FINANCE TRANSFORMATION: CGMA FINANCE IMPACT MODEL TRANSFORMS THE FINANCE FUNCTION

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.

CONTENT

I. BACKGROUND

The finance function must continually transform to address regulatory revisions and changing standards, a volatile economic and business environment, unrelenting cost efficiency demands, and domestic and global competition. All this must be done in addition to performing the standard accounting and reporting functions. In order to be a recognised and respected business partner, the finance function must go beyond its traditionally understood role to being involved in all business decisions and processes.

The evolution of an organisation’s finance function is based upon the orientation of change; whether internal or external; cost efficient or value creating. To engage in true and active business partnering through the organisation, the finance function must go beyond traditional management accounting skillsets. The integration of the finance function within the business starts with a strong foundational understanding of data and develops into reporting, in depth analysis and understanding of the data as well as the risks associated with the data and the effects within and outside of the organisation. When the finance function is proactively advising and directing business decisions, the impact of the transformation will be experienced throughout the business.

For management accountants to transform their entity’s finance function they must be aware of the priorities of the current environment.
Any company that does not transform its finance function is putting itself at risk. Finance transformation, now a necessity, is not easy. Each organisation has a unique finance function that must evolve in order to serve the business effectively. At the very core of the transformation process is efficiency and effectiveness within all processes. No longer the end result, but now the very initial expectation, is that data collection and the subsequent reporting are conducted in the most efficient manner.

The analytic component of finance function transformation addresses the effectiveness of technical, analytic, business and managerial skills in personnel. Understanding management’s perspective on the business includes the assumption of an advisory role within the organisation for the management accountant. Communication, good judgment and coaching are integral to any finance area. Insight into items such as revenue and profitability analysis by segment, business unit, product line and major customer, along with understanding pricing and product strategy, trend analysis, customer satisfaction ratings, and other cost-benefit metrics is critical to moving from a transactional based finance function to a function that is considered a respected leader and business partner.

The reliability of the insight based upon the accuracy and efficiency through the reporting and analytical functions provides a foundation for decision support and advancement of information utilisation. As the role of finance expands in the business and advances through the continuum, areas such as strategy, operations, and risk management are critical to creating value for the organisation. Ultimately finance function success is recognised through the leadership and change, reputation, and finance performance impact not only on the entity but as acknowledged by their colleagues in the organization as partners.

II. STANDARDS OF EXCELLENCE IN THE FINANCE FUNCTION

Significant research has been conducted by the American Institute of CPAs (AICPA), the Chartered Institute of Management Accountants (CIMA), and CIMA Centre of Excellence at the University of Bath School of Management over the past decade which has predicted the need for increased finance function transformation. Identified throughout the various studies and analysis are definable and proven practices and attributes of a successful finance function.
The CGMA® Finance Impact® Tool
Although each organisation is unique, any finance function involves six key areas. The CGMA® Finance Impact® Tool contains six progressive tracts along the model continuum. These are further subdivided to address specific expected proficiencies within each of the areas. The transformation develops, often in a progressive manner, through technical, business, people and leadership skills areas.

Data is the factual information that is ultimately used as a basis for reasoning, discussion or calculation. Data concepts within this area of the finance function include the excellence of the transactions being made, the integrity of the data, as well as how optimally your systems are integrating. The subsections include:

- **Data & Systems** pertains to the accuracy and consistency of stored data, indicated by an absence of any alteration in data between two updates of a data record. This includes bringing together component subsystems into one system and ensuring that the subsystems function together as a system. For example, within information technology, systems integration is the process of linking together different computing systems and software applications, physically or functionally, to act as a coordinated whole.

- **Transactional Excellence** is being able to process work efficiently and with minimal errors, which is critical for the success of any business. Transaction processing may be strictly internal or it may interface with customers and other stakeholders. Transaction excellence is a differentiator for those businesses that master it. Quality customer service demands transaction excellence.

Reporting pertains to each organisation’s reports on the data that has been accumulated and analysed. This section focuses on your organisation’s process, communication and reporting of content and internal controls surrounding reporting. The subsections include:

- **Report Process** comprises defining the reporting objectives, planning the report, constructing the report, distributing the report and collecting and analysing feedback. At each of these steps, several questions should be considered and the reporting organisation should develop its own answers.
• **Reporting Content** includes identification of relevant materials, topics and indicators that appropriately address the organisation’s purpose and mission. Content should sufficiently reflect not only complete and accurate financial data, but should also address significant economic, environmental and social effects that enable stakeholders to assess the reporting organisation’s performance in the reporting period.

• **Internal Control** processes, policies and procedures are elements within a recognised internal control framework. The management of risk is any action taken by management, the board and other parties which is designed to provide assurance that the organisation’s objectives, missions and goals will be achieved.

**Analysis** has to do with how well your finance function conducts the process of evaluating data using analytical and logical reasoning to examine each component of the data provided. Analysis includes the systematic examination and evaluation of data or information, by breaking it into its component parts to uncover their interrelationships. The subsections include:

• **Financial Analytic Capabilities** are reflected through the effectiveness of your organisation’s examination of data, including non-financial data. This includes items such as a firm’s reputation, a brand image or a customer’s feelings about a product and is a demonstration of the strength of your finance function operations.

• **Operational Analysis** is evaluating external factors that can affect the organisation’s performance as well as strategically assessing the organisation’s own resources and potential. Internal strengths and weaknesses along with outside opportunities and threats are keys to an organisation’s success. SWOT analysis, which stands for strengths, weaknesses, opportunities and threats, is a strategic-planning method an organisation’s leaders often use to aid them in establishing business objectives or achieving the organisation’s mission goals.

**Insight** is providing feedback or ideas based on knowledge about a particular topic in the form of perspective, understanding, experience, feelings and deductive reasoning that benefits the organisation. The subsections include:

• **Decision Support** is provided by the finance function through leading operations. An example is integrating organisation data and third party information within the outputs of the finance function to provide insight into what is driving management decisions.

• **Information Utilisation** pertains to the ability and extent in which management information and analysis functions in regards to strategic, tactical, financial planning and budgeting, forecasting, risk management and the like.
Influence pertains to how well the finance function is a trusted, respected and necessary contributor in the organisational strategy process and in all key business decisions. The finance function should provide proactive leadership and challenge assumptions, as well as recommendations that help shape the strategic direction of the business. The subsections include:

- **Planning Influence** is demonstrated as the leaders within the finance function seek to develop and promote relationships both within the organisation as well as outside of the entity.
- **Information Utilisation** Strategy and Performance. The finance function is a key lead in identifying, developing, implementing and evaluating the organisation’s key strategic objectives. An effective performance management process enables managers to evaluate and measure individual performance and optimise productivity by:
  - Aligning individual employee’s day-to-day actions with strategic business objectives
  - Providing visibility and clarifying accountability related to performance expectations
  - Documenting individual performance to support compensation and career planning decisions
  - Establishing focus for skill development and learning activity choices
  - Creating documentation for legal purposes to support decisions and reduce disputes

Impact is the measurement of the tangible and intangible effects (consequences) of the finance function’s action within its department or its influence upon the organisation(s), both internal and external. The subsections include:

- **Leadership and Change** is evidenced by the finance function’s ability to retain, recruit and effect the development of a culture of leadership.
- **Reputation.** The perceived impact the finance function has on influencing those both inside and outside the organisation to favourably regard the function and organisation.
- **Financial Performance** is used to evaluate how well an organisation is using its resources to make a profit and meet its mission and objectives. The financial measures of the organisation (i.e. ROI, customer satisfaction) indicate how well an organisation’s overall financial health is over a given period of time.
III. CGMA® FINANCE IMPACT® TOOL FOR EXCELLENCE

The correlation is clear: high performing companies have high performing finance functions. Empowerment of these finance functions results in improved decision making and financial performance. The starting point for the transformation must be a clear understanding of the role of finance; both where it is and where it needs to go.

Through conducting the assessment and capturing the level of achievement with your finance function, a current status of the finance function is obtained. The six areas of finance (data, reporting, analytics, insight, influence, impact) each have 14 questions specifically designed to address the critical aspects each organisation faces within their finance function(s). The content has been developed by experts within the management accounting field and has been validated by executives and multiple advisory panels. The assessment itself, which takes minutes to complete and can be done at intervals, provides an initial rating of your finance function. Included are visual graphic representations as to where the organisation is scored in the various areas (the six areas and their individual subsections) along with narrative explanations to the ratings. The sectional rating scale is shown below.

<table>
<thead>
<tr>
<th>Score</th>
<th>Rating</th>
</tr>
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<tbody>
<tr>
<td>0-33</td>
<td>Needs Improvement</td>
</tr>
<tr>
<td>34-44</td>
<td>Baseline Operational</td>
</tr>
<tr>
<td>45-53</td>
<td>Adequate</td>
</tr>
<tr>
<td>54-62</td>
<td>Good</td>
</tr>
<tr>
<td>63-70</td>
<td>Excellent</td>
</tr>
</tbody>
</table>
Following is an example of the reporting feature.
The reports, which are provided in a variety of options, can be exported and downloaded to use for management reporting at all levels in the finance function. The partnerships between the finance organisation and the other business units within the organisation are critical in establishing the leadership position of the finance function.

The CGMA® Finance Impact© Tool provides finance teams with not only a clear understanding of the current status of the function, but guidance on how to improve its performance. Once the organisation’s rating is obtained, links to pertinent resources support the development of the finance function towards excellence in a particular area of focus.

Regular use of the tool is encouraged (i.e. quarterly or semi-annually) to monitor progress as the finance function progresses along the continuum. This will provide substantiation to both the individual finance function and the organisation’s management of the transformation as well as drive momentum towards continued success.

The journey to finance function excellence begins and continues with the CGMA® Finance Impact© Tool.

IV. CONCLUSION

Finance transformation and ongoing progression is a necessity in today’s economic environment. The CGMA® Finance Impact© Tool is one way finance leaders and their teams can be successful. By using the tool to initially rate the finance function and periodically monitor progress, and when used in conjunction with the recently released CGMA Competency Framework, this tool provides a mechanism to move an organisation’s finance function towards sustained excellence.

The CGMA® Finance Impact© Tool is a maturity model. It is characterised by a number of structured steps that describe how practices and processes of a finance organisation need to transform to maximise impact and effectiveness.
References and Resources

AICPA (October 2011) *Redesigning the Finance Function*
www.aicpa.org/interestareas/businessindustryandgovernment/resources

CGMA – AICPA/CIMA (2013) *Essential tools for management accountants:*
*The tools and techniques to support sustainable business success*
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www.cgma.org/Resources/Tools

CGMA – AICPA/CIMA *How to develop a strong and interdependent team*
www.cgma.org/Resources/Tools

CIMA (October 2009) *Improving decision making in organisations:*
*The opportunity to transform finance*
www.cimgaglobal.com/decisionmaking
CIMA (July 2009) *Improving decision making in organisations: The opportunity to reinvent finance business partners*

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