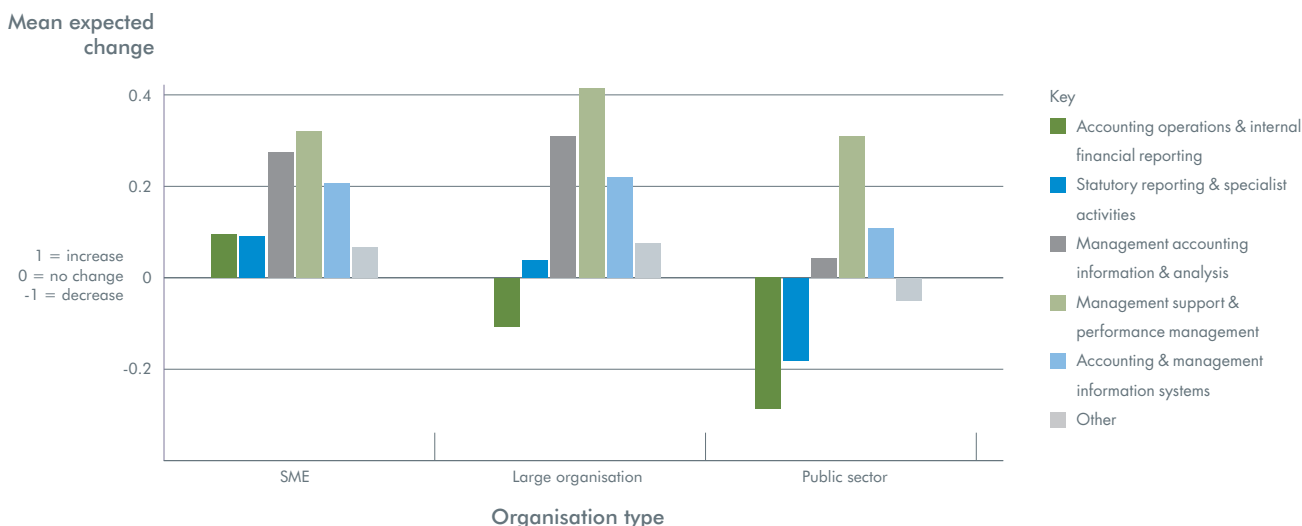
Similarly, larger organisations, and the public sector to some degree, on average see these as the key areas in which growth of effort is needed. But in these cases, at the expense of other areas, both see a need to reduce effort (have less finance staff) on accounting operations.

In the private sector, management accounting is seen as almost a concomitant of management support but less so in the public sector. The public sector sees a need to reduce effort dedicated to statutory reporting, perhaps signalling that too much effort is currently devoted to meeting regulatory reporting requirements at the expense of support for operational effectiveness.

Impact on finance structure and location

Smaller organisations are likely to have less flexibility in how they configure their finance function, therefore attention is focused on larger organisations, ie those which are not SMEs.

FIGURE 1.2: Expected change in finance staff – by service type and organisation

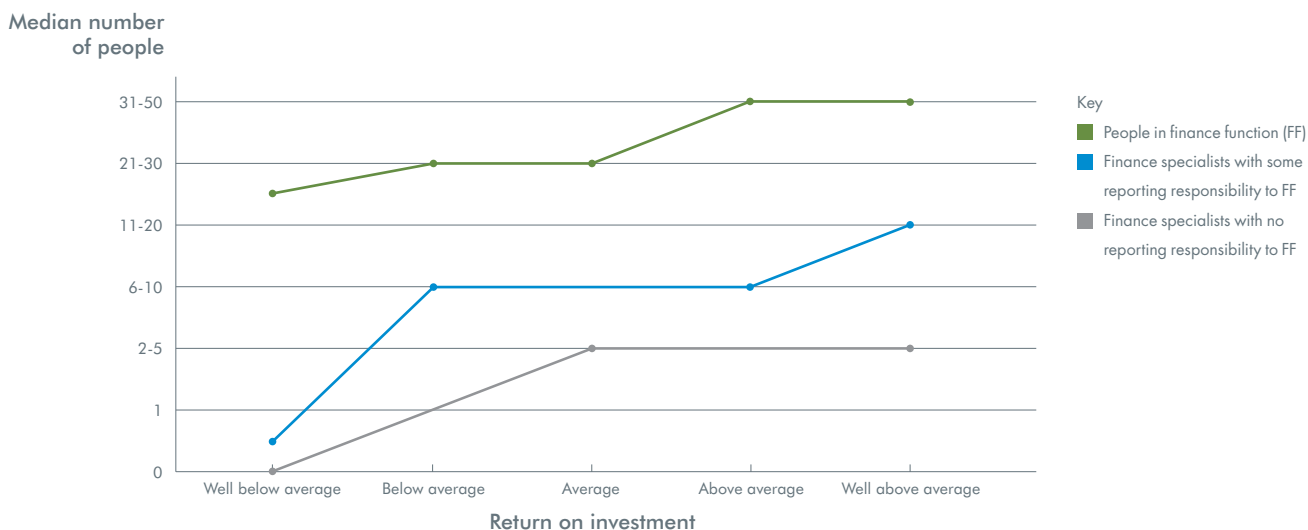


Among such organisations the research finds that for some performance measures, such as return on investment (ROI) and profit margin, increasing levels of performance are associated with larger finance functions and also with more integration of finance professionals with the rest of the business. These professionals out in the business are categorised in two groups – the first where the professionals have some reporting link back to finance, and the second where they are fully integrated without any reporting line into finance, as Figure 1.3 illustrates. For larger organisations we also see that they devote somewhat more effort to management support activities.

Figure 1.3 highlights this trend and shows some correlation in that better performing large firms, in terms of ROI, tend to have more finance professionals fully or partially integrated and collaborating with the organisation.

So there seems to be some tendency, albeit limited, for higher performers to have a greater proportion of their FTEs in management support. This will have an impact on the skills and competency needs of the Chartered Global Management Accountant – impacts that will be discussed in later sections.

FIGURE 1.3: Configuration of finance professionals and return on investment (large firms)



Career progression – changes to the distribution of work across service areas

To gain a perspective on potential changes to work, and thus competency demands, survey respondents in our research were asked about what the mix of their work should be in order to progress within their organisation (see Figure 1.4).

Here again we see that perceptions from finance professionals reinforce the previous trends with increasing focus on the duties to support management and performance.

The responses point to a strong element of management support as the key change for progression being recognised across all the groups. This emphasises that, again, the perceived shift towards management support is principally at the expense of time or effort on accounting operations activities.

It is also notable that those in specialist roles (tax, treasury etc) perceive the need to reduce the time spent on statutory reporting and specialist activities in favour of greater exposure to management accounting activities. It is in these areas where the value is perceived.

In summary, the finance organisation continues to provide a full mix of services and we see its professionals undertaking a range of roles and activities providing cost and process efficiencies while also driving profitability and supporting management in decision support – working more collaboratively with the organisation.

However, we see the changes for finance driving focus and effort on the business-facing duties via management support and the creation of further value, often at the expense of the more transaction finance operations areas. These trends impact finance professionals and the CGMA in the activities they must undertake going forward. It will also require a review in the approach to training and development to remain fit for purpose and for career advancement.

FIGURE 1.4: Change in work mix required to progress by duties group

