Reimagining performance management
Abstract
The pace of change is accelerating. The forces of change are increasingly coming from external sources not subject to the direct control of managers. To win, businesses must be responsive and build their resilience. Traditional ways of managing performance no longer suffice. New approaches that integrate external factors into decision-making are urgently needed.

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1. Foreword

The business context and landscape have changed. And more change is coming as the world responds to the defining critical crises of our time — climate, nature, and inequality.

Meaningful and impactful change never comes quickly or easily. Especially when that change relates to culture, process, systems, and finance. But change is required, indeed it is imperative. We need more resilient, well-run companies, making better decisions, delivering product, service and business model innovations that generate true value and contribute to a flourishing society.

People must and will lead this change across a range of functions, disciplines and professions. Some of this change will require technical solutions and innovation, different approaches to measurement, budgeting, and investment appraisal. More will be relational — increasing cooperation, supporting talent development, and defining accountability.

This will require culture-making, problem-solving and collaborating to change ways of working, management approaches and decision-making. It will involve letting some things go, leaving aside self-interest, and a lot of learning.

Now is the time to respond and lead, be a changemaker. Join us today on this journey to reimagine performance management.

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Thank you

This research project had a global reach and a global purpose. Successfully achieving our ambitions and engaging with many different global businesses and finance professionals would not have been possible without the strong and enabling support of various colleagues in different locations around the world. Their efforts became even more valuable as the Pandemic spread during 2020.

Therefore, we would like to thank all those who have helped us undertake this research and deliver Part One of this research project.

Special thanks go to those listed overleaf who devoted considerable time and effort to enable this research and for contributing their professional value to this expansion of the science of management accounting.

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Thank you
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2. Introduction

The business environment of the 21st century is radically different from that of the last century. Globalisation has been a powerful force for change. Accelerating technological developments are contributing to an increasingly fast-moving, complex and competitive landscape. Societal awareness of the environmental and societal damage being done by the industrialisation of nations, growing wealth and inequality, and globally spreading consumerism is more prevalent than ever before.

There has also been a substantive transformation in the narrative about the role of business. Rather than simply providing short-term financial profits to shareholders, the expectation of business in our contemporary society is to create value over the long term for the benefit of not only shareholders, but for a wider range of stakeholders, including customers, employees, suppliers and communities. With this expanded view of business also comes the consideration of a wider array of externalities in strategic decision-making and risk management.

Consequently, the ways in which we manage businesses today should be commensurately different from the ways in which we managed them in the past. Fundamentally, they are not; the science of business management lags the pace of change of our global business ecosystem.

Historically, businesses could rely on top-down command and control power hierarchies to get things done. But, in our increasingly volatile, uncertain, complex, and uncertain, or VUCA, business world there is a growing importance of human, intellectual, social, and natural capitals on value creation and understanding intangible value.

A key challenge is creating a business culture that engages people, processes, and technologies to drive the business forward. But how do we trust employees to have the right motivations, and how is this measured, monitored and managed? Unfortunately, few sources show how to meaningfully measure performance in new ways. The tension between the old ways of management and the new challenges faced by businesses reflects a deeper tension between basic philosophies of management and control:

Figure 1: Traditional management and control mindset and the new challenges

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
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<tbody>
<tr>
<td>Top-down strategy</td>
<td>Customer/market-driven strategy</td>
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<td>Standardisation</td>
<td>Customisation</td>
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<td>According to plan</td>
<td>Continuous innovation</td>
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<td>Keeping things on track</td>
<td>Meeting stakeholder needs</td>
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<td>No surprises</td>
<td>Empowerment</td>
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Executive summary

High-quality decision-making has never been more important or more difficult. A 2015 survey of 300 C-suite executives at major organisations around the world found that decision-making in many businesses could be fundamentally improved. (AICPA & CIMA 2015).

Key findings from that research indicate that companies struggle to:

- Overcome bureaucracy and achieve agile decision-making.
- Build greater levels of trust and improve collaboration.
- Take a long-term view and define the right metrics.
- Turn huge volumes of data into strategic insight.
- Build the decision-making skills of senior leaders.

Research has found that 70%–80% of companies are failing to execute their strategies (Kaplan 2013).

Kaplan found four barriers to success:

- Only 5% of the workforce understands the strategy.
- Only 25% of managers have incentives linked to strategy.
- 85% of executive teams spend less than one hour per month discussing strategy.
- 60% of organisations don’t link budgets to strategy.

Engaging employees with strategy is crucial to success. According to Gallup, the average engagement among employees worldwide is 15%. They say that engaged employees are those who work with passion and feel a profound connection to their company. They drive innovation and move the organisation forward.

So how do we engage employees with strategy, overcome bureaucracy, and improve decision-making in organisations?

It’s no longer possible for businesses to succeed with a dominant focus on financial capital using management tools borrowed from the last century. In our new and continuously evolving business environment, talent is recognised as ‘the asset that drives the value of all the others’. People and the resources they represent are viewed as a critical element requiring integration with strategy, accompanying business models and the wider resources available to companies. Understanding and articulating the traction against the implementation of new people-oriented integrated strategies is the new challenge facing boardrooms. (Valuing your Talent, Hesketh, CIMA, CIPD and others, 2014).

It is the integration of people with strategy, and the other resources or ‘capitals’ of the organisation that is the key to the successful creation of value over time. To succeed over the short-, medium- and longer-term businesses are adopting new ways of managing performance that capitalise on the talents of their people, leverage their business model, systems, processes and procedures, and realise the benefits of relationships with the full breadth of their stakeholders. We call this approach Integrated Performance Management.

... engaged employees are those who work with passion and feel a profound connection to their company. They drive innovation and move the organisation forward.
Successful performance using this approach is dependent upon management information that identifies, connects, and measures material non-financial (or pre-financial) internal and external value drivers with financial outcomes, improving decisions. Successful performance with a focus on long-term value creation for a wider set of stakeholders also encompasses outcomes other than financial profitability. Accordingly, decision-makers need to incorporate environmental, social, and structural factors into their thinking to improve the resilience, responsiveness, and relevance of their business models on a sustainable basis.

We believe that future sustainable success needs new ways of working through businesses’ workforces. Our two hypotheses are:

1) that few businesses truly integrate relevant capitals in ways that create an understanding of how value is created or destroyed (and influence decision-making), and

2) that human capital is the capital that drives the value (positively or negatively) of all the others.

This report outlines the core findings of this research project and where we have identified good practice points, we have included them in this report.

‘Sustainability is a business approach to creating long-term value by taking into consideration how a given organisation operates in the ecological, social and economic environment. Sustainability is built on the assumption that developing such strategies fosters company longevity. Knut Haanaes, IMD. ‘Why all businesses should embrace sustainability’.
3. Research approach and interview themes

A search through the literature produced an abundance of academic research and professional thought leadership on the processes and practices companies use to measure, monitor, evaluate and drive enterprise performance and the execution of strategy. Some of the topics included collaboration of traditionally siloed business activities, engagement with strategy, investment decision-making, budgeting and forecasting, performance reporting and management, and integrating multiple performance management tools.

We also identified recent leading articles from business journals, reports, and white papers on integrated thinking and reporting, multi-capital, non-financial capitals, human capital, and achieving long-term sustainable success.

We identified several interrelated themes through our review of the literature that formed the basis of the project, shown in the diagram below.

Figure 2: Executing board strategy and vision — factors facilitating or inhibiting adaptability and innovation
The project aims to research what is good integrated performance management practice in businesses today, understand the challenges decision-makers have and develop new methods to support them.

We set out to explore how businesses implement systems and processes that are integrated in ways that leverage their available resources in a multi-capital approach to create sustainable value. Most significantly, how they engender trust, empower, align and motivate their people to deliver superior performance on a sustainable basis.

At the heart of our project is decision-making. Advancing technology continues to improve the availability of data for supporting decision-making. CIMA’s Future of Finance research describes data’s place in decision-making. What it shows is that there is a limit to the usefulness of data alone, that strategy execution is a conversation.

Whilst the assembly and analysis of data relevant for informing decisions continues to become more automated and data more sophisticated, information is only the start of the decision-making process. Insights gleaned from information must be set against the context of prevailing business conditions, which can be affected by a multitude of factors (some unknown) for which data is not available. This is where conversations start and where management accountants, with their knowledge of operating and business models, can engage in conversations with other professionals to consider options.

Often, because decisions must be made with partial information, leaders will discuss the available information, explore the risks and unknowns, and reach decisions together with others. Because knowledge can be widely dispersed in organisations, an engaged workforce is vital to surfacing this knowledge through strategy-focused conversations so that it can complement the data. Therefore, businesses need to harness the hearts and minds of workforces to achieve engagement with conversations about strategy.
Ahrens and Chapman (2005), maintain *Management control systems and the crafting of strategy: a practice-based view*. Oxford university press, 2005, maintain that true agility and creativity are in the hands of an organisation’s wider workforce. There is widespread belief amongst the participants in our study that people are key to driving business performance. Many of the businesses we met with know that everyone needs to get on with making decisions — not just leaders. They want people to take responsibility for initiatives, be accountable for results, and engage with developing and refining strategies.

One of the challenges for business leaders is that 95% of employees don’t understand their organisation’s strategy (Kaplan, 2013). This is despite the efforts of executives in communicating strategy to employees and simplifying messages. It was certainly the case that in many of the businesses we engaged with there were comprehensive communications structures and processes where executives regularly explain their strategies using a multiplicity of channels. In addition to effectively engaging the workforce in strategy conversations, creating a culture of performance and accountability, and allocating resources in ways that ensure efficient and effective execution of strategy are keys to achieving success.

Other essential organisational capabilities that shaped our interview themes included risk management, along with adaptability and innovation, as well as, environmental, social and corporate governance (ESG) considerations.

To explore these themes, we conducted interviews with 42 finance, HR, and operational leaders at 32 companies and, following this, held round tables with 34 Finance, HR, and operational leaders at 34 businesses across the U.S., U.K., South Africa, Singapore and Brazil. The themes are expanded at the Appendix.

The remainder of this paper discusses our research findings and conclusions.
The challenge for business executives striving for innovative, responsive corporate cultures is to create an environment in which people feel engaged in driving forward business strategies. They want a culture in which employees are motivated, passionate, and invested in their work that is driving strategy and creating value. In short, they want a performance culture — an environment in which people are empowered, trusted and engaged.

Through this initial research stage, we have identified 5 factors that appear to enable a better performance culture and we have outlined the characteristics of these below.

**Improving accountability**

Through delegated authorities, decisions are taken throughout organisations and, so, accountability is a widely embraced value. Executives want decision-makers to be accountable for the results their actions generate. But this is a challenge for many participants who participated in this research. All have objectives-setting processes that are intended to make individuals accountable for results. However, if you want to make people accountable for results of the inherently risky responsibilities they are encouraged to take on, we found that a no-blame culture of empowerment and trust is vital.

Not every business we engaged with has a culture of trust and a no-blame culture. A senior finance executive at a global multi-brand manufacturer said, ‘We have a lot of policies to put people in the square and say, you cannot move out of this square. Many of them complain and say, ‘Oh but it’s not aligned with our message to behave like an entrepreneur.’ So here the issue is that employees are locked in a closed operating environment which removes empowerment whilst the business expects them to be more entrepreneurial. This example demonstrated a business that espoused the language of entrepreneurial empowerment but had created policies, systems and processes that prevented a culture of trust and empowerment, which hindered accountability for business outcomes.

In businesses where people fear being blamed for mistakes, a culture of fear of failure and risk avoidance prevails.
Accountability is key at a global manufacturer, according to a finance leader we spoke to there. ‘So, one thing we would also like to drive in the company, with all this performance management and target-setting, is accountability. It’s the biggest word we heard from the senior leadership during this [goal] cascade.’ ‘We are bringing back accountability because in a matrix organisation it is very easy to fall into a comfort zone and silent disagreement. We would like to clearly define the accountabilities and reward people accordingly’.

**Noted good practice:**

- Appointing a senior leader as the accountable person for each strategic objective — U.K.-leading brand.

**Line of sight**

We explored how businesses aligned the objectives of their people with strategic objectives to create ‘line of sight’ between individual objectives and strategic objectives. We found that a formal process of cascading objectives is a common approach to connecting people across businesses with strategic objectives. However, participants told us that this process often relies on the diligence of managers and is, therefore, fallible. It is also opaque — with clarity diminishing the further down the power hierarchy they are agreed.

Leaving objective-setting to managers can introduce an element of bias. Different managers will interpret what is required by strategy differently and some may lean toward interpreting strategy in ways that suit their biases.

An example of the fallibility of the widely used goal cascading process comes from one of the interviews we conducted: ‘The risk is you force them [goal cascade] to align. So, you don’t actually know whether they’re truly moving the business forward, making the boat go faster, delivering to the strategy and strategic vision ... And there’s a risk that somebody wants to justify their own pet project, or their own specific objective by aligning it with one of those top-down strategic objectives. And they do so inaccurately. And in a multinational, complex, diverse organisation such as ours, and many multinationals, I think, it’s virtually impossible to avoid that hazard’.

Another challenge faced by many businesses in this study is the sheer amount of work needed to translate corporate goals into meaningful objectives for people. A finance executive at a leading retailer captured the sentiment, ‘We’re just about [to] start our budget process again and I would echo that we’re still going through the objectives of the year that we’re currently in. I think a lot of that is because there are too many metrics. It’s too complicated’.

Most businesses we interviewed rely on an annual process of objectives cascading but there is the clear risk that objectives set before the start of a fiscal year become redundant during the year.
Criticisms of the goal cascading practice included:

- Activities being based on decision-maker biases rather than what might be best for strategy.
- Managers taking a safety-first approach, choosing tactics that play to their strengths.
- Managers selecting activities are most likely to reward them or position them for advancement.
- Different interpretations of strategy.
- Complexity of the process that impedes efficiency, visibility and agility.

**Noted good practice:**

- Annual leadership conference. Leaders attend a conference where performance, values and plans are discussed. Leaders then cascade what was discussed with the aid of a booklet that contains all the key information — Leading U.K. brand.
- Flexible goal-setting based on the latest conditions rather than a fixed annual goal cascading process — Multinational FMCG.
- Graphical dashboard display of the goal cascade from top-level objectives down to each person's own goals — Multinational FMCG.

**Cooperation is critical**

All the leaders we spoke to recognise that they need people to cooperate across their organisations, and to coordinate their efforts to deliver their corporate strategies, but most find it hard to achieve a truly collaborative culture.

Businesses typically pool their expertise in specialist functions, for example: marketing, engineering, sales, logistics, procurement. This makes sense in terms of developing specialist skills. However, strategies typically require a coordinated mix of specialisms for successful execution.

Some businesses try to facilitate cooperation through a matrix concept that gives people elements of both functional and strategic accountabilities.

One exceptional business in our study has a deeply entrenched matrix culture, but many in matrixed businesses find resource management complex and challenging. ‘We are a highly matrixed business ..., which complicates the resource allocation process significantly’.

At Ingersoll-Rand, CEO Herb Henkel used a corporate strategy map and balanced scorecard to foster what he called ‘dual citizenship,’ in which employees not only are members of their individual functional silo but also have a responsibility to contribute to corporate priorities (Kaplan & Norton, 2006).

While a matrixed organisation, on paper, facilitates ‘dual citizenship’ between the needs of strategy and the development of functional excellence, the reality for businesses is that they need to deliver their strategies efficiently and effectively on a sustainable basis; functional excellence is an enabler. So, how does a matrix structure help with accountability for strategy results?

We found that, even in businesses that have implemented a matrix concept, people’s primary allegiances tended towards their functional silos.
At a large manufacturer that has, historically, focused on functional excellence the finance leader we spoke with considered that a focus on strategic execution excellence would be better for business. He said, ‘Oftentimes in many organisations there’s a natural disconnect that happens through the organisation with the strategy because most organisations are set up functionally and people are going to understand their function and what they’re doing but not necessarily connect what they’re doing to the greater strategy and therefore oftentimes don’t feel as connected with the strategy as they should’.

At a large manufacturer where the matrix concept is in place their challenge was breaking down silos where people were trying to solve the same problem, duplicating effort, and increasing inefficiency.

So, the key challenges we identified in implementing responsibilities and fostering cooperation between functional silos in delivering strategy are:

1. Primary allegiance to functional silo, rather than strategy,
2. Poor coordination between silos each trying to solve the same problem, each on their own, and

Noted good practice:

- Collaboration (how you work with others) is a required behaviour, which is included in their performance ratings — Global bank.
- Three out of five personal goals must be cross-functional — Regional transportation business.
- Strategic goals added to company code of conduct, meaning to not behave in accordance with the focus of the corporate strategy is a specific breach of the code of conduct — Multi-national natural resources.
Incentives that connect people performance to business performance

Clearly, it is logical to question how incentives connect people’s performance with strategy and business performance. However, a Harvard study (Kaplan, 2013) found that only 25% of managers have incentives linked to strategy.

This disconnect is often because the links between the Board’s objectives and the personal objectives of managers around the business are unclear. Many businesses base their discretionary reward system with an emphasis on top-level measures and targets, rewarding managers on the same basis as senior executives — striving for a ‘one team’ or an ‘in it together’ culture. The trouble with this approach is that, if the connectivity between top-level outcomes and lower order activities is unclear, then they cannot be held accountable for results and, often, managers end up being rewarded for results for which they have made no clear contribution.

This study found that, without clear connectivity between personal objectives and organisational objectives, incentives failed as a way of motivating people to excel.

One finance executive commented on how lower-ranked employees might react, ‘So, if the company delivers its target, I get 2% bonus. What did I do to earn that bonus? Not sure, but the company did well, and I got my two percent’.

Another finance executive, who considered their incentive system outdated and their goal-setting and review systems weak said, ‘We don’t have a rating system and we don’t have a good way of distinguishing between who the high performers and low performers are. A lot of it is up to manager discretion and I don’t think those are the most objective measurements’.

In terms of levels of participation in incentive plans, no clear pattern emerged from our research. At some businesses all employees participate; at others it extends down to middle management.

**Noted good practice:**

- Senior leader with specific responsibility for operational productivity and cost control across the organisation — National brand leader
- Every store employee is bonused on overall sales, which drives productivity as every employee sees their hard work rewarded — Multi-site retailer
- Comparing productivity metrics across all its manufacturing units looking for opportunities to emulate group best practices in each unit — Multi-national manufacturer
- Comparing sales and revenue growth by headcount to evaluate the relative productivity of their business units — Leading global technology company
Finance and HR: A crucial link
Finance professionals are expected to understand the business model and to provide insight into the effectiveness and efficiency of the operating model. A business’s operating model is the combination of roles, skills, structures, processes, assets, and technologies that allow an organisation to provide its service or product promises (Valuing Your Talent, 2014). It’s the way the business is set up to deliver its business model; ‘It’s how we do things around here’. An operating model consists of five components:
1. Process
2. Information systems
3. Locations and buildings
4. Organisation and people
5. Suppliers and business partners

People and the way that they are organised to drive performance is a key component of an operating model. Given the connection between people performance and business performance, exploring how finance professionals work with HR professionals to drive business performance is a logical theme of our project. Unfortunately, we found that in most organisations Finance and HR work in separate silos where Finance is largely responsible for enterprise performance management and HR is responsible for people performance.

Finance leaders consider HR to be a back-office function, running core, and vital, HR activities such as talent development, engagement, recruitment, appraisals, remuneration, diversity and inclusion.

But even at one of the businesses where there is more interaction between HR and Finance, the view of a CFO was that ‘HR is a capability builder, an enabler, and doing HR functions’.

One HR leader admitted that they are a long way away from HR working with Finance to drive business performance. The appetite in her team to do so is there but knowing how to do so is the challenge.

Noted good practice:
• Monthly Functional Resource Group meetings between finance and HR leaders to discuss vacancies, opportunities, development needs, upcoming resignations, and capability building — Global FMCG
• Regular quality conversations based on four key performance questions — Multi-national food/agribusiness
  1. How is my role significant to the business — how can it be?
  2. How am I doing?
  3. How can I improve?
  4. What’s my future?
5. Productivity, adaptability and innovation

Research from McKinsey (How nimble resource allocation can double your company’s value, 2016) shows that many companies’ resource allocations are highly static, with most allocations across business units staying the same from one year to the next and those that reallocate more actively tending to perform significantly better.

Kaplan (2013) identified that 60% of organisations don’t link budgets to strategies.

We identified two key factors with a role to play and we have outlined the characteristics of these below.

Allocating resources, driving productivity
Many of the participants involved in this project admitted that their businesses are structured in functional silos and strive for functional excellence. Typical planning processes involve linking budgets with functional silos and natural accounts rather than with strategic objects. Budgeting in this way is disconnected from strategies, entrenches siloed working, makes it harder for workforces to understand strategy, and makes the employee interaction needed for achieving shared strategic goals more challenging.

Every business we engaged with on this project budget from a base of the prior year’s budget. Most allow for some inflation; one business budgets on a ‘cash flat’ basis from one year to the next.

According to a finance executive we spoke with, ‘We do have some of the challenges that a lot of businesses suffer around people being quite protective of what they see as their budget’.

Another said, ‘There are senior leaders within this business that have been here a long time who have an idea of what they tend to get in terms of a budget. And it can be quite difficult unpicking resources or pulling the resource away from them when we need to deploy in other areas’.

In one conversation with a senior finance professional, he bemoaned the fact that, ‘The only way we know how to budget is to look at what we did last year. The concept of zero-based budgeting has been out there for a long time. I’ve never actually seen any. Nobody starts with a blank sheet of paper. They always start with what they’ve just been doing, what they were busy doing the last time they looked. And that means you’re stuck with that structure as well. You would really break the mold to change this’.

One finance leader told us of the challenges he faces when making resource allocation decisions, ‘And you get the gaming again of people overstating benefits, understating costs to try and justify the net present value of the cash flows to support their investment decision’. If, for example, advertising cost reductions are sought how do decision-makers decide which of many advertising initiatives are not working?

So, this research highlighted that there needs to be a fundamental change in the budgeting conversation. Budgeting is all about choices. One of the key roles that finance can play is to be an enabler of choices. But just because something is new doesn’t mean that it’s better than what’s already being done; in fact, new initiatives are often inherently risky. So, reallocating investment from an ongoing activity to a new initiative could destroy value if the value of the ongoing activity is not clear.

Therefore resource management and productivity needs a new framework to enable conversations that have more clarity and purpose, which start with an annual budgeting conversation commencing with an almost blank sheet of paper with only the phrase ‘What can we do to create value this year?’, and goes forward to enable choices that take the risk for greater value creation, whilst preserving ongoing valuable activities.
Noted good practice:

- Identifying ‘metrics that matter’ — requiring individuals in operational roles to set goals based on drivers of performance, the things that they can directly influence — Major global agri-business
- Discussing resource allocation in terms of value to customers — Global manufacturer
- Opex resource allocation zero-based — Global manufacturer
- Budgeting on a cash flat year on year basis — Global FMCG

5.2 Enabling adaptation and innovation

Through our wider management accounting research programmes, we have seen a relentless focus by companies, over decades, on improving the efficiency of their operating models, freeing up resources for them to grow in relatively stable times. However, more recently, technology has been enabling usurpers to disrupt the stable incumbents and accordingly new business and operating models are making life harder for historically dominant companies.

The challenge of addressing competitive threats and capitalising on opportunities is compounded by the difficulties that finance executives face when trying to depart from the status quo in terms of operational budgeting and capital investment decisions. So, in this research project we explored, in our interviews and roundtables, how companies address the gaming and sense of entitlement that seems to be inherent in most budgeting processes, to back innovation.

One company we spoke with has started setting aside a ‘pot’ of money at each budget round and has introduced a flexible zero-based approach to budgeting for new initiatives to get away from the mindset of sticking to a previously set plan and budget, regardless of how the market has changed.

This company:

- encourages employees with ideas to pitch for funding from the pot.
- aims to encourage a more entrepreneurial culture over time.
- challenges idea originators to take responsibility for implementing their ideas.

The core aim of this company is to encourage talent beyond the traditional budget holder and power hierarchy, so anyone with an idea can make a case to leaders.

In another interview with the managing director of a multi-national manufacturer, he said, ‘I think in the past, if I’m honest, when I was younger in my career, it was you were punished if you failed. Now, I think we are embracing people to take the challenge and take the idea forward. And if they fail, it’s part of their development’.

‘We develop people a lot quicker than we used to. We put safety nets around them. So, we really push them. If they grow — great. If they stumble a bit, we don’t throw them out. What we then do is try and reshape and support them’.
'So, I think there's a lot more of a culture here, if you fail, fine, learn from the failure and then let's move on to the next one'.

Whilst these two examples show adaption and performance innovation, we recognise that there are barriers that exist in the way businesses operate today, which bar these factors achieving real value outcomes.

Business leaders recognise the value of innovation and responsiveness and know that innovation and risk go hand in glove. However, fear of failure is an instinct amongst decision-makers and without enabling controls a risk-avoidant culture can be, inadvertently, fostered. Adler & Borys, (1996) present two types of controls: enabling and coercive. Coercive controls stifle creativity, foster dissatisfaction, and demotivate employees. Enabling controls provide guidance and clarify responsibilities, thereby easing role stress and helping individuals be and feel more effective.

What we found is that when performance management systems and controls are designed positively, they provide a safe environment for people to take on responsibility and provide limits of risk for those who are innovative. When used to control people in businesses who are expected to be creative and responsive in their roles, this can lead to disengagement, stifling creativity. So, better to have controls like stage gate processes and boundaries for people to work safely within than to try to control everything from the top with rigid annual goal-setting processes.
Management information is central to management accounting and the value creation process in businesses.

‘Turnover is vanity, profit is sanity, cash is reality’. But cash is also an outcome. Non-financial (or pre-financial) indicators drive outcomes. To be able to influence outcomes the management information available to decision-makers must inform them about key actionable pre-financial levers across their business model.

Research from the field in two 2014 CIMA studies shows there is a demand for integrated data. These studies showed that 92% of interviewed C-suite executives feel that being able to bring together financial and non-financial information would help to better explain how their business creates value over time. This is mainly because information is better connected and value-creating activities and relationships through which value is created inside and outside the organisation are better understood.

Adopting the principles underlying integrated thinking, helps a company to understand the process of value creation and so aid the development of a better long-term strategy and improve critical business decision-making.

Many businesses in our study admit to having trouble turning data into information that helps decision-makers understand how operational factors drive financial outcomes — and this is using the data that are within the systems and processes under their control.

One finance executive that we interviewed underscored this point, ‘So, I actually believe that the magic of being a high-quality financial professional, in the future, is around understanding the impact of all of the non-financial activities on the finances of the business’.

A Deloitte (2015) report, quotes Heineken saying, ‘The biggest challenge is how to measure material issues and how you quantify or monetise your value creation’. The report goes on to say that, before being able to report externally on how performance leads to value creation, a company needs balanced internal performance management, by integrating financial and non-financial performance. To accomplish that, an organisation needs a performance management framework that integrates financial and non-financial information and that is in line with the strategy.

Increasingly, decision-makers need information about externalities: customer needs and preferences, economic data, competitor data, supply chain data, environmental data. As one finance executive put it, ‘We have lots of blind spots of data’.

Well-informed businesses should have access to much of the data relevant to decision-making, including from ‘externalities’.

If businesses are struggling to make sense of the data that is within their control what chance do they have of making sense of the external data that impact their businesses?
These days, intangible value makes up about eighty percent of the value of listed businesses, with a mere 20% being accounted for on balance sheets. A study by ICAS (2010) of 93 finance directors, 67 human resources specialists and 68 marketing specialists from U.K. domestic listed companies found that most CFOs believed that 50% or more of corporate value is attributable to intellectual capital. They define intellectual capital as ‘the intangible knowledge resources which create company value.’

The three main categories of intellectual capital are human capital, structural capital, and relational capital.

• Human capital includes the knowledge, skills, experiences and abilities of people.
• Structural capital comprises organisational routines, procedures, systems, cultures, and databases.
• Relational capital is the resources linked to the external relationships of the firm with various stakeholders.

A finance executive in our study explained the importance of understanding how all the value drivers are understood to connect to the ultimate objective, in his example, Total Shareholder Return (TSR). He said, ‘So, what drives total shareholder return? It’s the dividend. It’s the growth in the share price. Okay, so what drives dividends? Cash? What drives cash? Income and outgoings. And you break it, and break it, and break it, and, eventually, you get down to the point of, well, those are the six things, or the 20 things, or whatever it is, that drive that one primary performance measure at the pinnacle. But you can’t drive that one performance measure. No one can drive TSR.’

This ‘new’ ‘invisible’ value — the value of a company’s reputation, of human relationships, worker well-being, social and environmental care, the quality of our culture — cannot be measured with an industrial-age tool [financial P&L]. (Gleeson-White 2014).

Some businesses have excellent systems and processes for analysing internal data; decision-makers can drill down from financial variances into the operational causes of these variances and take appropriate action.

At other businesses, their systems have evolved over time and there is a mix of new and old systems that don’t connect, which makes it challenging to link operational and financial data.

An additional challenge for many businesses is not too little data but too much and, particularly in businesses with many unconnected systems, data that is not readily accessible. This is a particular challenge for finance business partners, who are expected to make sense of this deluge of data and provide insight to decision-makers.

One finance executive admits that he now spends 80% to 90% of his time supporting operational decision-making, trying to connect unstructured external data with internal data, with operational measures becoming increasingly more important. As a management accountant, he has identified that without a working knowledge of data, data tools, and visualisation he would be obsolete. So, he works with colleagues in IT to try to bring the data to life for decision-makers.
Sometimes it takes time to get the information ready for users and this, according to the CFO of a global business, is a problem, ‘The right information after you needed it is as useless as the wrong information. Do we really understand how those output measures have been achieved? I would say we speculate. We pontificate. We estimate, but do we actually have the direct causal relationship in place? No. We know intuitively what a lot of what the drivers are. But I’m not sure we have sufficient means at our disposal to be able to relate outputs back to specific drivers or inputs’.

There were few examples of success in integrating non-financial metrics with financial metrics in our study, even though technology has made it possible to assemble, store, and analyse data about every facet of a business and its ecosystem. But the challenge is connecting data in ways that are simple enough for decision-makers to understand and use consistently across businesses.

For many businesses simplification is a way of coping. The CFO at a FTSE100 company described how they addressed complexity, ‘Ultimately, it’s a financial outcome that we’re trying to manage. Instead of having too many metrics you’re covering a few metrics that are easy to measure and easily understood. I think it’s absolutely vital for getting that alignment through the business’.

Too much data, data not readily accessible, data not relevant to the decisions that need taking, poor connectivity between pre-financial data and financial data, data relating to externalities not factored into decision-making. We like to believe that modern technology has made these the problems of the past. Reality is that, for many businesses, they are problems of the moment.

**Noted good practice:**

- **Simplification** — Because businesses are often not able to connect all the value drivers to outcomes, focus on the few rather than the many — FTSE100 company
- **Collaborate with experts in IT and data management to bring data to life for decision-makers.** — Global FMCG
Governance is the vital connection between external stakeholders and managers. Boards are very clear on the results they expect businesses to achieve. In turn, investors and other stakeholders trust their Boards to hold CEOs to account for their achievement. Ensuring that those responsible for governance have the necessary information to fulfil the breadth and depth of their responsibilities is a critical management accounting responsibility.

Management information and governance reporting alignment
The information management teams use to run businesses on a day-to-day basis should line up with the information Boards and other governance bodies get. Adams (2013) underscores that the benefit of embracing the multi-capital approach that drives integrated thinking in the organisation — highlighting gaps in systems and processes, breaking down silos, and ensuring that material sustainability issues and risks get board-level attention. So, ensuring that managers, indeed all employees, understand what is important to stakeholders is vital for ensuring that decisions are made in their interests.

Despite many of the challenges highlighted, participants broadly considered that the information used for management decision-making aligned well with the information made available to Boards and Audit Committees. One CFO said, ‘Everybody on the executive management team as well as the board is operating under the same set of information so that we can make decisions together and effectively’.

At another business, they are at pains to ensure a high degree of symmetry between management information and Board information. Their CFO said, ‘We use a tool called OKR (Objectives and Key Results) that we set with the board and with our shareholders and how we flow them down into the objectives of all of our employees’.

Noted good practice:
• Use of tools to co-develop objectives with board — National tech business

Risk and sustainability
We know that opportunity and risk are two sides of the same coin. As businesses pursue opportunities for achieving their strategies, the risks inherent in these opportunities need to be managed to improve chances of success. Some risks are made more likely to occur through the pursuit of activities, others are more likely to come from the business eco-system — environmental, societal, external stakeholders.

For businesses operating in globally traded commodity sectors a key externality is price. Examples include metals and minerals, oil and gas, and a variety of agricultural products. Gluts and shortages can cause extreme price volatility. Hedging often doesn’t make sense for such businesses as investors have the power to hedge by weighting their portfolios accordingly. Price volatility risk must be mitigated by such businesses organically.
A CFO said, 'And from the risk perspective, we also have a risk-based budget where we have different scenarios for different prices, different level of activities to make sure that you can deal with risk if it happens'.

For businesses in the FMCG, food and beverage industries product safety, regulatory, and reputational risks are their prime areas of focus. These risks tend to be comprehensively managed, with clear governance, policies, processes and procedures.

At one organisation, in particular, the finance leader we spoke with said, 'From day one, first afternoon, the director pulled me aside and says, 'Let me give you a briefing on how it works here'. I've never seen anything like it. It is ingrained in everyone — we talk about risk, controls, ethics, as a day-to-day thing and it's ingrained in everything we do'.

Many are concerned with environmental issues. Use of plastics, water consumption, high fat, sugar and salt (HFSS) and its impact on health and associated changing consumer awareness and regulatory pressures rank highly in their strategies.

At a global business they are conscious of trying to ensure that their business targets drive the right practices and behaviours, to avoid decisions that might be detrimental to the sustainability of their business model. There is no separate department that looks after sustainability, instead striving for integration. As a finance leader put it, 'I think the key thing is integration rather than separation or just trying to superficially have a lot of processes — people don't look at those'.

One of the challenges for companies with taking on responsibility for ESG impact is the cost of doing so. At one food/agribusiness their Business Excellence Director explained, 'It takes the whole industry, or the key leaders, in the industry to move together. If one company moves forward and you realise that you are the only one and you’ll be at a disadvantage, not being able to compete with other companies in the same industry'.

In summary, businesses are increasingly aware of the risks and opportunities that present themselves in a rapidly changing environment, especially those related to ESG issues, both internal and externally driven. As an emerging key to long-term success, these considerations will need to be integrated into the strategic decision-making for organisations and the management information systems that drive those decisions. They will also need to be incorporated into resource allocation decisions and embedded into culture to drive performance.

There are many risk management frameworks for helping business finance professionals to raise awareness of ESG related risks and manage them effectively. WBCSD and COSO have produced a comprehensive, practical guide for managing ESG risks in “Enterprise Risk Management — Applying enterprise risk management to environmental, social and governance-related risks.”

**Noted good practice:**

- Integrate risks from externalities into relevant performance management processes — Global business — Multiple businesses in this research
- Classify risks from externalities as reputational risks. Multiple businesses in this research.
- Incorporate material externalities into business values and expected behaviours — Global food/agribusiness
Reimagining performance management

Finance professionals have a pivotal role to play in supporting their organisations’ efforts in better leveraging their key resources to achieve their strategic objectives. In addition to their essential role of providing management information, analysis, and insight to drive business decision-making, the finance function is uniquely positioned to facilitate the critical linkage between people and processes.

In this, the first, phase of the project we aimed to talk to finance and operational professionals in businesses to gather their views on how enterprise performance management practices support them in the fast-changing, volatile, competitive, and unpredictable business world that we now live in.

They told us that success happens through talented, purposeful workforces who are engaged with strategy. They want their people to have a ‘one version of the truth’ clear line of sight between their activities and strategy, to take responsibility for their choices and to be accountable for results. In turn, leaders now know that the best talent these days is concerned about the values of businesses, particularly in regards to ‘externalities’ like environmental and social impact and, to attract and retain talented employees, businesses must factor these externalities into their values and day-to-day decision-making.

To achieve the clear line of sight needed for engaged workforces, businesses typically rely on an annual process of cascading strategic objectives down to individuals or teams. Many participants struggled with this approach. And the generally impressive levels of communication, whilst necessary for improving workforces’ understanding of strategies, was considered insufficient by many participants. With few exceptions, participants want their employees to be active in refining strategies to increase engagement.

All the leaders we spoke with agree that the successful execution of strategies is dependent on a coordinated mix of expertise. However, many admitted that cooperation between functional silos of expertise is challenging to achieve. Some great businesses have recognised that a matrix approach combining responsibilities for both strategic goals and functional excellence helps sharpen focus on strategic goals. However, even here, we found that leaders with such ‘dual citizenship’ tended to have a primary allegiance to functional excellence over their responsibilities for strategy execution.

Related to this, our participants admitted that silo-mentality made resource allocation and reallocation decisions a struggle. Most businesses base resource allocation decisions on the prior year. Apart from strategic projects, resources are functionally based with low variability year on year. In such volatile times participants felt that there should be more flexibility.

8. Summary
Incentives should play a part in achieving strategy engagement. We found that incentive schemes for senior leaders were well-aligned with the overall success of the businesses but that this alignment weakened lower down in power hierarchies. This was due, variously, to the fallibility of the goal cascading process, the fading of the line of sight, or the perceived inability of those lower down in the power hierarchy to impact on strategy.

Because many of the challenges with attaining superior enterprise performance related to engaged workforces, we asked finance professionals how they worked with HR professionals. Across the board, financial professionals responded that there is negligible cooperation.

Considering the issues raised around resource management, we explored how businesses measure and improve productivity and found that some multi-site businesses compare productivity between their sites using hybrid measures. Businesses were found to have thorough project evaluation and review processes. However, most participants admit that they don’t have ways of evaluating the productivity and efficacy of ongoing activities. It’s against this uncertain backdrop that new initiatives are considered. Participants admitted that they found it hard to free up resources from ongoing activities to fund new initiatives, not least because of uncertainty on whether the new ideas would be better than the prevailing ones.

Our participants recognise the value of information-backed decision-making and the importance of connecting non-financial driver data with financial outcome data. Finance executives generally agreed that they need to make these connections to be relevant to operational decision-makers. And for effective governance, there should be good symmetry between management information and the information supplied to Boards and Audit committees. Although participants said that the information used for management decision-making aligned well with information provided to governance, the key challenge facing finance executives is connecting externally reported information, especially environmental and societal, with management information and decision-making.
The views expressed by the participants in this study have highlighted several areas of good practice, some of which are noted in this report and summarized in the following section. Our plan is to develop management accounting practice based on the good practices we found in this study and relevant theory and to explore and test proposed new practices with participating organisations.

While certainly revealing a range of practices intended to drive better business performance, our findings also reinforced our starting assumptions and lent weight to the need for further work on building on management accounting good practice and developing new management accounting techniques. In particular, techniques for addressing the challenges we face in creating organisational cultures with shared values that will engage employees in support of sustainable performance, the ways that we do business, and the impacts we have on society and our environment.

To this end we envisage a further phase of this programme that will focus on building on the good practices identified in this phase, and developing and testing applications of theory relevant to the challenges highlighted in this phase.

9. Next steps
10. Summary of noted good practices

Creating a performance culture

Accountability
Appointing a senior leader as the accountable person for each strategic objective — U.K. leading brand.

Line of sight
Annual leadership conference. Leaders attend a conference where performance, values and plans are discussed. Leaders then cascade what was discussed with the aid of a booklet that contains all the key information. — Leading U.K. brand

Flexible goal-setting based on the latest conditions rather than a fixed annual goal cascading process. — Multinational FMCG

Graphical dashboard display of the goal cascade from top-level objectives down to each person’s goals. — Multinational FMCG

Cooperation
Collaboration (how you work with others) is a required behaviour, which is included in their performance ratings. — Global bank

Three out of five personal goals must be cross-functional. — Regional transportation business

Strategic goals added to company code of conduct, meaning to not behave in accordance with the focus of the corporate strategy is a specific breach of the code of conduct. — Multi-national natural resources business

Incentives
Senior leader with specific responsibility for operational productivity and cost control across the organisation — National brand leader

Every store employee is bonused on overall sales, which drives productivity as every employee sees their hard work rewarded. — Multi-site retailer

Comparing productivity metrics across all its manufacturing units looking for opportunities to emulate group best practices in each unit. — Multi-national manufacturer

Comparing sales and revenue growth by headcount to evaluate the relative productivity of their business units — Leading global technology company

Finance and HR
Monthly Functional Resource Group meetings between finance and HR leaders to discuss vacancies, opportunities, development needs, upcoming resignations and capability building — Global FMCG.

Regular quality conversations based on four key performance questions — Multi-national food/agribusiness

1. How is my role significant to the business — how can it be?
2. How am I doing?
3. How can I improve?
4. What’s my future?

Productivity, adaptability and innovation

Allocating resources, driving productivity
Identifying ‘metrics that matter’ — requiring individuals in operational roles to set goals based on drivers of performance, the things that they can directly influence — Major global agri-business
Discussing resource allocation in terms of value to Customers — Global manufacturer

Opex resource allocation zero-based — Global manufacturer

Budgeting on a cash flat year on year basis — Global FMCG

Enabling adaptability and innovation
Dedicated centres focusing on product and process innovations — Global manufacturer

Stage gate process for stop-go decisions — Various participants

Management information and decision-making
Simplification — Because businesses are often not able to connect all the value drivers to outcomes, focus on the few rather than the many. — FTSE100 company

Collaborate with experts in IT and data management to bring data to life for decision-makers. — Global FMCG

Governance, risk and sustainability

Management information and governance alignment
Use of tools to co-develop objectives with board — National tech business

Risk and sustainability
Integrate risks from externalities into relevant performance management processes. — Global business

Classify risks from externalities as reputational risks. — Multiple businesses in this research

Incorporate material externalities into business values and expected behaviours. — Global food/agribusiness
11. Acknowledgements

We are grateful for the candid views our participants have shared with us during this phase of the project. We undertook to keep all contributions confidential, but we would like to acknowledge the contributions of the leaders at these great businesses who helped us with this study.

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ADM
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Covestro
Creative CFO
CRH
Cummins
DBS
Diageo
Exxaro
First Data
Gol
Goodyear
Hanesbrands
Heidelber
Cement Asia
Hershey
HSBC
IFAC
Intel
Isuzu Motors
Jabil
JF Equipment
Machinery
Johnson & Johnson
JSL
M Dias Branco
Minerals Marketing
Corporation of Zimbabwe
Molnlycke
National Nuclear Laboratory
Natura
NeoEnergia
Nestle
Nike
Olam
Petrobras
Prudential
Raizen
Randstad
Serco
Siemens
Sinarmas
Standard Chartered Bank
Suzano
Tata
Tenshi Peak Ventures
Tetra Pak
Transnet
Triodos
Unilever
UNISA
Volvo
Warburtons
Yara Asia
Yelp
Yeos
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References (continued)


## Appendix

### Research themes and topics

<table>
<thead>
<tr>
<th>Theme</th>
<th>Question</th>
<th>Prompts/segue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance management</strong></td>
<td>What performance management frameworks does your business use?</td>
<td>Balanced scorecard, strategy mapping, business model canvas, etc.</td>
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<tr>
<td>Exploring what participants</td>
<td>How do you determine what is material to your performance management?</td>
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<td>understand by the term —</td>
<td>What do you think your company is particularly good at in terms of</td>
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<tr>
<td>performance management</td>
<td>managing performance?</td>
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<tr>
<td>**Performance culture and</td>
<td>How is organisational expertise structured?</td>
<td>How does the organisation’s structure facilitate the cascade of accountability</td>
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<td>accountability**</td>
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<td>for results?</td>
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<td>Exploring talent engagement with</td>
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<tr>
<td>strategy and related factors, such</td>
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<td>Are senior leaders aligned with functional excellence, strategic enabler</td>
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<td>as accountability, responsibility,</td>
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<td>excellence, or both?</td>
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<td>cooperation, structure.</td>
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<td>Where in the organisation are decisions made? Only at senior leadership</td>
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<td>level; by functional leaders as well; at all levels?</td>
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<td>How does the organisation facilitate multi-disciplinary cooperation?</td>
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<td>How do you engage employees with strategy?</td>
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<td>How can employees refine strategies?</td>
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<tr>
<td>Theme</td>
<td>Question</td>
<td>Prompts/segue</td>
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<tr>
<td>Resource management</td>
<td>Are revenue and expenditure aligned with function, by strategic object or both (i.e. matrix)?</td>
<td>How do you identify low return activity? How routine is it to stop entrenched but low-return activities?</td>
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<tr>
<td>and productivity</td>
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<td>How are resource allocation decisions made in your organisation?</td>
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<td>Do productivity/ return on investment/ value for money measures and targets play a role in resource allocation decisions?</td>
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<td>Adaptable and innovation</td>
<td>How does your organisation’s culture affect its ability to adapt and innovate?</td>
<td>Is well-intentioned failure punished?</td>
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<td>Is there a blame culture?</td>
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<td>How do boundaries and controls help to manage the risks of devolved decision-making?</td>
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<td>How is risk-taking managed?</td>
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<td>Are leaders fearful of &quot;letting go&quot; of decision-making?</td>
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</tbody>
</table>
Reimagining performance management

There are only two things in business — money and people. Therefore, we expected to find good collaboration between finance and HR professionals.

### Theme: HR and finance collaboration

How do HR and finance work together to support enterprise-wide performance management?

How do people performance management processes connect with enterprise performance management processes?

### Theme: Incentive schemes

Only 25% of managers have incentives linked to strategy.

How do incentives reinforce accountability throughout the business?

How are incentives linked to sustainable business and long-term value creation?

How do your incentives encourage cross-functional cooperation, or is functional excellence rewarded? Or both?

To what extent are incentivised employees at every level able to influence the organisation’s performance outcomes?
### Theme

**Management information and decision-making**

Non-financial (or pre-financial) indicators drive outcomes. To be able to influence outcomes the management information should inform decision-makers about pre-financial levers across their business model.

<table>
<thead>
<tr>
<th>Question</th>
<th>Prompts/segue</th>
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<tbody>
<tr>
<td>How effective is your performance management system at providing you with information that reflects your business model, and shows the cause and effect between performance drivers and outcomes?</td>
<td>What pitfalls have you encountered/overcome when trying to make the connection between non-financial performance and financial outcomes?</td>
</tr>
<tr>
<td>Do you have examples of where integration in performance management has led to tangible benefits?</td>
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</table>

**Governance**

This theme is about how governance oversight helps to deliver on stakeholder expectations.

<table>
<thead>
<tr>
<th>Question</th>
<th>Prompts/segue</th>
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<tbody>
<tr>
<td>Can you describe how aligned management information is with reporting to governance?</td>
<td>Does management have key information that non-executives don’t see that would improve governance oversight?</td>
</tr>
<tr>
<td>What is the role of your Audit Committee in ensuring the appropriateness of performance management processes?</td>
<td>Are performance management processes and management information subject to scrutiny, e.g., through internal audit review?</td>
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<tr>
<td>Theme</td>
<td>Question</td>
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<tr>
<td>Risk management and sustainability</td>
<td>Does your risk management evaluate potential risk events coming from externalities?</td>
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<td></td>
<td>Are factors that influence the sustainability of your business model integrated into performance management systems and processes?</td>
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<tr>
<td>Top tips</td>
<td>What would be your top tips to other organisations planning to adopt a more integrated approach to their performance management?</td>
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</table>
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