GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES©

Driving better business through improved performance

The Global Management Accounting Principles have been developed to support chief executives, boards of directors and chief finance officers to benchmark and improve their management accounting practices and processes to meet the needs of their organisation, both effectively and efficiently. The consultation closes on 10 May 2014. Responses should be sent to principles@cimaglobal.com

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

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Dear Contributor,

As chief executives of, respectively, the world's largest professional body of management accountants (CIMA) and the world's largest association representing the accounting profession (AICPA), we are delighted to be launching a consultation programme which will lead to the creation of an authoritative set of Global Management Accounting Principles.

Our mission is to drive better business through improved performance.

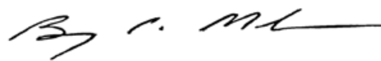
We have every reason to be proud of the way in which our profession has developed over the past century and more. The combined membership of our two organisations is almost 600,000 and growing apace across the world.

Despite our achievements to date, there is much more that can be done. The practice of management accounting remains varied: smaller businesses could benefit from importing some of the best practices of our largest organisations, many of which acknowledge that their own decision-making process could be improved with a greater utilisation of forward-looking management accounting skills.

The launch of a set of Global Management Accounting Principles will, we believe, help organisations make the best decisions. We also hope that awareness of the Principles will improve understanding of our profession and help ensure that the crucial role of the management accountant is recognised and utilised at the highest level in organisations.

Today marks the beginning of a 90-day consultation programme in which we would like to encourage maximum participation. We hope you will read through the following pages and provide us with your observations and recommendations which we will then consider and, where appropriate, incorporate in the final framework to be launched in September.

The creation of the Principles is one of the most important developments in both our organisations' long histories. We look forward to receiving your contribution to help ensure our profession's increasing value and relevance in the future.



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EXECUTIVE SUMMARY

Global Management Accounting Principles: driving better business through improved performance

Introduction

Globalisation and technological progress are making change harder to predict and organisations more vulnerable. Large and small, public and private, must compete in an increasingly inter-connected and international market. Innovation is delivered faster, and the very concept of long-term competitive advantage is being undermined as both the volume and velocity of information flows increase, and intellectual property becomes further commoditised.

Organisations must do more to respond appropriately to risks and protect the value they create, at a time when available information has never been more abundant, more complex or more difficult to interpret.

Against this backdrop, management accounting is more relevant than ever. Forward and outward-looking, it brings structured solutions to unstructured problems, ensuring organisations have the quality of data, the analysis and the judgement to ensure the best decisions are made and communicated effectively.

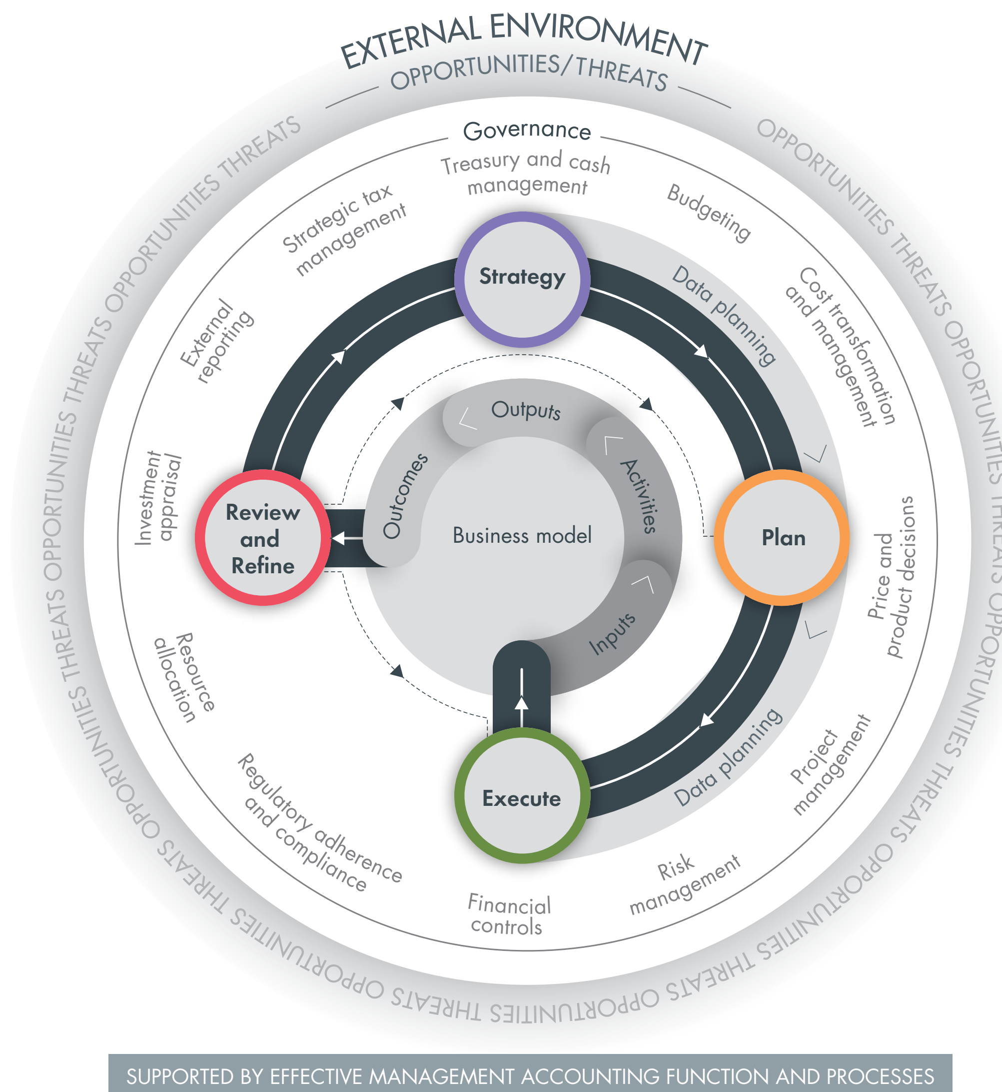
But the practice of management accounting across different organisations is varied. That is why the Chartered Institute of Management Accountants (CIMA), alongside the American Institute of Certified Public Accountants (AICPA), are launching an authoritative set of Global Management Accounting Principles to help organisations across the world ensure that they have the very best management accounting systems.

These Principles outline the fundamental values and qualities that represent best practice management accounting. They provide a common framework and the ability to help those responsible make the most appropriate use of the information at their disposal.

Financial accounting, with its focus on past activity, is no longer sufficient. To be confident of a successful future, organisations must adopt a robust management accounting system that complements their financial accounting system. The Principles will provide the forward-looking focus and ability to link different functions in a way that many organisations still lack.

In this document, the Principles have been applied to the performance management cycle that is used to oversee the development and execution of the business model, linked to the core areas of responsibility of the CFO. The business model lies at the very heart of an organisation (see Figure 1 and section 4) and the management accounting system should be at the core of any organisation's business model. The focus of the second principle, "Modelling value creation", is on this interaction between management accounting and the business model. Management accountants report on the business model to decision makers, but they also identify future activities that the organisation may want to pursue and the risks that require relevant responses.

FIGURE 1: The role of finance mapped to the performance management cycle and business model



SUPPORTED BY EFFECTIVE MANAGEMENT ACCOUNTING FUNCTION AND PROCESSES

Management Accounting

Definition: Management accounting creates value and ensures sustainable success by contributing to sound decision making through the comprehensive analysis and provision of information that enables and supports organisations to plan, implement and control the execution of their strategy.

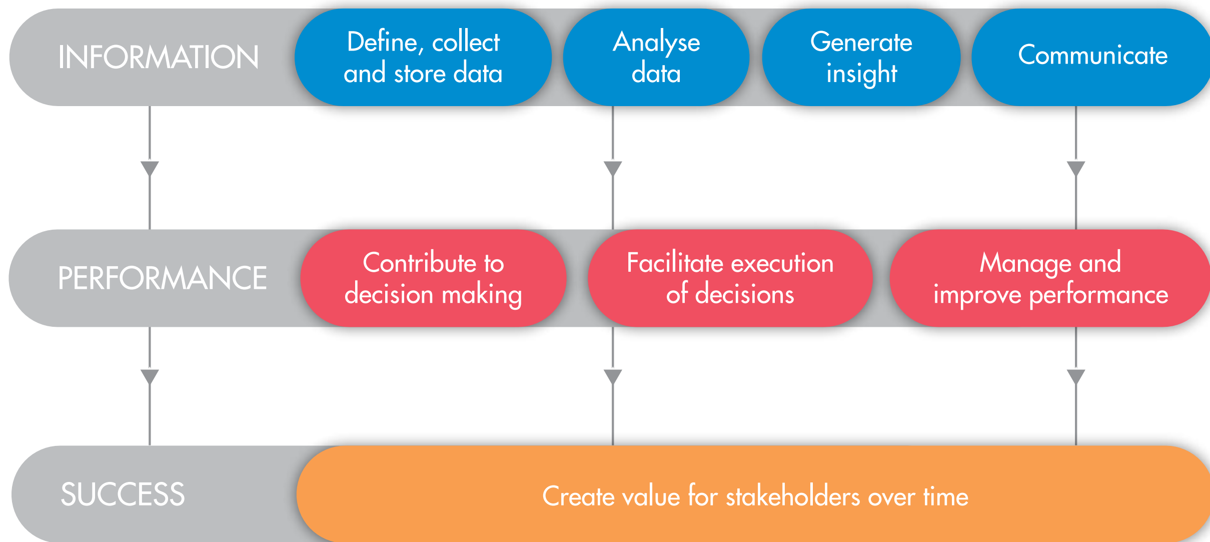
Management accountants use relevant and accurate information to improve the organisation's performance through better decision taking.

This helps to ensure that long-run value is created for stakeholders. This flow is illustrated in Figure 2.

The business model is the means by which the organisation creates value, and because management accountants have a thorough understanding of the organisation, they are uniquely placed to contribute to sustainable success.

They provide evidenced-based solutions to the problems of managing cost, risk and value within an organisation, using both financial and non-financial information for justification. Management accountants provide analysis and insight within the context of macro-environmental factors to benefit the organisation commercially.

FIGURE 2: What management accountants do



The Global Management Accounting Principles

The Global Management Accounting Principles are derived from this definition of the discipline. They are a set of statements that describe the fundamental values, qualities, norms and features to which management accounting professionals should aspire and that represent best practice.

There are three major Principles, underpinned by the professional values of management accountants, as shown in Figure 3.

1. Preparing relevant information

Objective – To ensure that organisations plan for their information needs when creating tactics for execution.

This involves the identification, collection, validation, preparation and storage of information. It requires achieving an appropriate balance between:

- past, present and future-related information
- internal and external information
- financial and non-financial information.

2. Modelling value creation

Objective – To simulate different scenarios that demonstrate the cause-and-effect relationships between inputs and outcomes.

This requires a thorough understanding of the business model and wider macro-economic environment. It involves the analysis of information along the value creation path, the evaluation of opportunities within this context, and a focus on the risks, costs and value of opportunities.

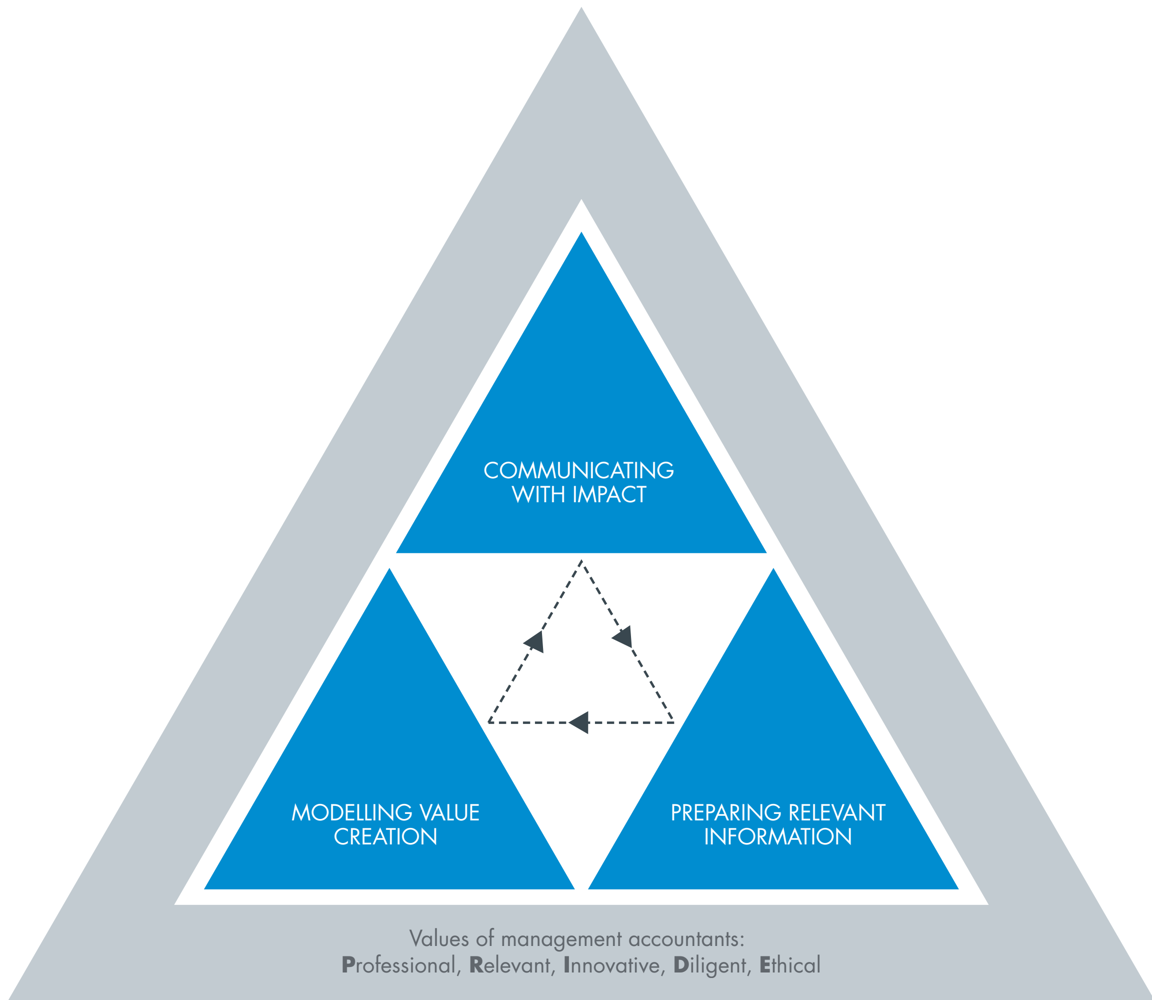
3. Communicating with impact

Objective – To drive better decisions about strategy execution at all levels.

This involves communicating the results of scenario analysis in a manner that is tailored to the decision being considered as well as to the decision-makers (or other audiences). It requires breaking down complexity and transparency about how conclusions have been reached.

Each principle is broken down into three further sub-principles, as discussed in detail in Section 3 of this document.

FIGURE 3: The Global Management Accounting Principles



How are the Global Management Accounting Principles applied?

In successful organisations the role of management accounting is clearly linked to current and future corporate goals. The Global Management Accounting Principles connect the dots, ensuring a direct line of sight between the organisation's objectives and the practices and processes of management accounting. They are applied to what management accountants (are expected to) do at work and so affect management accounting:

- professionalism
- process
- practice.

Underpinning everything that management accountants do are the values of the profession. These are professionalism, relevance, innovation, diligence and ethics. Together these values generate the acronym PRIDE and they are discussed at section 3.4.

The Principles are applied to *processes* and *practices* through the business model, see Figure 1. The performance management cycle is discussed in section 4 and is the *process* to which principles are applied. The performance management process includes strategy, planning, execution and review.

The activities around the business model are the *practices* to which the Principles are applied. These are discussed in section 5. Twelve main practice areas are discussed.

In alphabetical order they are:

1. Budgeting – the quantification of a strategically-aligned plan, for a defined period of time, which may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cashflows as well as other non-financial metrics.
2. Cost transformation and management – the exercise of cutting waste while maintaining or enhancing value creation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders.
3. External reporting – provides users of external reports with an integrated and comprehensive view of the organisation's financial and non-financial past performance, business model, risks and strategy.
4. Financial controls – the policies, processes and procedures put in place by organisations to manage, document and report their financial activities as compared to plan. They ensure that resources are correctly and effectively used and that activities are correctly and accurately reported.
5. Investment appraisal – the assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.

6. Price and product decisions – deciding what to produce or what service to provide and determining the selling price for products and services.

7. Project management – integration of all aspects of a project, ensuring that the proper knowledge and resources are available when and where needed and, above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality-controlled manner.

8. Regulatory adherence and compliance – the fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting and tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.

9. Resource allocation – the funding of strategic execution through the optimal distribution of scarce resources across the organisation. It aims to ensure business decisions are made with due consideration to the priority of scarce resource availability.

10. Risk management – the process of understanding, managing and controlling the risks that the organisation is exposed to while attempting to achieve its corporate objectives. Awareness and management of these risks can help the organisation to deal better with uncertainty and reduce the probability of not fully executing its strategy and/or failing to meet stakeholder expectations.

11. Strategic tax management – the role of tax in financial analysis and decision making while ensuring proactive management of the organisation's tax position to ensure legal requirements are met.

12. Treasury and cash management – the corporate handling of all financial matters, the generation of external and internal funds for business and incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.

Consultation process

This document is open for public consultation from 10 February to 10 May 2014 and we would very much welcome your feedback. Details of how to do this are in section 1. Once the consultation period closes we will refine the document, before launching it in Q3 2014. An online diagnostic tool will follow.

1. HOW TO USE THIS DOCUMENT

The Global Management Accounting Principles are designed to help organisations achieve sustainable success. They aim to help organisations implement current best practice management accounting, and are not intended to replace or be used as a guide to financial reporting.

The Principles provide a holistic approach to processes and systems rather than guidance on the accounting treatment of individual transactions. They have been drafted to enable organisations assess the maturity of their current approach to management accounting. An online diagnostic tool will follow.

We are seeking feedback on this consultation draft. The document outlines:

- the Global Management Accounting Principles
- why they are important to organisations
- how they can be applied in practice.

The public consultation period starts on 10 February 2014 and ends at midday BST on 10 May 2014. There are questions at the end of each section and your responses to all or some of these would be gratefully received. For your convenience the questions are also listed here.

By default, we will publish your response in full on our website unless you explicitly request otherwise. Please therefore ensure that you do not include any personal information, such as telephone numbers or email addresses that you wish to keep confidential. And please do not rely on a standard confidentiality statement in an email message as a request for non-disclosure.

Consultation questions:

1. Do you agree with this definition of management accounting? How might it be improved?
2. Do you agree with the three suggested Principles?
   a. Are there others which should be considered?
   b. Do you think it is possible to have a single set of principles which can be applied universally across different sectors, geographies and sizes of organisation?
   c. Do you believe that the Principles would have a positive impact on the way you run your business?
3. Is the PRIDE mnemonic appropriate? Are the values the right ones on which to focus? Are there others which you think should be considered?
4. Does this performance management cycle resonate with you and, if not, please provide an explanation for clarity. Please comment on whether Figure 10 helpfully represents the cycle and suggest improvements.
5. How does management accounting contribute to data planning and does Figure 11 demonstrate it well?
6. Do the 12 core practice areas cover the main elements of your finance function?
   a. Are there other areas which should be covered?
   b. Do you agree with the way in which the Global Management Accounting Principles are applied to the core practice areas? Does it work, or do you think it is too prescriptive?

   Please give your comments on any or all of the 12 core practice areas described.

7. Please comment on the sufficiency and understandability of the application of the three Principles to each practice area.

8. What is the current role of management accounting in your organisation?
   a. Do you agree with the view that management accounting helps your board of directors to make decisions which are more long-term in nature than would otherwise be the case?
   b. Do you agree with the view that management accounting is based on empirical analysis and largely avoids conjecture?

9. How do you currently assess the quality of your management accounting capability?
   a. Do you believe that a set of Global Management Accounting Principles would help you to benchmark and thus improve your capability?
   b. Do you believe that it is right to pursue the route of principles rather than rules?
   c. Can principles work without some form of accreditation system?
   d. Would you find it helpful to have a diagnostic tool to enable chief finance officers and their finance teams to assess the quality of management accounting in their organisations and identify areas that need improvement?
   e. To what extent does your organisation develop skills and talents within its finance team?

10. Please provide any other feedback that you believe would help us improve the Global Management Accounting Principles.

How to respond:

Please send your responses by email to principles@cimaglobal.com by midday BST on 10 May 2014.

Please contact your regional CIMA or AICPA office if you would like to be invited to a roundtable discussion. Contact details can be found on the back page of this document.

2. INTRODUCTION

Definition: Management accounting creates value and ensures sustainable success by contributing to sound decision making through the comprehensive analysis and provision of information that enables and supports organisations to plan, implement and control the execution of their strategy.

Management accounting is designed to help organisations achieve sustainable success. The purpose of the Global Management Accounting Principles is to enable the discipline's potential to be realised, so that management accountants' technical professionalism can be converted into applied effect.

The Principles set out the fundamental values, qualities, norms and features that represent best practice management accounting. They are based on worldwide research, the findings from which have informed this consultation draft. This document also contains information on the context for the Principles and explains how they can be applied in the world of business (including the public sector).

Intended audiences

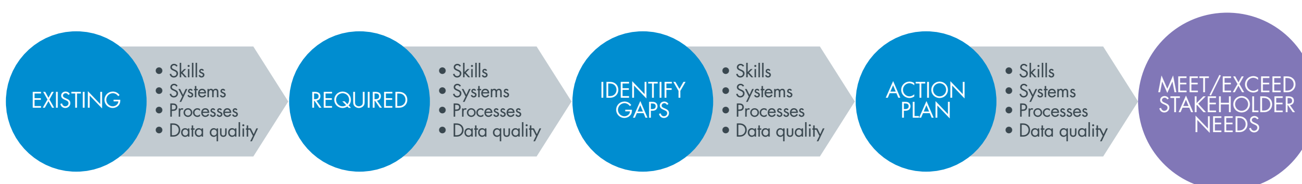
The Principles should interest members of boards of directors who have oversight of their organisation's overall performance, and chief executives and their senior management teams who are responsible for leading organisations to sustainable success. CFOs, their senior finance professionals and non-executive directors with strategic and financial oversight (eg chair of the audit committee) should find the Principles useful in providing them with a standard against which to benchmark their management accounting practices and processes, and identify where improvements are desirable. We are developing a diagnostic tool to accompany the Principles.

The Principles do not claim to be able to resolve the full range of issues that organisations face, but they do offer an approach to organisational management that aids the development and delivery of strategic goals through improved performance.

Purpose

The Principles are intended to help the management accounting function meet the needs of its stakeholders – primarily management, operational colleagues, the board of directors, investors and partnership organisations. An organisation's management accounting system should lie at the heart of the business model, and this is why the business model is central to the Principles and is the focus of the second principle "Modelling value creation". Management accountants report on the business model to decision makers, but they also identify future activities that the organisation may want to pursue, as well as the risks that will require a response. The business model is explained further in section 4 and Figure 10.

FIGURE 4: Development process of a management accounting strategy



When combined with the competencies contained in the CIMA syllabus and the experiences gained from lifelong learning, the Global Management Accounting Principles provide a means of diagnosing the extent to which an organisation's current management accounting skills, systems, processes and data quality meets business needs efficiently and effectively. Gaps can be identified and actions planned to close them, whether they are in the skill or competencies of personnel, technological deficiencies or data/informational gaps. A management accounting strategy should be developed (see Figure 4) setting out measures to close the gaps and will include details of:

- the current management accounting system
- deficiencies and opportunities
- customer needs
- priorities for change
- staff and technology implications
- investment appraisal
- timescales
- key performance indicators.

Stakeholder expectations

Boards of directors, chief executives and their senior management teams are responsible for leading their organisations to achieve sustainable success. Their mandate requires them to identify and exploit strategically appropriate opportunities to create value for their stakeholders while managing relationships, costs and risks in an increasingly volatile, uncertain, complex and ambiguous operating environment. To succeed they have to craft short- and long-term strategies, develop business models through which the strategies can be implemented, provide resources, secure the trust of stakeholders and inspire their organisations to achieve their objectives.

This requires effective governance processes and regular communication with customers, investors, suppliers, regulators and employees. Organisations need appropriate and quality information to communicate effectively with these stakeholders. As an information-based discipline, management accounting can make a significant contribution to sustainable success, as illustrated in Figure 5.

FIGURE 5: The case for Global Management Accounting Principles: the Principles support sustained success through improving strategy and execution

Question for respondents:

1. Do you agree with this definition of management accounting? How might it be improved?

Value creation

To create value, resources must be converted, through processes, into outputs that are valuable to an organisation's customers. This incurs costs and the link between incurring costs and creating value is mediated by risks.

An organisation will have relationships that it leverages to give it access to resources, and other relationships that give it access to markets. CIMA argues that business success depends on the appropriate prioritisation of relationships, resources and processes, and the management of associated risks.

The way in which value is created, delivered and retained is described by an organisation's business model. The goal for those who lead organisations is to make the business model resilient and provide the infrastructure for the organisation to manage its performance.

Relationships encompass the interactions of the organisation with suppliers, customers, investors, employees and the community. These relationships provide access to both resources and markets and should be seen as value-creating partnerships. The organisation incurs costs to maintain the relationships and derives value from them.

Resources are the inputs that organisations use to create value. These include raw materials, technology, financial, and other resources. Security of supply, quality and cost are essential.

Processes are the means by which inputs are converted into output to create value. They are linked to the types of resource and technology available. The focus is on effectiveness and efficiency.

Risk refers to the possibility that objectives cannot be achieved and that the business is unable to operate as planned. Risk can apply to all the activities in which the organisation is involved. Risks arise out of the interaction of relationships, resources and processes.

The role of management accounting

By working across the whole organisation, management accounting can provide an understanding of how different parts of an organisation come together to create value. It provides the means by which finance professionals produce, analyse, use and communicate information to link the objectives of the board of directors to various parts of the organisation and facilitate decision making and performance management. It ensures that those making and implementing decisions can be appropriately informed about the resources and funding required. It enhances business outcomes through monitoring, process analysis and performance reporting. Consequently, management accounting plays a critical role in enabling boards of directors and senior managers discharge their mandate.

Value sharing

Organisations operate with a social mandate – a licence to operate – which is based on a perception of value that a particular organisation can bring to society. Recent events, including the 2008 banking crisis, which impacted not just the economy, but the environment and wider society, have led to that mandate and the very definition of value being challenged. Consumers hold ever greater power and expect increased choices. Personalisation of products and services is growing and there is a stronger emphasis on 'shared value' as younger generations, largely through social media, share experiences that they value with others.

The need for Global Management Accounting Principles

Despite the evident role that management accounting can play in driving sustainable organisational success, there is little authoritative guidance to help CFOs assess and improve the quality of the overall management accounting practices and processes in their organisations. The Principles are intended to meet this need. When applied effectively, they will help organisations realise the potential of management accounting to contribute to sustainable success.

Success factors

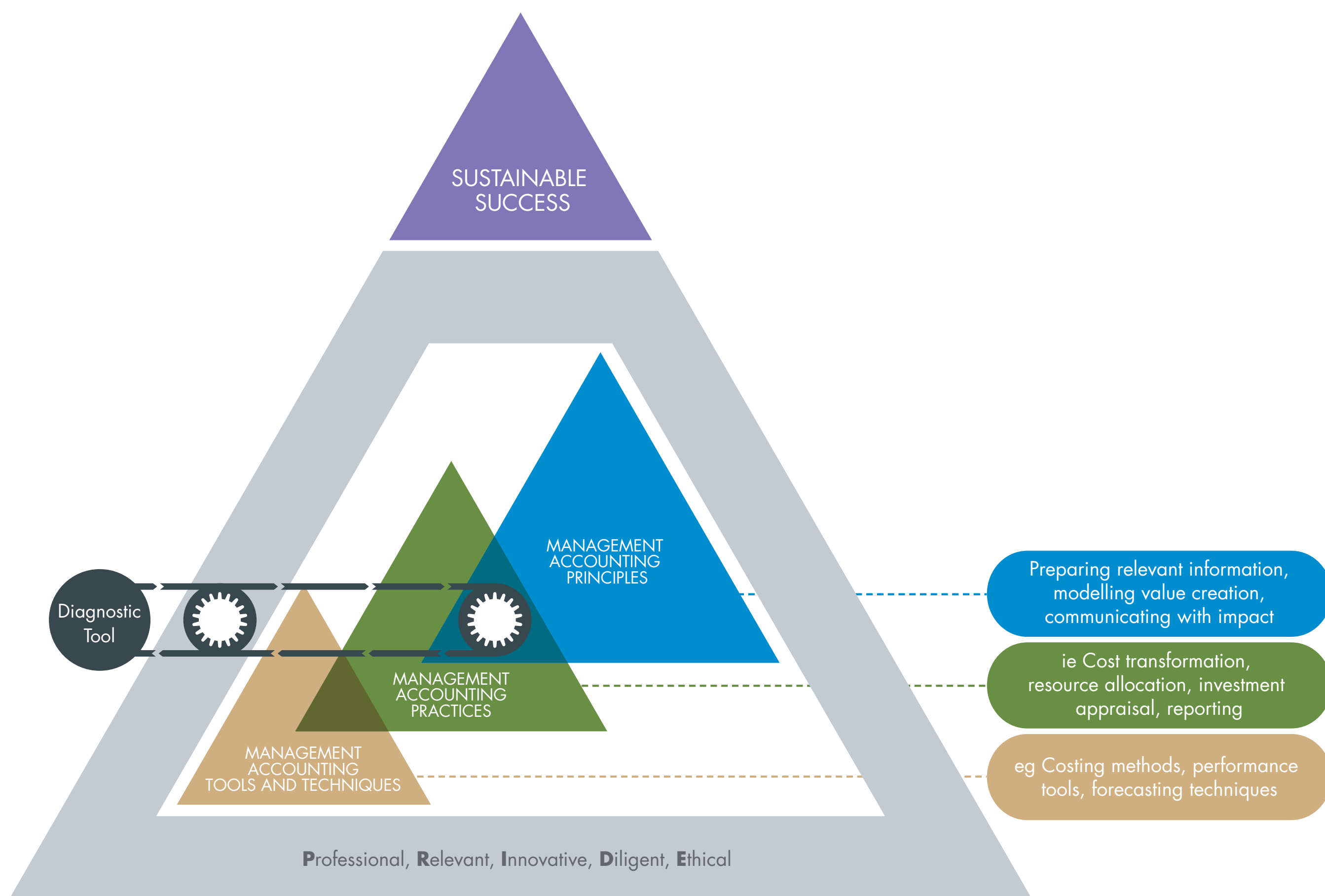
Certain factors enhance the effective application of Global Management Accounting Principles to the practice of management accounting:

1. **Understanding the need** – an appreciation that management accounting can help organisations achieve sustainable success. The test for each principle should be its ability to contribute to organisational success.
2. **Tools and techniques** – in the practical application of the Principles, finance professionals will need to use appropriate tools and techniques: these must be adapted and continually refined to align them with the organisation's operating context.
3. **Diagnostic tool** – the Principles, practice areas and the professional values of the management accountant can be used to develop a diagnostic tool. This helps organisations, boards of directors, CFOs and their finance teams assess the quality and performance of management accounting in their organisation and identify areas that need improvement.

We refer to the combination of these factors and the link between them as the Global Management Accounting Principles framework (Figure 6). It is the logical structure that links the Principles, their context, sources and their application to the world of business and finance.

With this in mind, we invite you to comment on the Principles, their application in practice and their link to the sustainable success of organisations. Your comments will help us to validate and/or refine the Principles in this consultation draft. The consultation process is detailed in section 6 - Process and next steps.

FIGURE 6: The Global Management Accounting Principles framework



3. THE GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES

Management accounting serves to help organisations make better decisions. Three overarching principles are core to achieving this:

- Preparing relevant information
- Modelling value creation
- Communicating with impact.

Preparing relevant information

Rooting decisions in evidence, rather than conjecture, makes sustainable success more achievable. All the principles of management accounting flow from this ambition. A central role for management accounting is to make comprehensive, accurate and relevant information available to decision makers on a timely basis.

Modelling value creation

An organisation's business model is its chosen system of inputs, business activities, outputs and outcomes.[1] By modelling the impact of opportunities and risks, the effect on strategic outcomes can be quantified, and the likelihood of a given outcome to create or destroy value may be assessed. Management accounting uses relevant information, as defined by the first principle, to develop robust scenario models. The effort in assessing scenarios must be proportionate to the materiality of the decision being made. It follows that some models will be simple and take very little time while others will need to be sophisticated and consider more complex factors.

Communicating with impact

Management accounting drives good corporate decision making by communicating evidence-based recommendations to decision makers throughout the value chain in a clear and compelling way. When the right people have the right information at the right time through effective management accounting, they are better placed to take decisions that will drive long-run value.

1 International Integrated Reporting Council definition.

Together, the Principles demonstrate how management accounting creates value: it provides evidence-based information that is communicated to help develop and execute strategy. This is illustrated in Figure 7.

These Principles are expanded further into sub-principles overleaf and are used to structure each of the detailed management accounting practice areas described in section 5.

3.1 Preparing relevant information

The identification, collection, validation, preparation and storage of relevant financial and non-financial information, from inside and outside the organisation, across different time frames.

Objective – To ensure that organisations plan for their information needs at the time of creating tactics for execution.

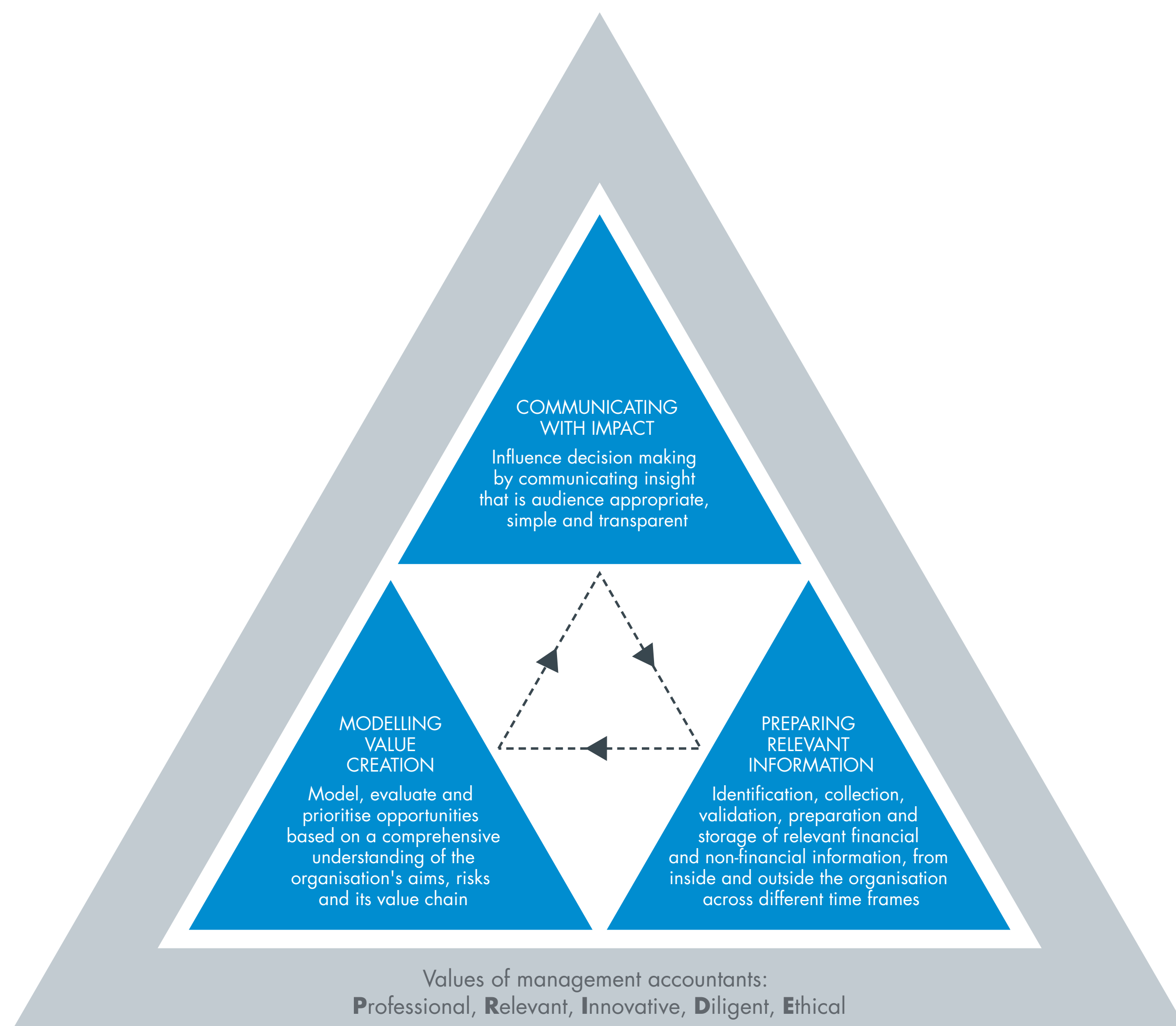
3.1.1 Relevant to strategy, stakeholders and the decisions they make

Management accounting should provide information that is relevant to both the decision that needs to be taken and the person making the decision. By understanding the needs of stakeholders, management accountants can identify, collect and prepare the right data for analysis, to provide the most relevant evidence for decision taking.

3.1.2 Information is reliable and accessible

The information provided must have integrity. To prepare data for analysis, it may need to be cleaned, sorted and filtered. Its value will be based on its quality, accuracy, consistency and timeliness.

FIGURE 7: The Global Management Accounting Principles (detailed)



It must be timely in relation to decisions that have been or will be taken in a given period. The data must also be protected to avoid the risks of corruption and loss.

3.1.3 Information is contextual

Management accounting analysis should use data and information with three key characteristics:

a. **Time related** – Information should be drawn from past and present as well as from predictive data about the future.

b. **Boundary related** – Information should not be constrained by traditional organisational boundaries. It should be drawn from inside and outside the organisation, including from financial and operational systems, from customers, suppliers, markets and the macro-economy.

c. **Data related** – Information should be quantitative (both financial and non-financial) and qualitative.

Quantitative and qualitative skills are needed in management accounting, so as to inform decision making on the basis of past, present and predictive data. For example, management accounting can provide *hindsight* from information relating to past performance to determine performance-related reward. It can provide *insight* from real-time information about the present to monitor the execution of strategies and plans and help bring them in line with targets. By using scenario planning, forecasting and other predictive tools, management accounting also provides *foresight* to guide organisations in crafting strategy. The type of information used can be both financial and non-financial and can relate to internal and external issues. Once the right information has been prepared, it can be fed in to models and analysed.

3.2 Modelling value creation

The modelling, evaluation and prioritisation of attractive opportunities based on a comprehensive understanding of an organisation's aims, risks, business model and its value chain.

Objective – To simulate different scenarios that demonstrate the cause-and-effect relationships between inputs and outcomes.

3.2.1 Simulations that provide insight into options

Organisations have to take business decisions and all need to be evaluated: models help bring rigour to this evaluation. By running scenario models that evaluate the impact of particular opportunities and risks on the value chain, organisations can make better decisions about exploiting or mitigating them.

When quality data and information are used, models enable organisations to understand quantitatively, both the likelihood of an opportunity succeeding or a risk occurring and the commensurate value that is to be created or eroded. Scenario tests need to account for the external environment in which organisations operate – notably the competitive, regulatory and macro-economic landscapes. They must also incorporate behavioural issues, such as knowledge about the drivers of cost, risks and value. When information about the long-term availability of required resources is provided, the business model can be assessed for its relevance to, and resilience in, the market.

3.2.2 Options that inform actions

Having run the simulation, the results require analysis. Management accounting turns data into insight by analysing the impact on outcomes of the scenarios being considered. These options have different impacts on the organisation's costs, risks and value. The scenarios allow consideration of the trade-offs between one option and another, so that opportunity costs can be understood.

3.2.3 Actions that are prioritised by their impact on outcomes

Equipped with an understanding of an organisation's strategic aims, stakeholder needs and agreed targets, management accountants can prioritise potential actions, providing justification based on robust logic from their models. Actions are prioritised by net value rather than cost.

3.3 Communicating with impact

Influencing better decisions - improving decision making by communicating insight to internal and external stakeholders that is audience appropriate, simple and transparent.

Objective – To improve decisions about strategy execution at all levels.

3.3.1 Strategy execution is a conversation

Discussions about strategic execution need to take place at all levels of the organisation and should involve all staff, eliminating siloed activity and thinking. Such communication allows a clear line of sight between top-line objectives and individual targets. Management accounting brings rigour to these conversations, ensuring they are rooted in evidence.

3.3.2 Communication is relevant and tailored

The level of detail and method of communication should be relevant to users of the information. Management accountants are aware of the level of financial knowledge their audience has and present information to them in a way that is easy for them to understand. Impact is achieved through the provision of robust, credible, timely and appropriate evidence-based information.

Communication should provide decision makers with an integrated, comprehensive, true and fair view of the organisation's past performance, current position, future prospects and planned innovations. Internal reports should always be based on the concepts 'true and fair', prudence, stewardship and reliability. Reports should always seek to identify and eliminate:

- immaterial information
- clutter
- jargon
- opaqueness
- poor navigation.

3.3.3 Communication facilitates better decisions

Since the purpose of management accounting is to improve business decision making, recommendations based on the first two Principles should be presented to stakeholders clearly, succinctly and in an appropriate format, with underlying justifications. This helps to build consensus about the best course of action to take, with the final decision being underpinned by robust empirical evidence.

Finance professionals should also ensure that they have a good understanding from managers of the decisions that the organisation needs to make, to inform their data and information collection and analysis, in line with the first principle.

Figure 8 demonstrates how management accountants can increase their influence by achieving more impact in their organisations. As they move from a back office role to positions of influence, the emphasis of their contribution to the organisation shifts from technical skills to commercial and people skills: from a focus on greater efficiency to a focus on greater effectiveness. This journey represents the passage from the traditional accountant's comfort zone, to where management accountants help to create value.

FIGURE 8: The journey to effectiveness

Questions for respondents:

2. Do you agree with the three suggested Principles?
   a. Are there others which should be considered?
   b. Do you think it is possible to have a single set of principles which can be applied universally across different sectors, geographies and sizes of organisation?
   c. Do you believe that the guiding Principles would have a positive impact on the way you run your business?

3.4 PRIDE: Establishing the professional values of management accountants

As technically expert professionals who can be relied upon to perform their duties with due diligence, those engaged in management accounting should take pride in their role. For the purposes of determining the values that should guide them, **PRIDE** is an apt mnemonic:

Professional: Management accountants should meet requirements with regard to lifelong learning, and continuous professional development and standards. They must be objective, ethical and consider the public interest. They should help teams overcome bias by rooting organisational decision making and implementation in an evidence base, and by providing empirically tested, objective solutions.

Relevant: Management accounting professionals must pay due regard to the primacy of customers and the range of relationships that enable a business to operate. They must also understand the global macro-economic environment to assess information based on its relevance to their organisation. A combination of accounting and financial expertise, business understanding and analytical skills, and appropriate business experience ensures that those engaged in management accounting are practical and grounded in commercial reality.

Innovative: Management accountants require a natural inquisitiveness. By sharing a mutual understanding with colleagues about the organisation, they are able to interact collaboratively and support team working. This provides opportunities to share innovations. They partner with colleagues to support them in the planning, measurement and implementation of innovative products, services or processes. They use predictive and non-financial data, external to the organisation, to understand future trends and inform decision making. By thinking beyond the traditional boundaries of business, they should seek to provide structured solutions to unstructured problems, based on their knowledge of their organisation. Being organisationally shrewd, they understand the structures and lines of authority that influence how decisions are made and action taken. As advocates for training and quality across the organisation, they have strong relationships with the HR and compliance teams to ensure ideas are well communicated and well grounded.

Diligent: Management accounting should be delivered to a standard consistent with the Global Management Accounting Principles. Information provided must be reliable, and should be based on appropriate analysis or assessment of the evidence available.

Ethical: Those performing management accounting must be alert to potential conflicts of interest and not put personal or short-term commercial considerations before the longer-term interests of their organisation or its stakeholders. Regulatory requirements represent absolute minima. Management accounting professionals should comply not only with the spirit of any regulations, but also with the higher standards on which trust in management accounting depends. Management accountants may challenge what are often deep-rooted or long-held assumptions, as a result of their ability to think critically and interrogate data to get to the facts.

FIGURE 9: The professional values of the management accountant

Question for respondents:

3. Is the PRIDE mnemonic appropriate? Are the values the right ones on which to focus? Are there others which you think should be considered?

4. APPLICATION TO THE PERFORMANCE MANAGEMENT CYCLE

To achieve sustainable success, organisations must identify, create and exploit attractive opportunities in their operating environments, while actively managing costs and risks.

The board of directors and senior managers participate in, and oversee, a performance management cycle (see Figure 10) to help achieve this. The cycle, through which an organisation's business model is managed and deployed, illustrates the development and execution of strategy: it includes several feedback loops that embed continuous improvement in all aspects of an organisation's performance.

The steps in the performance management cycle may be summarised as follows:

Strategy – this provides a general sense of direction, and contains information about customers, other principle stakeholders and core objectives.

Data planning – the data required to set targets and assess execution of plans is sourced and made accessible.

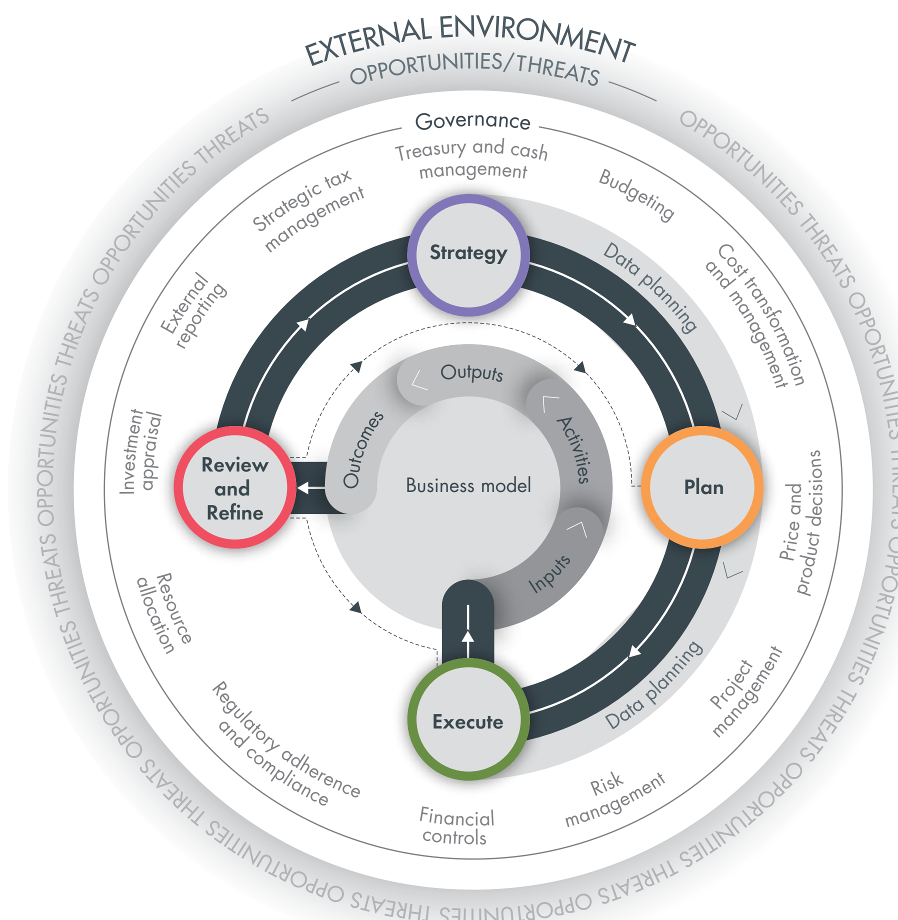
Plan – a description of how the organisation intends to meet its short-, medium- and long-term objectives.

Execute – implementation of the strategy over time.

Review – assessment of performance, including reporting and refining plans/strategies as required.

Each is described further overleaf.

FIGURE 10: The role of finance mapped to the performance management cycle and business model



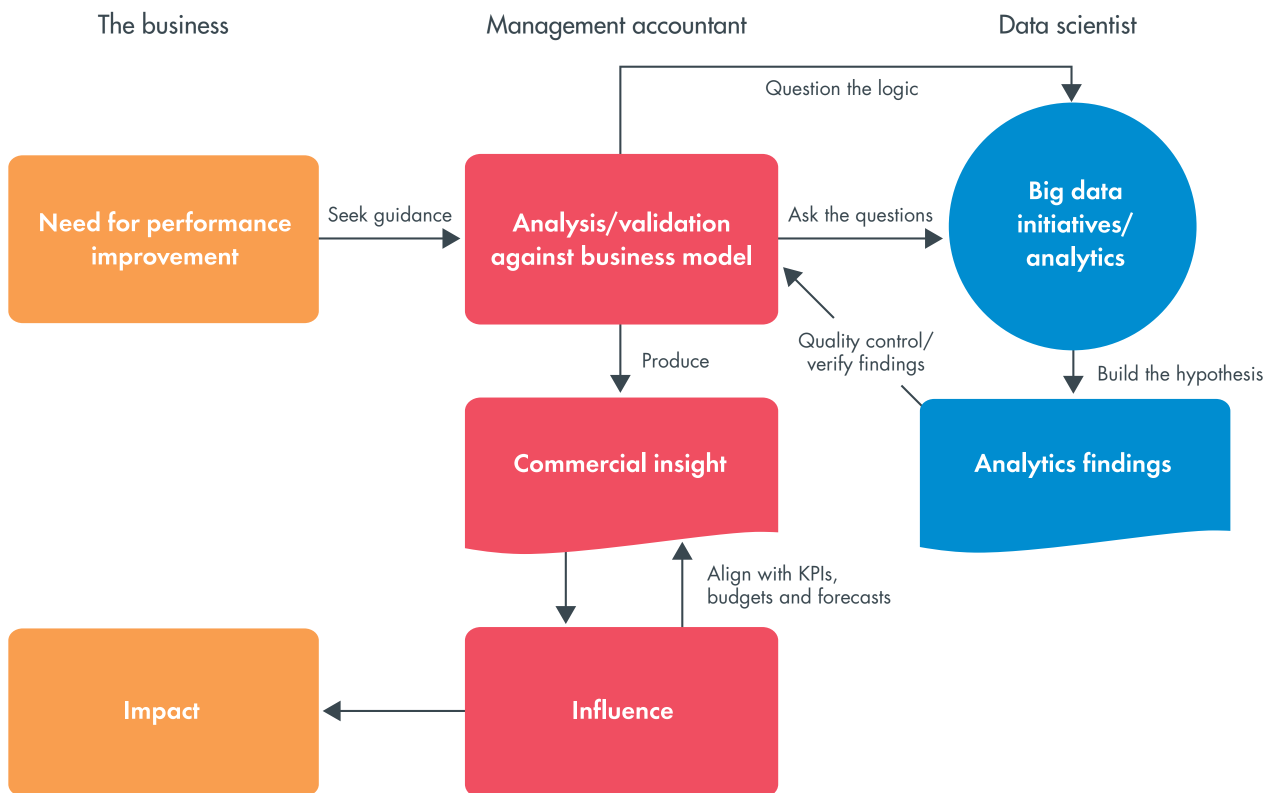
Strategy articulates an organisation's general sense of identity and direction, defines its purpose, its long-term goals and how it expects to achieve them.

Since strategic performance can only be managed effectively if it is based on robust and relevant information, an organisation must consider and select the type and amount of evidence-based data that it needs to make detailed executional plans. This is referred to as data planning.

Data planning is the sourcing, assembling, refining, and presenting of data needed to evaluate and prioritise plan options, set targets, predict outcomes and measure the execution of plans. It is critical to the achievement of the first principle, "Preparing relevant information." Planning for data needs when business plans are created will ensure that performance can be assessed when plans are implemented. Data-driven, real-time decision making (whether and how to refine, whether to stop, or insight into what to start) then becomes possible. Too often organisations measure what they are able to or what they have measured historically, rather than what they need to measure to evaluate the execution of future plans (which may be different from past plans). That is why it is important to focus on input data to assess future performance.

Figure 11 highlights the link between a business and its data scientists. The management accounting role is concerned with understanding the business, asking the right questions, contributing commercial insight and helping to ensure that decisions can be managed through to impact. Management accountants are therefore uniquely placed to leverage the outputs from data analytics to improve performance. In smaller organisations, the management accountant may also be required to perform the role of data scientist.

FIGURE 11: The role of the management accountant in data analysis



Data structure

Data should be structured to incorporate all elements of the business model – input activities, outputs from activities and plan outcomes. It should have the following features:

- **Explicitly linked to organisational objectives** – focused on business users and accepted by them. As decision makers, business users should be able to explain clearly why specific data is required to measure strategy execution, and that data must then be stored and presented in a meaningful way.
- **Supports decision making** – comprises the measures defined and accepted by business users at the time of planning to enable them to evaluate execution performance and make decisions.
- **Easily accessible and intelligible to business users** – business users should be able to access the data easily to evaluate performance and future options.
- **Consistently defined and labelled** – "One version of the truth." Data labels should be in plain language, without jargon or obscure database field descriptors.
- **Resilient to change and adaptable** – since the business model will inevitably be refined over time to match the change in the external environment.
- **Secure** – sensitive information must not be leaked.
- **Comprehensive** – the lowest level of granularity must be easily accessible (by the business user) from the highest levels of aggregation to support the inevitable need to understand greater detail from time to time.
- **Rigorously prepared** – data must be sourced, cleansed and assembled, with data presentations agreed with business users early enough to allow performance to be evaluated as planned actions are implemented.
- **Efficient** – there may be occasions when the cost of sourcing, assembling, refining and presenting data for a measure outweighs the benefits. In this case, decision makers should:
  - explicitly agree not to measure execution from data
    or
  - break down the measure into lower-level measures that provide partial information
    or
  - agree a proxy measure (one that is closely enough related to the ideal measure to derive a performance assessment).

The organisation's technology should be developed to support the sourcing, assembling, refining and presenting of data cost effectively, potentially through data warehousing or the employment of external agencies. Data processes, standards and protocols should include:

- data definitions
- dissemination policies
- ownership and licensing references
- security controls
- storage and retention policies
- backup and recovery policies.

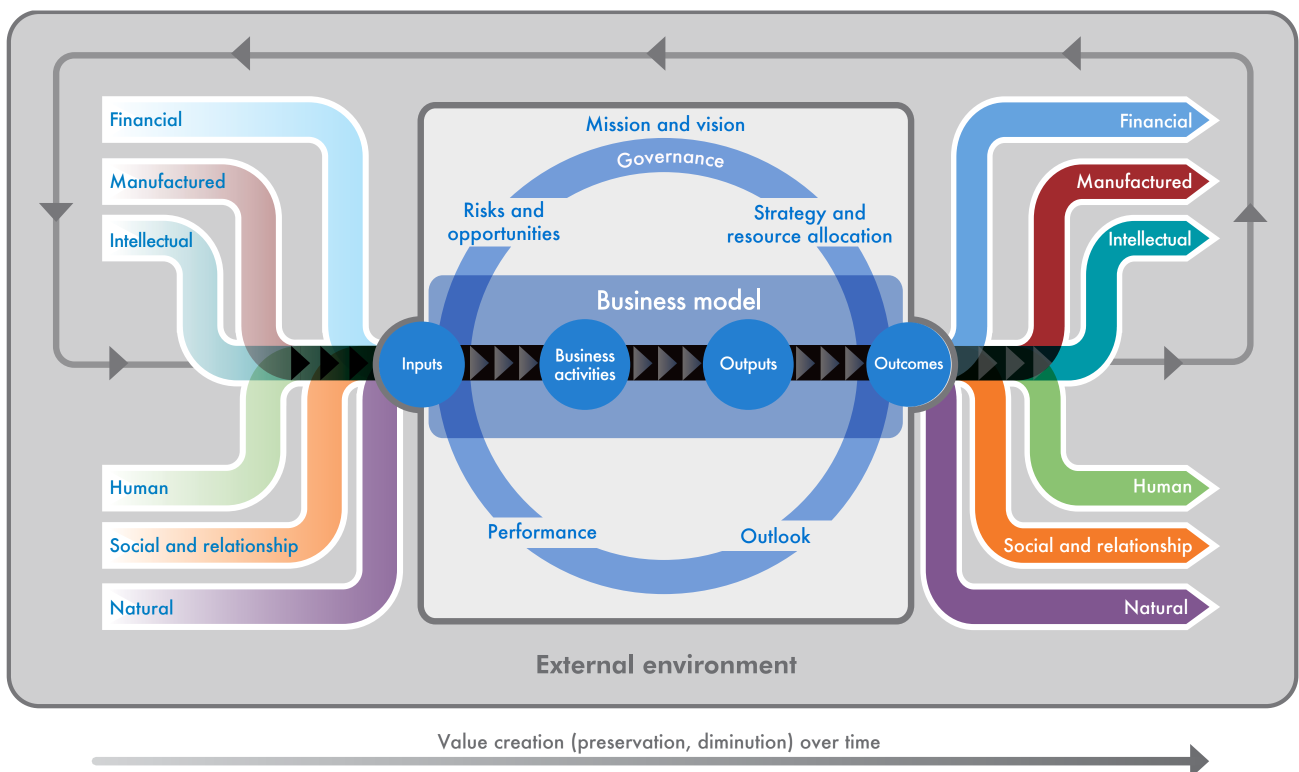
Once organisations have gathered information about the resources required to meet the needs of business users, they will require operational plans describing how they intend to implement their objectives in the short-, medium- and long-term.

Plans are only statements of intent. To execute them, organisations must provide the required resources, the enabling processes through which resources can be converted into valuable inputs, and the means of monitoring activities to check that targets set in the plan are achieved.

Execution of plans takes place via an organisation's business model. The International Integrated Reporting Council defines the business model as, 'the organisations' chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long-term'. This is interconnected with both its external environment and its governance system, as illustrated in Figure 12 below. As a result, political, economic, social and technological factors, among others, will require careful strategic consideration. Competitive forces are also at play and provide a context laden with risks and opportunities, within which stakeholders' ever higher expectations must be met or exceeded.

A robust and resilient business model, therefore, identifies how value is created, delivered, distributed and retained.

FIGURE 12: The International Integrated Reporting Council's value creation framework



Reviewing involves analysing information generated when plans are executed, and provides insights which enable business managers to assess how well strategic and related operational objectives have been met.

The review stage is a feedback loop, allowing the organisation to revisit any of the three previous stages. It is a crucial part of any continuous improvement process. By reviewing (and reporting on) how well short- and long-term plans have been executed, corrective action, referred to as refinement, can be taken. Sometimes, this will require relatively minor alterations to activity, and the organisation can loop straight back to execution without needing to go all the way back through strategy and planning. This is demonstrated by the dotted line from "review and refine" to "execution" in Figure 10. Other reviews will highlight the need for more substantial changes to be made. This may mean that the organisation needs to revisit its plans, or may even require a fundamental rethink about strategy. The cyclical performance management process then begins again.

Having a feedback loop in the performance management cycle allows the organisation to learn from its experiences. It helps to ensure that errors, defects and other problems are avoided, and that improvements and gains are realised and enabled in the next round of execution.

Most organisations employ some form of a "plan, do, check, act" process to manage the execution of their strategy. Management accounting as a discipline is uniquely well placed to oversee this performance management cycle in organisations. Relevant information, scenario analysis and effective communication of the options available are not simply required at all four stages, they are crucial in enabling managers to make evidence based decisions about the direction of the organisation.

The type of information, level of analysis and style of communication needed will vary across the cycle, but at every stage, the management accountant is able to add value to the performance improvement process.

Global Management Accounting Principles underpin this cycle and Figure 13 provides an indicative application of them to performance management.

Questions for respondents:

4. Does this performance management cycle resonate with you and if not, please provide an explanation for clarity. Please comment on whether Figure 10 helpfully represents the cycle and suggest improvements.
5. How does management accounting contribute to data planning and does Figure 11 demonstrate it well?

FIGURE 13: The Global Management Accounting Principles mapped to the performance management cycle

Global Management Accounting Principles	Performance management cycle: Strategy	Plan	Execute	Review
Preparing relevant information	There is an emphasis on longer-term, non-financial and external information.	Emphasis shifts to shorter-term information, with financial data gaining prominence and more internal information becoming relevant.	Real-time information about internal financial and non-financial results is provided.	Historic information is prepared that draws on internal and external data that is both financial and non-financial.
Modelling value creation	The environment the organisation operates in is understood, and the long-term availability of the resources on which the business model depends to create value for customers is known.	Options are prioritised and resourced according to their expected impact on required outcomes.	Initiatives are systematically deployed in a controlled environment. Early warning indicators allow for quick corrective action.	Variance analysis highlights differences between plans and actual results. The causes of those differences are evidenced by the business model. Continuous improvement of plans is facilitated.
Communicating with impact	Strategic level discussions are facilitated by the provision of foresight. Communication is kept high level with an emphasis on required outcomes.	Managers are provided with more detailed information. Targets are agreed and initiatives to deliver targets are selected and recorded in the business plan.	Across the organisation, timely feedback is provided on results against targets and impact on required outcomes.	Across the organisation, actual results are communicated and refinements are recommended.

5. APPLICATION TO MANAGEMENT ACCOUNTING PRACTICES

In the pursuit of sustainable success, principles and values should guide how organisations execute the mandate given to them by stakeholders.

Generally Accepted Accounting Principles and International Financial Reporting Standards provide clarity as to how accountants should provide a basis for determining and reporting an organisation's financial position and performance to external stakeholders and regulators. The core practice areas of the finance function should be performed within the guidance of best practice Global Management Accounting Principles. Until now, there has been no equivalent set of principles or standards to suggest how finance professionals should support the organisation and contribute to improved performance and better business.

The Principles fill this void. They map CFOs' key practice areas with the performance management cycle and align the finance function to sustainable success - ensuring the organisation has sufficient resources to create value, inclusive of all stakeholders, across all timeframes.

As the most senior finance professionals, CFOs have a mandate to help navigate the hazards of their organisations' operating environments to optimise stakeholder value. Under their leadership, management accounting takes a holistic view of costs, risks and value of an organisation.
It encompasses, though is not limited to, the areas of practice which are listed alphabetically in the table overleaf.

These value-adding activities undertaken by the management accounting function across the performance management cycle, as Figure 10 shows, are the means by which CFOs deliver their mandate and contribute to organisational success. However, to be performed most effectively, those activities must be guided by the Principles – as discussed in the next section.

Extracting value from information is vital and is a key source of competitive advantage. Management accounting provides CFOs with this capability.

The rest of this section describes the activities that should take place in each of the CFO's core practice areas when the Principles are applied. These benchmarks can be used to assess the maturity of the organisation's current finance function, but they are not intended to be prescriptive or exhaustive.

Questions for respondents:

6. Do the 12 core practice areas cover the main elements of your finance function?
   a. Are there other areas which should be covered?
   b. Do you agree with the way in which the Global Management Accounting Principles are applied to the core practice areas? Does it work, or do you think it is too prescriptive?

Please give your comments on any or all of the 12 core practice areas described.

Practice area	Definition	Value to the organisation	Contribution of the management accountant to practice area
Budgeting	The quantification of a strategically-aligned plan, for a defined period of time, which may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cashflows, as well as other non-financial metrics.	Provides a detailed analysis of how the organisation intends to consume resources. Helps an organisation decide whether it has enough resource to meet its objectives and helps to control overspending.	• Prepares driver-based budgets, in line with strategic priorities. • Controls performance via analysis of actual to plans. • Collaborates with budget owners to build consensus and ensure acceptance/buy-in.
Cost transformation and management	The exercise of cutting waste while maintaining or enhancing value creation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders.	Improved customer satisfaction through "getting it right first time." Increased competitiveness achieved through the establishment of a lean culture and investment in innovative products and services.	• Understands the drivers of costs across the organisation. • Aids the improvement of value chain efficiency. • Develops cost targets in conjunction with relevant parts of the business.
External reporting	Provides users of external reports with an integrated and comprehensive view of the organisation's financial and non-financial past performance, business model, risks and strategy.	Helps the organisation to engage with a wide stakeholder base and explain the organisation's strategy, business model and performance.	• Ensures that reports comply with regulation and governance. • Encourages reporting to be considered by the organisation as a value-creating activity that is driven by integrated thinking. • Reports information regularly presented to the board of directors in the context of strategic targets.
Financial controls	The policies, processes and procedures put in place by organisations to manage, document and report their financial activities as compared to plan. They ensure that resources are correctly and effectively used and that activities are correctly and accurately reported.	Effective financial controls reduce the risk of error and fraud and the likelihood of financial loss. This ensures better reporting which, in turn, enables sound decision making and better financial management.	• Provides the management information and analysis that forms the basis of financial control (eg budgets, plans, and risk areas).
Investment appraisal	The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.	Ensures opportunities that create value for stakeholders are prioritised for funding and those which are likely to erode value are avoided.	• Performs relevant calculations and analysis to determine a quantifiable value to the organisation of pursuing a particular investment. • Understands all the risks that need to be factored into the appraisal. • Provides real options to decision makers about which opportunities should be exploited or avoided.
Price and product decisions	Deciding what to produce or what service to provide and determining the selling price for products and services.	Enhances profitability of products and services and helps the organisation's position within the market to be understood by customers.	• Understands which cashflows are relevant for inclusion in calculations to determine prices. • Knows the business model and where a particular product or service fits within it, aiding appropriate, value-driven pricing. • Translates complex numbers into understandable recommendations to facilitate decisions about the allocation of funds to specific products and services.

Practice area	Definition	Value to the organisation	Contribution of the management accountant to practice area
Project management	**Integration of all aspects of a project, ensuring that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.**	Provides controls over projects to increase the chance of benefits from projects being realised and risks minimised.	• Provides financial scrutiny to project plans, budgets and spending. • Ensures projects are adequately resourced and that their purpose fits with the organisation's strategic priorities. • Communicates project processes to get effective buy-in from relevant stakeholders.
Regulatory adherence and compliance	**The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting and tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.**	This is a value preservation/loss mitigation area of practice.	• Monitors the regulatory landscape to understand current and future developments and their potential impact on the organisation. • Calculates and assesses the costs of compliance and non-compliance. • Ensures the organisation approaches compliance within both the letter and spirit of the law.
Resource allocation	**The funding of strategic execution through the optimal distribution of scarce resources across the organisation.**	Helps organisations to manage transformational or continuous improvements to products and processes efficiently and effectively.	• Ensures decisions are made with due consideration to the priority of scarce resource availability. • Produces resource maps that highlight requirements, returns and options. • Understands the opportunity costs and comparative advantage impacts of differing resource allocations.
Risk management	**The process of understanding, managing and controlling the risks that the organisation is exposed to in attempting to achieve its corporate objectives.**	Awareness and management of these risks can help the organisation deal better with uncertainty and reduce the probability of not fully executing its strategy and/or failing to meet stakeholder expectations.	• Identifies the risks and advises on appropriate responses to them that are relevant to the organisation and its environment. • Embeds risk management within their thinking and considers it alongside opportunities, planning and performance. • Supports non-financial colleagues to assess the likelihood and impact of all corporate risks.
Strategic tax management	**The role of tax in financial analysis and decision making while ensuring proactive management of the organisation's tax position to ensure legal requirements are met.**	Ensures the organisation is aware of and understands the implications of relevant legislative changes in the jurisdictions in which it operates.	• Advises on transfer pricing policy. • Provides impact analysis of tax issues of mergers and acquisitions. • Calculates the tax implications on capital investment decisions. • Acts as an ethical conscience of the organisation.
Treasury and cash management	**The corporate handling of all financial matters, the generation of external and internal funds for business, incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.**	Ensures the organisation has sufficient cash to meet its obligations and fund prioritised opportunities. Provides risk management of the organisation's exposures to currency fluctuations.	• Provides information from the balance sheet and cashflow statements as required by treasury colleagues. • Produces accurate cashflow forecasts.

1. Budgeting

Definition – The quantification of a strategically-aligned plan, for a defined period of time, which may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cashflows as well as other non-financial metrics.

Preparing relevant information

- External influences are examined and budgets produced in the context of the macro-economic environment.
- Prior year budget to prior year actuals are analysed and lessons learned.
- Key strategic priorities are known and understood to ensure they are sufficiently resourced.
- Data about forecasted/projected volumes and sales are recorded.
- Performance targets, such as income targets and expenditure caps, are provided and used to support the budgeting process.
- Driver-based budgets and forecasts confirm feasibility to enable the development of plans that are based on compelling and empirical evidence.
- Key metrics such as profitability, liquidity and asset turnover ratios are regularly analysed.
- Materiality levels are agreed to ensure time and effort are not wasted on budgeting for immaterial expenditure.

Modelling value creation

- Co-dependencies between the organisation's value chain and the needs and contributions of stakeholders are recognised – plans to optimise the value chain take account of these dependencies.
- What-if analysis is performed, based on alternate projections of volumes, prices and cost structures. The inclusion of non-financial quantitative performance indicators are discussed and agreed with managers.
- Budgeting processes work from market demand back to internal factors such as capacity and capability. Market demand is tested to ensure budget projections are realistic.
- Budgets have some flexibility to allow worthy opportunities to be pursued with sufficient resourcing.
- Adverse consequences of "budget padding" and manipulation are assessed and mitigated.
- Budgets are used as feed-forward control tools.

Communicating with impact to inform better decisions

- Budgets drive understanding about why resourcing is allocated in alignment with strategic priorities. They help to convert strategy into operational action.
- Employees understand the performance targets that are expected and how changes in performance affect changes in future budgetary allocations.
- Expectations are managed via sessions using standardised templates that focus budget discussions and allow like-for-like comparisons between departments about financial requirements and expected results.
- Business managers are expected to provide supporting evidence to back up projections about expected results and to articulate the assumptions on which these projections are made.
- The budgeting process is transparent and consultative. Employees understand that budgets are not produced on the basis of prior year plus inflation or on the basis of spreading funds equally across the organisation. They understand that funds available for investment will be committed to key strategic priorities.
- Budgets are produced in conjunction with business owners/functional managers.
- Consensus-building leads to budgets which are understood and accepted by relevant employees (budget owners).
- Budget owners are encouraged to understand that budgeting can help with authorising expenditure, communicating objectives and plans, controlling operations, coordinating activities, evaluating performance, planning and rewarding performance.
- Clear targets are set at the individual level, which cascade directly from departmental/functional and organisational objectives.
- Tactical plans support the achievement of strategic objectives. The organisation understands how tactical plans aid the attainment of strategic goals.

2. Cost transformation and management

Definition – The exercise of cutting waste while maintaining or enhancing value creation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders. Costs are reduced by meeting and exceeding customer needs first time without compromising the organisation's compliance with its own internal policies and procedures and other relevant obligations as required, for example, by law and regulation.

Preparing relevant information

- Costs are compared with equivalent costs from relevant organisations.
- Asset utilisation is compared over time and with best-in-class benchmarks.
- Cost drivers are known and recorded. Cost drivers are any factors which cause a change in the cost of an activity, such as the number of client calls answered, hours spent on servicing an account or the number of sales personnel in a department.
- Cost driver measure results for every component of the end-to-end business model are compared over time.
- Costs from previous years at aggregate, departmental/functional and product level are known and compared.

Modelling value creation

- Relevant data models are used, and value creation processes refined, to estimate the impact of processes on outcomes.
- Key performance indicators are developed or refined across all components of the business model. Their impact on key results is calculated to gain insight into the drivers of value and their associated outcomes.
- Through interpretation of the value drivers across the business model and value chain, approaches are designed to improve cost outcomes.
- Rational but stretching targets are developed that compare favourably with benchmarks.
- Employee incentives are designed that drive alignment of behaviours with organisational objectives and projected future needs.
- Value chain efficiency is compared over time.
- Cost transformation processes are regularly reviewed to ensure that activities continue to be relevant to stakeholder needs.

Communicating with impact to inform better decisions

- Cost targets are discussed and developed in conjunction with employees to gain buy-in and are refined over time.
- Approaches to achieve improved cost outcomes are reported to relevant managers.
- Cost driver findings and analysis are discussed with relevant employees and are factored into all proposed solutions and are refined over time.
- Plans for execution of approach are agreed with relevant employees.
- Cost plans are deconstructed into components appropriate to the various stakeholders.
- Incentives are designed to encourage the identification of cost-transforming initiatives.
- Opportunity costs are calculated and recommended approaches are developed on the basis of net value to the organisation.

3. External reporting

Definition – Provides the users of external reports with an integrated and comprehensive view of the organisation's financial and non-financial past performance, business model, risks and strategy.

Preparing relevant information

- The organisation's external reporting meets the needs of investors and other stakeholders. It contains clearly-communicated information on governance, the business model, strategy and performance and supports effective company stewardship.
- The information is relevant and faithfully represents what it purports to represent. The information is comparable, verifiable, timely and understandable.
- External reports are prepared to comply with all relevant regulation, accounting standards and governance codes in the reporting jurisdiction.
- The inter-connectivity of the data being reported is managed to ensure the objectives of external reporting are achieved.
- The organisation's external reports contain trends over a suitable time frame (past, present and future).
- Awareness of regulatory and compliance reporting best practice is maintained and actively practiced in the organisation.

Modelling value creation

- External reporting is compliant with the appropriate accounting standards and regulations required for the organisation. This includes regulatory/statutory reporting, tax returns and other required submissions.
- The organisation ensures appropriate levels of assurance are sought both internally and externally to ensure completeness, accuracy and integrity of the information reported.
- In addition to the reporting of financial performance, the organisation considers and reports its impact on the wider economy, society and the environment.
- External reporting is viewed by the organisation beyond a required and mandatory function. An organisational attitude is prevalent which views reports as a service that provides value-creating opportunities, driven by integrated thinking and meeting and exceeding stakeholders' expectations.

Communicating with impact to inform better decisions

- External reports are used as an opportunity to engage with the wider stakeholder base, and explain the organisation's strategy, business model and performance.
- Reports meet all required and expected deadlines and are designed to deliver factual, accurate, verified, mandated and relevant information to all identified stakeholders, on a timely basis.
- Information to be communicated is material and presented in a clear, well defined and transparent way, where possible avoiding repetition and jargon.
- Information reported externally includes material regularly presented to the board of directors in the context of strategic targets. For example, how a strategic target is being measured by the trend in a key performance indicator.
- Externally reported information has been presented and approved throughout the organisation's designated hierarchy prior to public exposure.
- Communications are designed and implemented primarily to address providers of financial capital, but recognise the legitimate needs of other stakeholders such as employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers.
- All relevant communication channels, such as print, online, social media and mobile, are considered and used if appropriate.

4. Financial controls

Definition – The policies, processes and procedures put in place by organisations to manage, document and report their financial activities as compared to plan. They ensure that resources are correctly and effectively used and that activities are correctly and accurately reported.

Preparing relevant information

The following information is understood and documented:

- Nature, extent and impact of risks that organisations face.
- Organisational capacity and appetite for those risks.
- Results of tests on relevance and effectiveness of control policies, processes and procedures.
- Plans, budgets and forecasts of organisational activities.
- Quantity and quality of resources to accomplish organisational objectives.
- Delegations and authorisation limits for staff at various levels.

Modelling value creation

- Planning, resource allocation and reporting activities of the organisation are aligned to its value creation processes. This helps the organisation to decide where its priorities lie and where they are most likely to be at risk.
- The physical and financial processes which pose the most risk to the organisation are identified and evaluated.
- Appropriate control policies, processes and procedures for areas that are most at risk are developed and implemented. At the minimum these cover:
  - Inputs (availability, quality, security and costs)
  - Activities that convert inputs into outputs (criticality, flow and efficiency)
  - Outputs (quantity, quality, preservation, effectiveness and revenue)
  - Outcomes (impact and sustainability).
- Control policies meet legal requirements; are comprehensive and are realistic (can be implemented).
- Responsibility for financial controls is assigned to appropriate levels of staff. In general it is the responsibility of the board of directors to ensure that good financial controls are in place. It is the responsibility of management to ensure that the controls are operating effectively: and it is the responsibility of all staff to operate the controls in their areas of work.
- The relevance and effectiveness of the controls are regularly tested.
- Controls are regularly revised and strengthened to align them to the business model of the organisation.

Communicating with impact for better decisions

- Financial control policies and procedures are published and shared with all relevant staff so that they can use them in their areas of responsibility.
- Outcomes of financial control system reviews are shared with appropriate staff to enable sound decision making and effective action.
- Information about incidents of control failure (eg material errors or fraud) are given to appropriate staff for correction and/or lessons learned.
- The frequency of monitoring and reporting is matched to the speed of the activities and processes that are most at risk.
- The level of detail at which operating performance and position should be reported (trends, comparisons, variance analysis etc) is matched to the responsibilities of appropriate staff.

5. Investment appraisal

Definition – The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.

Preparing relevant information

- Investment appraisals are based on sound analysis and on information which is:
  - Internal and external
  - Financial and non-financial
  - Trends over a suitable time frame (past, present and future)
  - Drivers of value (or revenue) and cost.
- Investment appraisals are based on cashflow information which is relevant, accurate, reliable, consistent, complete and timely. Bias is considered and adjusted for. For example if revenue projections are considered to be ambitious, they are reduced in the appraisal rather than adjusting the discount factor.
- Appropriate appraisal measures are considered and selected, including net present value, internal rate of return, payback period and return on investment.
- Due consideration is given to non-financial information, to inform a holistic cost-benefit analysis of investment decisions. For example, in a not-for-profit or public sector setting, potential benefits and impacts on society at large may turn a negative net present value investment decision positive.
- The alternative of using existing resource and assets is considered. For example, should a decision to invest in a new asset be made when elsewhere in the organisation the same or similar asset is under-utilised?
- The technical, commercial, financial and operational feasibility of the proposal are calculated and analysed.
- When the output of an appraisal of a potential investment is to be used for financial reporting purposes, reference is made to the use of discount factors and net present values in International Reporting Standards or local GAAP requirements.
- Alternatives to traditional metrics are considered when evaluating innovation projects, such as stage-gate processes, ring-fenced budgets and portfolio management strategies.

Modelling value creation

- Options are developed and evaluated with due reference to the organisation's aims, competitive position and operating and regulatory environment.
- The time value of money, using appropriate discount factors, is accounted for when appraisals cover investments that span different years.
- Discount rates are selected on the basis of the organisation's average cost of capital, plus a systematic risk factor applied to future cashflows, depending on the nature of the investment.
- Risk is calculated based on sensitivity analysis, which allows managers to understand how much the cashflows can vary by before the investment is no longer viable.
- The goals of investment projects are understood and categorisation considered to aid evaluation. Categories may include replacement, expansion, rationalisation/productivity, new product development and mandatory requirements.
- Alternatives to capital projects, such as renting, sale and leaseback, and outsourcing are considered.

Communicating with impact to inform better decisions

- The results of investment appraisal calculations are presented to decision makers in a simple and transparent format before the investment decision, during the life cycle of the asset and post investment.
- Real options, including a "do nothing" option are considered and provided as alternatives and their commensurate risks are discussed.
- Recommendations about the prioritisation of investments that are mutually exclusive, and/or are subject to single-period capital rationing, are made and explained.
- The approach and basis of the inclusion/rejection of information included in undertaking the appraisal are explained and understood.
- Post-investment audits are carried out and assessments made of the actual benefits realised compared with projected values.
- Sustainability of resources is discussed with managers to facilitate decisions about whole-life costing and investment appraisal.

6. Pricing and product decisions

Definition – Deciding what to produce or what service to provide and determining the selling price for products and services.

Preparing relevant information

- Relevant cashflows are identified and assessed together with non-quantifiable factors to make decisions about accepting/rejecting contracts, about pricing products and evaluate cost/benefit comparisons.
- The data analysed will vary significantly, depending on the nature of the market in which the organisation operates and its contractual relationship with the customer.
- The organisation's product or service mix is analysed to show the value of sales, expressed in relation to market growth and market share held.
- Pricing decisions for profit maximisation in imperfect markets are understood.
- Multi-product break-even analysis, including profit/volume, contribution/sales ratio and margin of safety are performed where relevant and measurable.
- The trade-off between the price a customer pays and the benefit they perceive to gain from a product is known and the customer "value" of the product understood.
- Research is commissioned regularly to understand customers' price sensitivity of a product relative to appropriate alternatives.
- Customer information databases provide a comprehensive source of all relevant information about customers' past, current and future needs.
- Costing of products and services is determined to allow pricing decisions to be made with an understanding of the gross and net profit margins.

Modelling value creation

- Alternative pricing strategies, and their financial consequences, are considered and tested through financial modelling – for example, the effects of market skimming, premium pricing, penetration pricing, loss leaders, and product/service bundling and product differentiation to appeal to different market segments.
- Multiple limitations on product/service demand and other production constraints are understood for their impact on revenue and profit.
- Sensitivity analysis of cost-, volume-, and profit-based decisions is performed and results are modelled.
- Bottlenecks/areas of underperformance are identified and improvements made.
- New product/service introduction is always viewed as an opportunity to increase prices overall.
- Plans to introduce replacement products always include strategies to mothball existing products and services.
- The organisation has audited controls that provide a check and balance on poor decisions or potentially illegal pricing actions.
- The risks of product or service repositioning are known and the impacts modelled so that trade-offs between different customer segments are understood.
- Changes to product or service features have the effect of both retaining existing customers and attracting new ones.
- Changes to the customers' perceived value of a product or service are always accompanied by price changes.

Communicating with impact to inform better decisions

- Key pricing data is captured centrally and made available in the form of a pricing tool to relevant employees, and particularly sales staff. This facilitates critical negotiations. The pricing tool contains information about product volumes, list prices, promotional spending, payment terms and product cost data.
- Product or service mix analysis allows evidence-based decisions to be made about the allocation of funds and other resources to specific products.
- The organisation makes empirically tested decisions about the acceptance/rejection of contracts.
- Pricing decisions are made following evaluation of conflicts between marginal costs principles and the need for full recovery of all costs incurred.
- Pricing and cost/benefit comparisons are regularly performed.
- Pricing processes are standardised and institutionalised across the organisation.
- Finance professionals are involved in the early stages of new product/service development, and ensure that the new products/services are evaluated for cost/benefit in the context of the organisation's existing product/service portfolio.
- Calculation and evaluation of the lifetime value of a customer is regularly undertaken.

7. Project management

Definition – Integration of all aspects of a project from initiation to completion, ensuring that the proper knowledge and resources are available when and where needed and, above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.

Preparing relevant information

- The purpose of the project, its link to overarching strategic objectives, its expected deliverables, critical time plan/path and its formal budget are produced, agreed and distributed to relevant employees.
- Time, cost and quality targets, tolerances, measures and constraints are known and agreed.
- Roles and responsibilities within the project team are documented and distributed.
- Project budgets are produced in line with project objectives and organisational expectations.
- Project work streams are adequately resourced with funding and personnel time.
- Detailed work packages, including milestones, timelines, quality thresholds and funding arrangements are produced and documented.

Modelling value creation

- Sensitivity analysis is performed so that variables can be controlled effectively to keep the project on track and deliver its proposed benefits.
- A project risk register is maintained with breaches of tolerances escalated via exception reports to senior managers.
- Processes are established for addressing unexpected deviations from plans which may include a reporting structure that rates the effect of the issue upon the overall project plan.
- Project controls provide assurance that deviations from plans are highlighted early and rapid responses deployed to mitigate risks.

Communicating with impact to inform better decisions

- Formal communication processes ensure effective buy-in from relevant stakeholders.
- Regular project updates are provided to all team members and appropriate senior managers. They include detail about progress to date, explanations of variance to plans and projected completion dates.
- The organisation employs project management tools, such as PRINCE2, that help to control the project and communicate roles and responsibilities to team members.
- The positive and negative benefits of the project process are assessed as part of the post-project review.
- Logs of the lessons learned are kept to inform future projects and are referenced ahead of commencing new projects.

8. Regulatory adherence and compliance

Definition – The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting and tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.

Preparing relevant information

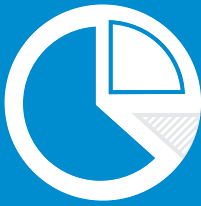
- The organisation maintains and documents legislative and regulatory requirements for all markets it operates in, including penalties for non-compliance and compliance deadlines.
- The results of compliance assessments that are undertaken on a cyclical basis in regard to (anticipated) regulatory requirements are documented. Assessments involve the review of controls over core processes, governance systems and organisational infrastructure.
- Compliance aspirations and minimum quality targets/thresholds are set and communicated.
- Gaps between the self-assessment results and minimum compliance thresholds/targets are highlighted and mitigation activities are undertaken to close the gaps. These efforts further define milestones, timelines and responsibilities.
- The regulatory and legislative landscape is monitored to understand current and emerging developments and their potential impact on the organisation.
- Processes are implemented and strategically updated to provide assurance to stakeholders that regulatory compliance is complete.

Modelling value creation

- New regulatory requirements are considered as opportunities to improve business performance.
- Resources are focused beyond obligatory compliance regulations and address business improvements.
- The costs of compliance and non-compliance are calculated and analysed to quantify the benefit of compliance over non-compliance.
- Consideration is given to resources, social impact, ethics and the organisation's code of conduct.
- The value of compliance-related investments, such as new control systems, are analysed for overall benefits, which may include environmental benefits.
- New standards are embraced and the organisation seeks to be a leader in the interpretation, implementation and reporting of regulatory compliance.

Communicating with impact to inform better decisions

- At an entity level, compliance with regulations is introduced, sustained and improved through regular employee training and education, supported by cultural changes communicated by senior management.
- To ensure the awareness and understanding of stakeholders, particularly internal stakeholders, the results of compliance assessments are discussed, reviewed, accepted or rejected by the governing bodies of the organisation.
- The organisation is transparent about its compliance strengths and weaknesses in regard to regulatory and other public reporting requirements beyond the minimum expectations as appropriate.
- Lessons are learned from instances of non-compliance in order to improve policies and procedures, and prevent a recurrence of a compliance breach.
- Buy-in to new approaches to regulatory adherence is achieved through the demonstration of business gains resulting from the reduction of time and effort in dealing with regulators and external auditors.
- Recommendations are consistent with both the letter and spirit of the law/regulation, as well as with the objectives, analysis and risk assessment of the organisation.
- Through proactive stakeholder management processes, the organisation aims to develop good relationships with regulators and government.
- All required returns and documentation are filed in a timely manner.



9. Resource allocation

Definition – Resource allocation is the funding of strategic execution through the optimal distribution of scarce resources across the organisation. Resource allocation aims to ensure business decisions are made with due consideration to the priority of scarce resource availability. It helps organisations to manage transformational or continuous improvements to products and processes efficiently and effectively. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.

Preparing relevant information

- The impact of resource utilisation on targeted outcomes is analysed and understood.
- Resource maps are produced that include capital spending, senior management time, marketing expenditure, R&D funds and top talent/high performing personnel. These maps highlight resourcing requirements, returns and options so that the opportunity costs of shifting allocations are visible. They also show whether leadership time is sufficiently focused on strategic objectives.
- External growth and market potential data is considered and used as a basis to create "hypothetical" resource allocations. This helps prevent the problems of cognitive bias that arise when next year's allocations are based on the prior year without critical evaluation.
- Past investment decisions are reviewed via an investment post-mortem and new investment decisions are only considered when presented alongside a robust business case.
- Individual senior managers/investment committee members cast formal votes in favour or against allocation decisions and these are revisited as part of the review process.
- High performing personnel are known to senior management. Remuneration, job descriptions and titles are standardised to facilitate the movement of talent to priority areas regardless of geographic location.

Modelling value creation

- There is an understanding of the opportunity cost and comparative advantage impacts of differing resource allocations.
- Technical, commercial, financial and operational feasibility of proposed allocations are provided.
- Resource allocation is clearly aligned to the business model (inputs, activities, outputs and outcomes).
- Reallocations are analysed by comparing the percentage of resources given to a particular area in the current year with previous years, to track the extent to which the organisation actually reallocates key resources.
- Resource allocation for high-risk or unknown investments is staged. Milestone targets are set and additional resources are only released when intermediate targets are reached.
- Resource allocation is not locked-down immediately after strategy is set. Execution planning stages are built in between the conclusion of strategy setting and resource allocation finalisation to give the organisation time to reflect any strategic shifts in the resourcing of those priorities.
- The resourcing process allows some flexibility, with the chief executive authorised to allocate discretionary resource, up to a maximum amount set by the board of directors, to allow the organisation to react to unforeseen opportunities.

Communicating with impact to inform better decisions

- The need for sustainable consumption of resources is understood and resource allocation planned accordingly. Usage is measured against planned targets and analysis and insight provided in reports.
- While some investors may react negatively to plans/reallocations that hit near-term earnings, short-termist views are balanced against long-term value creation.
- Evidence-based recommendations enable managers to ensure high-yielding projects or activities are not starved of resources.
- Employees understand and buy into resourcing decisions. Allocations are clearly explained so that investors and employees understand what is happening, the rationale for it and the time frame for expected results as a consequence of the reallocation.
- There is two-way transparency between employees and managers about idle resource/slack across products and processes.

10. Risk management

Definition – The process of understanding, managing and controlling the risks that the organisation is exposed to in attempting to achieve its corporate objectives. Awareness and management of these risks, through the development of appropriate risk responses, can help the organisation to deal better with uncertainty and reduce the probability of not fully executing its strategy and/or failing to meet stakeholder expectations.

Preparing relevant information

- Quantitative and qualitative analysis of principal risks, including risk heat maps and information about the exposure to risks, both before and after the application of controls and risk responses (gross and net risk) is prepared.
- Details about the organisation's risk management processes, risk and control culture, internal controls and audit processes and contingency plans – including costs and benefits and the effectiveness of controls – are published and understood by employees.
- The organisation has a published risk policy that is consistent with its strategy, business model and ethical values/culture.
- Risks are typically categorised under different headings that may include strategic, operational, financial, legal compliance, information, environmental, behavioural and reputational risks.
- The organisation identifies the risks that are relevant to its business and environment, and categorises them according to an appropriate risk classification scheme that makes it possible to identify new risks, and any material gaps in coverage.
- Risks are assessed and evaluated through a combination of both quantitative and qualitative approaches. For example, risk heat maps are developed and maintained which estimate the likelihood of risks materialising and their financial impact on the organisation.
- Risk maps representing exposures are used as a basis for reporting and determining appropriate risk responses (avoidance, transfer, mitigation, tolerance).
- Principal risks, or combinations of risks that can seriously affect the future viability of the organisation – "irrespective of how they are classified, or whether they stem from failures of strategy, operations, organisation or behaviour, or from external factors over which the board of directors may have little or no direct control" – are regularly reviewed by the board of directors who are supported in that role by the provision of high quality management information.
- The board of directors can easily access that management information when they want to explore a particular risk or combination of risks in greater depth.
- Management information includes:
  - Quantitative and qualitative analysis of principal risks, including risk heat maps and information about the exposure to risks both before and after the application of controls and risk responses (gross and net risk).
  - Comprehensive risk register including risk responses.
  - Details of risk events and outcomes together with corrective action being taken to address control weaknesses.
  - Outcomes of stress tests together with corrective action being taken to address weaknesses.
  - Details of economic, financial and other conditions against which principal risks may materialise eg competitor and market information.
  - Details about the organisation's risk management processes, risk and control culture, internal controls and contingency plans, including costs, benefits and effectiveness of controls.
  - Internal audit reports.
  - The drivers of risks the organisation faces.
  - Exchange rate and interest rate forecasts.
  - Current legislative requirements about financial instrument valuation.

Modelling value creation

- The organisation drives improved performance and creates long-run value by balancing risk minimisation (stopping bad things from happening) and risk optimisation (ensuring good things happen and seizing opportunities).
- Risk management is embedded in the management accounting function and is considered alongside opportunities as part of strategy, planning and performance management.
- Business plans are understood, and there is an awareness of the relationship between risks and opportunity.
- Risk exposures/impacts are assessed and their expected values reported on for likelihood.
- The impact on strategic and operational plans and the business model (future viability) if risks are realised or not fully mitigated is quantified via sensitivity analysis, what if scenarios and probability analysis.
- The impact of performance management incentives on the organisation's risk profile is understood.
- Interrelationships between risks are identified, understood and mapped to understand the impact and likelihood of multiple, connected events.

Communicating with impact to inform better decisions

- Employees are encouraged to balance risk taking and formalised risk management.
- Non-finance function colleagues are supported by finance professionals to help them assess the likelihood and impact of all corporate risks.
- The risk culture, capacity and appetite are clarified by managers and understood by all employees.
- Risk registers, heat maps and other risk tools are maintained and regularly reviewed.
- The organisation fosters an appropriate control environment and culture through regular training, communication of policies and processes, audits and communication with colleagues.
- The organisation reports externally on the principal risks and uncertainties facing the organisation (the "what") and on the organisation's risks management and control systems (the "how").

11. Strategic tax management

Definition – The role of tax in financial analysis and decision making while ensuring proactive management of the organisation's tax position to ensure legal requirements are met.

Preparing relevant information

- The principal types of taxation the organisation is exposed to in each of the jurisdictions in which it operates are known. The regulatory frameworks of the taxing authorities in those markets are understood and documented.
- Tax compliance policies and procedures covering all aspects of taxation are developed, maintained and understood by all individuals responsible for tax administration.
- Transfer pricing policies are developed, followed and well documented. Organisations operating internationally follow relevant Organisation for Economic Cooperation and Development (OECD) guidelines on transfer pricing.
- Legislative and regulatory requirements for all markets the organisation operates in are kept up to date.
- The organisation has agreed policies and procedures on enforcement and reporting.
- Where appropriate, technology is used to streamline tax processes and tax systems are integrated with the organisation's financial accounting systems.

Modelling value creation

- The organisation engages only in tax planning that is aligned with commercial activity.
- Tax management should aim to avoid any situation or result that could damage corporate reputation.
- Local tax legislations are interpreted in a way that is consistent with driving long-run stakeholder value.
- The regulatory and legislative landscape is monitored, trends are spotted and their potential impact on the organisation quantified to future-proof the organisation against potential policy changes.
- Tax incentives and exemptions that are available in the jurisdictions in which the organisation operates are known and utilised appropriately.
- The tax implications of strategic decisions relating to mergers and acquisitions, disposals, and capital gains are understood.
- Tax is considered strategically and planned for well in advance of the tax becoming due.
- All tax liabilities are paid promptly and in full.
- Tax reconciliations are performed regularly.
- If required, the organisation employs external tax advisors.
- Analysis of the group's deferred tax assets and liabilities is regularly performed.

Communicating with impact to inform better decisions

- The organisation engages in constructive dialogue with the international community about reviews of global tax rules.
- The organisation communicates regularly and constructively with tax authorities and the organisation's advisers.
- Relationships with the tax authorities are transparent and aim to be constructive and trusting:
  - All relevant information is promptly provided
  - Disputes are resolved quickly
- The organisation seeks to improve trust in the tax system and, if requested by governments, is prepared to fully report its economic contribution to the countries it operates in via taxes paid, and by being explicit about the types and amounts of tax it has paid.
- Tax liabilities and profit and loss impact are reported in management information and business plans. Tax is considered to be a board of directors' level issue from a reputational perspective and is regularly reviewed by it.
- There is transparency in reporting the organisation's tax position in the annual accounts, accompanied by clear explanations of any current disputes with authorities if considered to be material.

12. Treasury and cash management

Definition – Treasury is the corporate handling of all financial matters, the generation of external and internal funds for business, and incorporates the management of currency and interest rate risk, bank facilities, funding and cash management. Cash management assists the organisation in determining how to balance its cash needs. It aims to optimise cash balances, while managing customer, supplier and investor needs to determine the optimal financing of working capital.

Preparing relevant information

- Funding and financing information from the balance sheet and cashflow statements, incorporating external information such as currency and interest rates, is easily accessible and broken down into the following categories:
  - segmented
  - actual
  - trends (incorporating prior periods)
  - forecasts
  - drivers.
- The sources of cash, existing debt facility covenants and headroom levels are known and documented.
- A treasury policy is maintained and is regularly reviewed by the board of directors or those charged with governance, based on corporate objectives and key risks.
- Cashflow forecasts allow a clear line of sight over where cash is tied up, including unpaid invoices and stock, as well as what cash is expected to be coming in (and when) together with impending cash commitments including details of cash headroom based on committed bank facilities.
- An efficient cash management system that contemplates future growth of the enterprise, minimises idle cash balances and provides global visibility to cash positions, is established.
- A system for managing intercompany transactions is established that balances local and enterprise liquidity and employs netting techniques and other best practices.

Modelling value creation

- The highest levels of automation available are applied to cash forecasting.
- Cashflow buffers are determined through the evaluation of cash versus debtor-investor positions.
- Variance analysis and effective controls test the accuracy of input from providers regarding cashflow projections.
- The organisation's exposure to fluctuations in exchange and interest rates, leading to lower cash generation and profitability, are calculated and proactively managed.
- Exchange gains/losses arising both from transactions in foreign currencies and translation of overseas subsidiary results in foreign currencies are determined and modelled for impact.
- Cashflow forecasts are used to drive efficient capital structuring, investment activity and liquidity management.
- Value chain partners are credit checked and their payment terms judiciously managed.
- A regular review is undertaken to determine if the organisation has adequate financial resources in place to continue in existence for the foreseeable future.
- The funding of potential pension deficits and other long-term liabilities are incorporated into both short- and long-term cashflow forecasts.
- Risks that the fair value legislative regulatory reporting requirements force the organisation to post a profit/loss at year end that is not right are recognised and appropriately managed.
- The resilience of the value chain and/or business model is stress tested for potential changes to macroeconomic conditions and against liquidity and other risks.

Communicating with impact to inform better decisions

- Active cash management and good cash visibility allows the organisation to reassure bankers, investors, suppliers and rating agencies that liquidity risk is being managed.
- The organisation conducts early discussions with auditors, corporate advisers and lenders about uncommitted facilities, facilities that are up for renewal and any forecast breaches of covenants.
- The importance of bank relationship management is understood and bank account structures and performance are regularly reviewed.
- Assessments about the optimal use of hedging techniques, in the context of mitigating the risk of currency and interest rate fluctuations, are performed regularly to inform risk management.
- Clear line of sight enables potential cashflow gaps to be identified, allowing decision makers to act quickly to reduce their impact by negotiating new terms with suppliers or chasing overdue invoices.

Question for respondents:

7. Please comment on the sufficiency and understandability of the application of the three Principles to each practice area.

6. PROCESS AND NEXT STEPS

The Global Management Accounting Principles are being developed using a field-based research approach.

Interviews and observations are being conducted with a large number of organisations across the world, and the research team is matching patterns and building explanations as the data is collected and analysed. This framework and subsequent principles will be rigorously tested via consultations. A global advisory panel has been established and is detailed on our website.

We see this project as a conversation; an interactive, iterative and reciprocal relationship between the institutes, boards of directors, senior managers, management accounting practitioners and academic thought leaders. The consultation process is detailed in Figure 14.

We value all contributions and will consider comments on the Global Management Accounting Principles framework before launching a revised version in September 2014.

Meanwhile, throughout 2014, we will engage with employers and undertake qualitative research so as to draft the full Global Management Accounting Principles framework and later, the online diagnostic tool. Figure 15 provides an indication of how the diagnostic tool might be structured.

By default, we will publish your response in full on our website unless you explicitly request otherwise. Please therefore ensure that you do not include any personal information, such as telephone numbers or email addresses that you wish to keep confidential. And please do not rely on a standard confidentiality statement in an email message as a request for non-disclosure.

FIGURE 14: Process and next steps

Figure 15 provides an indication of how the Global Management Accounting Principles diagnostic tool might be progressed. A scoring method will be developed to facilitate self-assessment for organisations wishing to benchmark their finance functions.

FIGURE 15: Indicative diagnostic tool

Pricing and product decisions: **To what extent would you agree or disagree with the following statements in regard to your finance function?**	**Always**	**Mostly**	**Rarely**	**Never**
Preparing relevant information				
The organisation's product mix is analysed to show the value of each product's sales, expressed in relation to market growth and market share held.				
Costing of products and services is determined to allow pricing decisions to be made with an understanding of the gross and net profit margins.				
Modelling value creation				
Sensitivity analysis of cost, volume, and profit-based decisions is performed and results are modelled.				
Bottlenecks/areas of underperformance are identified and improvements made.				
Communicating with impact				
Pricing processes are standardised and institutionalised across the organisation.				
Finance professionals are involved in the early stages of new product/service development, and ensure that the new product/service either plugs a gap in the organisation's portfolio or replaces an existing product/service completely.				

Questions for respondents:

8. What is the current role of management accounting in your organisation?
   a. Do you agree with the view that management accounting helps your board of directors to make decisions that are more long-term in nature than would otherwise be the case?
   b. Do you agree with the view that management accounting is based on empirical analysis and largely avoids conjecture?

9. How do you currently assess the quality of your management accounting capability?
   a. Do you believe that a set of Global Management Accounting Principles would help you to benchmark and thus improve your capability?
   b. Do you believe that it is right to pursue the route of principles rather than rules?
   c. Can principles work without some form of accreditation system?
   d. Would you find it helpful to have a diagnostic tool to enable CFOs and their finance teams to assess the quality of management accounting in their organisations and identify areas that need improvement?
   e. To what extent does your organisation develop skills and talents within its finance team?

Any specific views on what such a tool should comprise would be helpful.

10. Please provide any other feedback that you believe would help us improve the Global Management Accounting Principles.

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NOTES

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