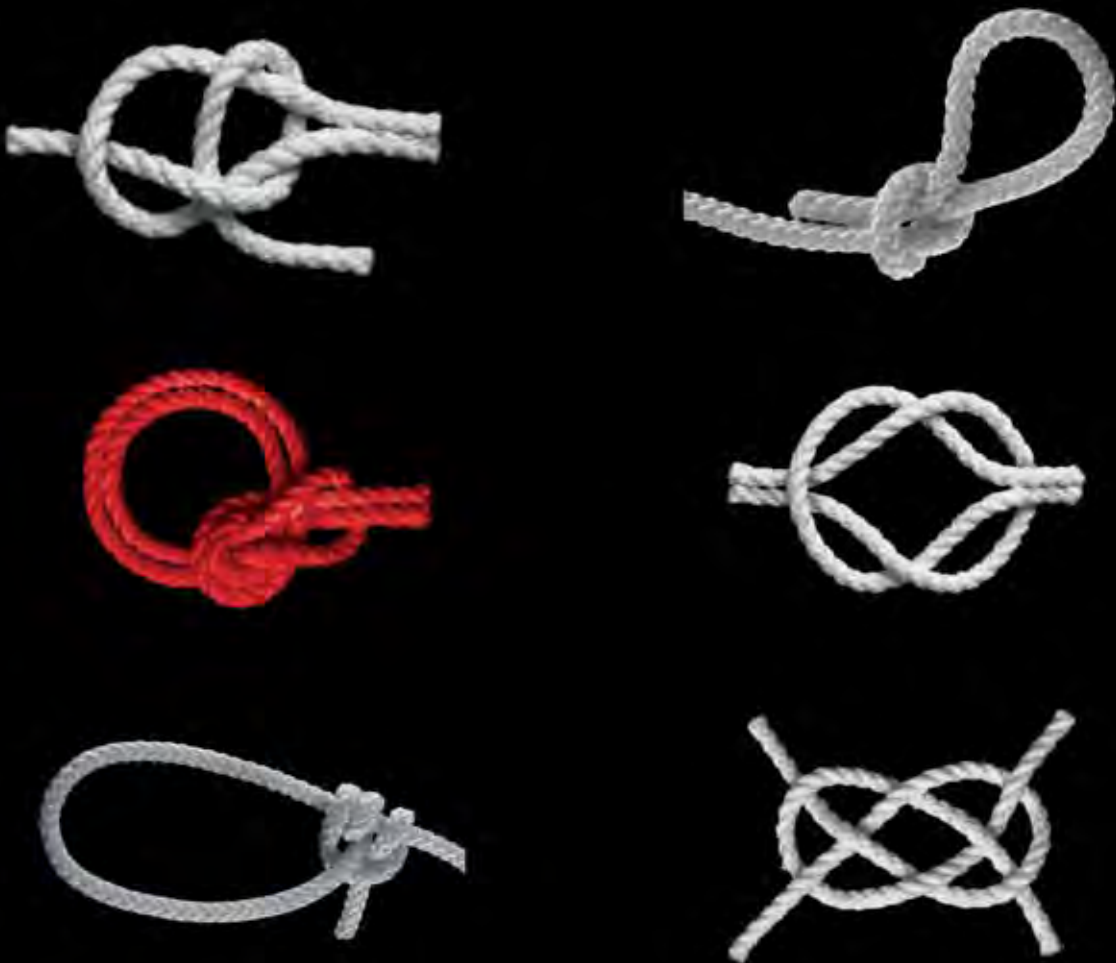




FINANCE &  
MANAGEMENT  
FACULTY

# THE FINANCE FUNCTION: A FRAMEWORK FOR ANALYSIS

FINANCE DIRECTION INITIATIVE



*The Finance Function: A Framework for Analysis* forms part of the *FinanceDirection* thought leadership programme of the ICAEW Finance and Management Faculty.

Building effective finance functions is a key concern of organisations and finance professionals. This report provides a foundation for considering the key challenges involved and a reference source for those analysing or researching the role of the finance function.

ICAEW's Finance and Management Faculty provides its members with up-to-date business ideas; the latest management tools; unbiased and independent information and helps them to become an effective part of the management team. Membership is open to finance professionals with an interest in financial management. Further details are available at [icaew.com/fmfac](http://icaew.com/fmfac).

We welcome comments and enquiries on this report. To contact us please email [rick.payne@icaew.com](mailto:rick.payne@icaew.com).

Additional copies of this report can be downloaded from [icaew.com/financedirection](http://icaew.com/financedirection), where further information on our work is also available.

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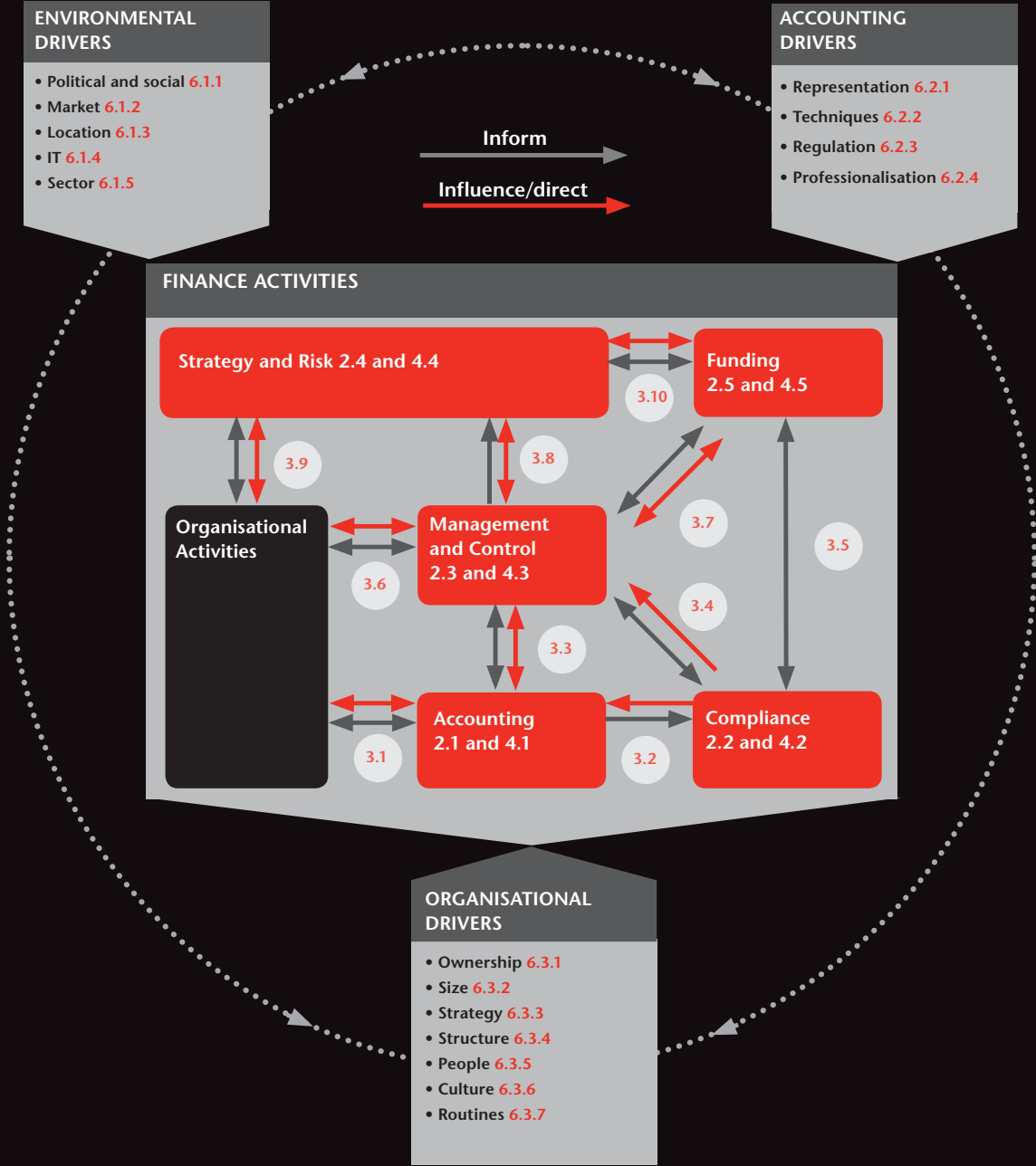
# THE FINANCE FUNCTION FRAMEWORK – FIGURE 1

## USING THE FOLD-OUT DIAGRAM

Section 1 of this report provides an overview of the framework shown in Figure 1, overleaf. The references in Figure 1 correspond to the numbering structure of the report in Sections 2,3,4 and 6. They can be used to navigate to greater detail for each element of the framework.



**FIGURE 1. A FRAMEWORK OF FINANCE ACTIVITIES AND THE DRIVERS WHICH SHAPE THEIR IMPLEMENTATION**



# **THE FINANCE FUNCTION: A FRAMEWORK FOR ANALYSIS**

**FINANCE DIRECTION INITIATIVE**



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# 1. OVERVIEW

In this section we summarise the framework of finance activities and the drivers that shape their implementation (Figure 1). We also cover the issues and practical implications that arise from its development.



# 1. OVERVIEW

## 1.1 Introduction

Business partnering, business intelligence, benchmarking, outsourcing, talent management – just some of the solutions put forward to develop effective finance functions. Sometimes they help and sometimes they don't. We believe that greater confidence in selecting the best course of action can only be achieved by carefully analysing finance functions and the unique contexts within which they operate. In this report we propose a framework which helps managers carry out this analysis.

The framework of finance activities and the drivers that shape their implementation ('the framework') is shown in Figure 1 as a pull out flap from the back page. The framework is summarised and discussed in Section 1, which also covers the practical implications of our work and proposes some next steps. For those interested in more detail and the supporting evidence for the report Sections 2 to 6 provide a guide to the framework. These sections can be navigated using the references on Figure 1.

The report is based on discussions with senior finance professionals, a wide-ranging review of the relevant literature and our own experience.

Our work aims to support finance staff and their advisors in their role of contributing to organisational success. In order to achieve this aim a broad understanding of finance functions and the contexts they operate in is vital. This understanding will help managers anticipate and adapt to change as they attempt to build effective finance departments. In doing so it is important that we are realistic about the limits of the contribution that finance departments can make to performance, and also that we acknowledge that finance activities can be carried out successfully outside of the finance department. This report also serves to highlight the relationships between finance activities and the inherent tensions and challenges faced by finance staff. Developing our understanding of finance functions is an ongoing process which the framework helps to facilitate.

## 1.2 Uses of the framework

The framework summarises a complex set of interrelationships, which play out differently depending on context and change in nature over time. As a result it is highly unlikely that we will ever have a definitive understanding of the finance function and how it contributes to organisational success. Therefore in this report we aim to provide a practical tool and reference material which can be used and developed over time. It provides a checklist and a guide to ensure that relevant activities, issues and contextual factors are taken into account when managers make judgements about how to build effective finance functions. Based on this foundation managers and their advisors can develop tailored solutions which suit their own unique circumstances. Furthermore the framework can be used to assess the appropriateness of advice from others.

We also think the framework can be used to:

- profile finance functions in order to compare them;
- analyse finance functions from different perspectives;
- organise what we know about finance functions and make that knowledge more accessible and usable; and,
- facilitate constructive discussions - discussions which can deepen our understanding of finance functions and provide the basis for further research.

We see real benefits if the use and development of the framework can provide a common language and a comprehensive agenda for discussing the finance function and finance departments.

ICAEW intend to develop and improve the framework and therefore we ask that you review the report and send us your feedback.<sup>1</sup>

## 1.3 The framework

The five interrelated activities at the centre of the framework, the red boxes in Figure 1, make up the finance function of an organisation. The link between the activities is that they all relate to the production, flow, interpretation, communication and use of financial information, as well as related, explanatory non-financial information.

The term 'finance function' can be used in two ways – as a set of activities, which is how we use the term in this report, and to identify the group of people generally responsible for, and specialising in, finance activities. We use the term 'finance department' to describe the latter.

The outer circle of the framework highlights the interrelated drivers that shape the implementation of finance activities – who does what and how. Although all organisations need to carry out the finance activities identified in order to operate effectively, the drivers mean that the arrangements for doing so in any particular organisation are idiosyncratic. While the evidence suggests that the activities are often carried out by finance departments this is by no means always the case.

## 1.4 Structure of the report

Section 1 of the report provides an overview of the framework with brief descriptions of the activities and the nature of the interactions between them. This is followed by a summary of the inherent tensions and challenges arising from finance activities and their interrelationships. The drivers that shape the implementation of finance activities are then summarised. Based on this discussion we highlight some practical implications for those looking to implement effective finance functions. Section 1 concludes with some suggestions for further developing the framework.

Sections 2 – 6 of the report provide more detail on each element of the framework and can be navigated by using the references on Figure 1.

- Section 2 – describes the content of each finance activity and provides supporting tables which analyse the surveys used to inform their development.
- Section 3 – describes the interactions between finance activities in greater depth (the red and black arrows).
- Section 4 – provides a more comprehensive discussion of the inherent tensions and challenges summarised below in subsection 1.5.6.
- Section 5 – analyses the role of the finance department by pulling together the results of the various surveys used in this report.
- Section 6 – discusses the drivers shown on the outer circle of the framework which shape how finance activities are implemented. These findings are supported by over 250 reports and papers which are summarised in Appendix 1.

Appendix 2 describes how the findings of the report were developed.

## 1.5 Finance activities

### 1.5.1 Purposes

The finance activities shown in Figure 1 are derived from an analysis and interpretation of 20 surveys of what CFOs and finance departments do. An activity is an action, task or process.

Each of the finance activities originate from organisational activities and focus on the production and use of information to meet the following purposes:

1. **Accounting:** to record the financial consequences of organisational activities.
2. **Compliance:** to meet the requirements of governmental and other regulatory bodies.
3. **Management and Control:** to produce and use financial and related information to inform, monitor and instigate operational actions to meet organisational objectives.

<sup>1</sup> Email rick.payne@icaew.com

4. **Strategy and Risk:** to inform and influence from a financial perspective the development and implementation of strategy, and to manage risk.
5. **Funding:** to inform and engage with investors and funders, both current and potential, to obtain and maintain the necessary financial resources for the organisation.

The subcategories of each of the above activities are described in Section 2.

As mentioned above the five interlinked finance activities make up the finance function of an organisation. The organisational activities shown on the diagram are effectively all the other activities that an organisation carries out. Importantly these include the leadership, management and resourcing activities necessary to implement the finance activities (see 2.6).

### 1.5.2 Interactions between finance activities

The framework shows the direct interactions between the finance activities. These consist of two types:

- **Inform:** The flow of information – both financial and support information – from one activity for use by another (black arrows on Figure 1). For example basic accounting information is used in the production of management accounts.
- **Influence and direct:** The use of the information by one activity to influence and direct which activities are carried out and how they are implemented (red arrows on Figure 1). For example the need for Compliance activities to report in accordance with International Financial Reporting Standards (IFRS) means they will influence what is recorded by Accounting<sup>2</sup> activities in the ledger system.

The framework show what we believe are the main, ongoing interactions between finance activities. Other interactions may occur but it is useful to eliminate those interactions which currently do not seem to be prevalent. The details of the interactions are described in Section 3.

### 1.5.3 Information content

Information is interpreted in a broad sense to include the formal and the informal, documented and oral. For our purposes it consists of two types:

- **Financial information:** This consists of transactions, records, aggregations and analysis relating to the financial consequences of organisational actions - past and prospective. It consists of both numbers and descriptions. This would include for example trial balances, statutory accounts and discounted cash flow calculations.
- **Support information:** This provides context and understanding which enables financial information to be linked to underlying organisational activities. It is required to interpret and assess the significance of the financial information. For example headcount records and commentary in the management accounts.

### 1.5.4 Operational dynamics of the activities

The interlinked activities operate in a dynamic manner with the following key aspects:

- **Open:** All activities are open ie, their implementation will be impacted both by the interaction with other activities and the drivers, as discussed in Section 6.
- **Adapting and changing:** Given the open environment and complex range of drivers, the activities will adapt and change in response.
- **Continual interactive feedback:** As Figure 1 shows there are continual, interactive back and forward flows of information and influence in the framework.
- **Multiple timescales:** The timing of finance activities and information flows vary depending on the nature and timing of organisational and environmental activities, environmental norms and organisational choice. Past, present and future are all relevant as are different periodicities eg, real time, daily, weekly, monthly and annually.

### 1.5.5 Inherent tensions and challenges – why they arise

The nature of finance activities and their interrelationships result in some inherent tensions and challenges which have to be managed. The tensions arise because:

- the information flows and interrelationships between finance activities mean that problems with one activity feed through to other activities;

<sup>2</sup> Text is capitalised where it refers to specific finance activities or drivers shown in Figure 1.

- the finance activities serve different and sometimes conflicting purposes and use different information which may or may not be reconcilable;
- conflicts of interest may result in finance activities being undermined or used to support personal rather than organisational objectives;
- finance activities have to contend with uncertainties over cause and effect relationships;
- there are pros and cons of different approaches to finance activities and trade-offs have to be made; and
- finance activities have to be carried out with limited resources.

### 1.5.6 Inherent tensions and challenges – summarised

The inherent tensions and challenges in carrying out the finance activities we have identified are summarised in Table 1.5 below with a more detailed discussion in Section 4.

**Table 1.5: Summary tensions and challenges**

<b>Accounting</b>
Financial information produced by Accounting flows through the whole framework so any problems here mean that the validity of information throughout the organisation is compromised.
Financial controls have costs and benefits that need to be weighed against each other.
Information required for Compliance differs from that required for Management and Control making it difficult for Accounting activities to meet both needs.
<b>Compliance</b>
Information required for external publication differs from internal reporting. These differences can be difficult to explain and may lead to questioning of the validity of both.
Compulsory external requirements have to be met leading to uncertain and uncontrollable resource requirements. Moreover meeting the requirements can be perceived as being expensive and of limited value resulting in pressures to cut corners.
High reported profits attract investors but increase tax liabilities. This means there are conflicting pressures on the level of profits to report.
<b>Management and Control</b>
The information produced directly by organisational activities and the accounting information used by Management and Control may differ. This gives rise to different interpretations of organisational performance and time spent on discussing differences – sometimes productively but often dysfunctionally.
Management and Control including general management and control, cash management, investment appraisal and tax (see 2.3) require different information and sometimes have conflicting purposes. This makes it difficult to decide which information to use as the primary performance measure.
Variances between ‘actuals’ and plans can be difficult to interpret. Do they suggest the need for changes to behaviours and processes in order to achieve the original plan or do plans need to be reassessed?
Where plans are produced by financial specialists there is a risk that operational managers do not understand/take ownership of those plans.
Management and Control processes are subject to gaming.
<b>Strategy and Risk</b>
A balance has to be struck between concentrating on easily measurable financial targets and equally valuable, but more intangible, non-financial targets.
Short-term needs may conflict with longer term strategic objectives.
Where those responsible for finance activities become more actively involved in decision making their objectivity may be compromised.
Strategic objectives require funding, which may be difficult to obtain. This may lead to pressures to over promise on the probability of implementation success and predicted financial outcomes.

## 1.5.6 Inherent tensions and challenges – summarised continued

Table 1.5: Summary tensions and challenges continued

Funding
Investors and funders use publicly available information and may have access to information produced for internal use. Differences between them may undermine organisational credibility with funders and investors.
Investors and funders require prospective information on financial performance and prefer certainty. This may lead to pressures on organisations to downplay the uncertainties inherent in prospective information.
Renewal of funding is subject to uncertainty and may be withdrawn due to changes in a funder's internal policies as well as perceived financial difficulties in an organisation.
The conflicting interests of managers, equity investors and debt funders have to be managed.
Resourcing
Finance activities have to be managed but finance specialists may lack leadership and management skills.

How organisations respond to these tensions and challenges will have a significant impact on organisational performance. Therefore anyone concerned with managing the risks faced by finance functions should benefit from reading the more detailed discussion of the tensions and challenges in Section 4.

## 1.6 The role of the finance department

The consolidated survey data on finance department responsibilities, time allocation and the importance attached to finance activities is discussed briefly below with some further details in Section 5. Given the different approaches taken in the surveys we urge caution in interpreting the summarised results and recommend that readers also review the detailed tables in Section 2. However, some patterns do emerge.

### 1.6.1 Finance department responsibilities

High levels of finance department responsibility are apparent for core process type activities – accounting, transaction processing, financial information, tax, cash management and financial controls.

Medium levels of finance department responsibility are seen in the application type areas such as general management and control and Strategy and Risk. These areas of activity are those where CFOs and finance departments often aspire to achieve more influence. Some achieve such aspirations and some do not. Moreover there seems to be no rigorous evidence of growing strategic influence in recent years. In our opinion many CFOs achieved such influence many years ago and reports of growing influence have been made regularly since at least 1976<sup>3</sup>.

### 1.6.2 Finance activities considered to be of high importance

Within Management and Control, the production and analysis of financial information, which includes management reporting, financial analysis, budgeting and forecasting, shows the highest average 'high importance' score. The explanation may be that these are activities where finance departments have high responsibility and the potential to significantly impact on organisational performance. There are likely to be high expectations that finance departments will perform these activities to a high standard and problems will need to be addressed urgently. A similar argument can be made for the high importance attached to general management and control, within which we include terms such as business support, decision support and business partnering.

High importance is also attached to both Strategy and Compliance. Assessing the relative priority to give to these two areas is often a key challenge for finance departments.

Although important treasury and cash management are not rated as highly as the above. This may be because the surveys concerned were carried out before the 2008 financial crisis.

<sup>3</sup> Gerstner Jr., L. V., and Anderson M. H., 'The chief financial officer as activist', *Harvard Business Review*, vol 54, no 5 (September 1976), pp100-106.



People management, finance systems and organisation-wide IT are also seen as highly important. This is to be expected as they are key enablers of finance department and organisational performance.

Accounting and reporting, transaction processing and financial controls receive lower 'high importance' ratings. These activities are often perceived as 'hygiene' factors – the expectation is that they will be carried out effectively and efficiently but they are not seen as adding value to an organisation. They will only receive significant management attention when major problems occur or there is scope for significant cost savings.

### 1.6.3 Time allocation of finance departments

Time-based responsibilities have not been consolidated because the variation in survey approaches means that the results are potentially misleading. Greater insights are gained by looking at the detailed tables in Section 2.

The most telling trend is highlighted by the IBM surveys of 2003 and 2010, one of the few surveys to use similar terminology over time. These surveys show that the proportion of time spent by finance departments on transactional activities, control activities and decision support has hardly changed over the period covered.

### 1.6.4 Finance department adaptability

Given the surveys show differences in finance department responsibilities, we infer that how these activities are undertaken, and indeed whether they are carried out by finance departments at all, will vary across organisations. The arrangements for carrying out finance activities are shaped by the impact of the drivers described below.

Furthermore the inherent tensions we have discussed previously make for ongoing instabilities in the finance function meaning that finance departments need to constantly monitor the effectiveness of their activities and respond to any problems identified.

The combination of the drivers and the inherent tensions and challenges points to the need for finance departments to constantly adapt to their unique circumstances, which may include taking on additional responsibilities or relinquishing existing ones.

## 1.7 The drivers that shape how finance activities are implemented

The drivers which shape how finance activities are implemented are shown on the framework (Figure 1) under the headings of environmental drivers, accounting environment drivers and organisational drivers. The environmental and accounting drivers have both a direct impact on finance activities and an indirect impact via their impact on the organisational drivers. It is also important to note that finance activities have an impact on the organisational drivers as shown on Figure 1 by the angled base of the finance activities box.

Managers can use the lists of drivers as a checklist to ensure they consider their unique circumstances when positioning the finance function within organisations and managing finance activities.

The wide range of drivers and the interactions between them suggest a high level of complexity and uncertainty. Knowledge of the impact of these complexities and uncertainties on finance functions is extremely limited. However, we discuss a range of evidence relevant to each driver in Section 6 and provide further details in Appendix 1. Key points include:

### 1.7.1 Environmental drivers

- **Political and social factors** are fundamental to the context within which finance activities are undertaken. For example politics will influence financial regulation and the social context will impact on attitudes to shareholder value.
- Finance activities need to respond to **Market** forces, broadly interpreted to include the economic and financial environment, and customer and supplier relationships. The impact of financial crises can be significant. Competitive pressures may lead to the closer involvement of finance staff with other functions in an organisation such as operations and marketing.
- **Location** – national differences, globalisation and the interplay between them provide strong, often conflicting, influences on how finance activities are implemented.

- **Information Technology (IT)** developments may have a transformative impact on the implementation and delivery of finance activities and the pace of IT development provides an ongoing challenge.
- Differences in industry **Sector**, and in particular related differences in levels of uncertainty, impact finance activities, especially Management and Control and Strategy and Risk.

### 1.7.2 Accounting environment drivers

The accounting environment drivers are a subset of the environmental drivers but are discussed separately because of their specific relevance to the role of the finance function.

- Accounting **Representation**: Financial information can only provide a partial representation of organisational reality and is based on conventions, estimates and assumptions. As a result finance departments can take different approaches to how accounting information is produced, presented, interpreted and used. Clearly if subsequent events show these approaches and associated assumptions to be mistaken the credibility of the producers and users of the information can be called into question.
- A wide range of **Techniques** can be used for Management and Control purposes. There are no clear guidelines on what is appropriate in any given situation. However, there is some evidence of the desirability of integrating financial and non-financial measures.
- **Regulation** directly impacts all finance activities. Financial scandals increase the focus on this area. There is some pressure for finance professionals to work on broader regulatory issues including sustainability.
- **Professionalisation** of accounting has influenced finance activities in many parts of the world. This influence may be increasing as membership of professional bodies continues to grow. However, this may be offset by the reduction in their regulatory role which is being superseded by rules prescribed and enforced by governmental and global institutions.

### 1.7.3 Organisational drivers

- **Ownership**: The influence from owners or institutions to which an organisation is accountable (eg, governments) will be significant in shaping the focus of finance activities, although the level of intervention will vary. Changes in ownership or accountabilities can result in significant changes to finance activities.
- **Size** plays a major role in influencing finance activities particularly with respect to levels of sophistication and formality of management and control systems, and the breadth of finance department responsibilities.
- Aligning Management and Control activities with organisational **Strategy** is generally believed to be beneficial but can be difficult to achieve.
- Organisational **Structure** is intertwined with how finance activities are undertaken. Consideration needs to be given to collaboration between finance and other functions, financial incentives and the use of outsourcing and shared service centres.
- The skills of **People** in the finance department partly determine the nature and effectiveness of finance activities. However, attracting appropriately skilled staff can be difficult. While finance departments can play a major part in shaping their own role they will also be directed and influenced by top management teams, especially the CEO.
- Finance activities are intertwined with organisational **Culture**, political processes and broader operational **Routines**.

Anyone interested in carefully considering the factors which impact on the design and operation of finance functions should benefit from reading the more detailed discussion of each driver in Section 6 and the supporting evidence in Appendix 1.

## 1.8 Practical implications

When taken together the interrelated activities, drivers, and tensions and challenges suggest that finance functions have to deal with a high degree of complexity and uncertainty. For example the challenge of meeting the information requirements of multiple stakeholders will be made more complex by acquisitions and subject to greater uncertainty when markets are turbulent.

The framework and the supporting evidence give some indication of how these complexities and uncertainties play out for the finance function and organisations. However, given the complexities and uncertainties and the importance of context our understanding is inherently limited and therefore it is not feasible to offer detailed, prescriptive advice. Nevertheless it is possible to draw out some insights and practical implications that provide some guidance to managers. These are summarised under the five headings below (1.8.1 to 1.8.5). In subsection 1.9 we have identified some next steps that could fruitfully be followed to further enhance our understanding.

### **1.8.1 Regularly revisit the big picture**

Based on their experience and expertise many finance professionals manage the finance function and adapt to the environment very effectively despite the complexity. They achieve this through a combination of intuition, careful thought, teamwork and the use of relevant tools and techniques. In addition they regularly revisit the big picture – considering the finance function as a whole and how it fits with organisational needs and context. Taking a holistic view improves a manager's ability to spot problems early, avoid unintended consequences and adapt quickly. However, the important tacit element of this knowledge is by definition difficult to communicate to others.

The framework provides a start point for making this tacit knowledge more accessible. It provides a high-level checklist of activities, drivers and tensions to consider, albeit without clear, unambiguous guides for action. Even experienced managers can gain from reviewing the framework, especially when circumstances change. It facilitates the process of assessing whether previously successful approaches still apply. For example the framework makes clear that when a finance professional moves from one organisation to another the focus of finance activities, the most relevant challenges and the nature and relevance of the drivers may change and therefore need to be reconsidered.

### **1.8.2 Be careful about buying 'best practices'**

If we accept the need for finance activities to respond to wide variations in context then it is difficult to see how specific and detailed best practices can be advocated universally. Indeed it is clear that many, perhaps most, finance activities can be carried out very effectively outside of the finance department.

Practices will need to be tailored to the unique circumstances of the organisation concerned. This is not to say organisations cannot learn from the practices of others and the proposed solutions of advisors. However, a great deal of care is required to ensure that practices that work in one context do translate to another context. For example, failures in introducing Activity Based Costing or 'business partnering' may be more to do with not fitting the context than poor implementation.

The framework provides one way of ensuring that contextual differences are considered when assessing the appropriateness of new practices which have worked elsewhere.

### **1.8.3 Planning verses adaptability – manage the trade-offs**

Our discussion also suggests that operating and improving finance activities will need to be based on judgements of what will remain the same, at least in the near term, and what is likely to change. The drivers identified all have the potential to change, sometimes quickly, significantly and unpredictably.

This makes it difficult to see how rigid, standardised processes will have a long shelf life for all but the most basic of finance activities.

In addition detailed long-term plans for changing how finance activities are carried out are likely to become outdated very quickly. This is a huge challenge, given for example that the introduction of major finance system changes across large organisations may take years to implement.

An alternative approach is to focus on adaptability, both in terms of ongoing processes and change projects. For example programmes to 'transform' the finance function can be established with high-level principles and long-term objectives but with shorter term, smaller projects used to move finance towards the end goal. This would enable relatively quick changes to tactics.

However, adaptability comes at a cost. Building redundancy into systems and processes, collecting business data that may not be essential in current circumstances and employing more highly skilled staff than strictly necessary for current workloads are not easy to justify.

Also we do need to be careful not to overemphasise change. Change is more noticeable than things that stay the same. Finance functions have been using double-entry bookkeeping for centuries and the aspiration of finance professionals to be more closely involved with the business and strategy have been discussed for many decades. In addition the tensions and challenges highlighted are inherent to the activities framework and represent ongoing challenges for the finance function. While the ways in which these tensions and challenges become manifest may differ, the underlying issues can be anticipated.

#### **1.8.4 Be realistic – finance departments can't do everything**

When reading some of the commentary which goes with the survey data analysed in this report, it is possible to get the impression that superhuman CFOs, with highly talented teams, using integrated systems and sophisticated analytical techniques are the main determinant of organisational success. While we do believe that effective finance functions can be an important part of such success it is important that we are more realistic in our expectations.

There are inherent limitations to the capabilities of the finance function. We have mentioned the problems of accounting representation (discussed further in subsection 6.2.1), which apply whoever takes responsibility for finance activities. CFOs and finance teams have cognitive limitations and blind spots as do all organisational members. Finance departments have to work within resource constraints. IT systems design usually involves compromise because of these constraints and the limited functionality of systems available.

Playing down such limitations may be seen as advantageous, for example to speed up decision making, inspire confidence in investors and indeed garner resources for the finance department. However, over promising and under delivering will tarnish a finance department's reputation. Moreover if finance departments are to live up to the rhetoric of being the voice of reason in organisations and the providers of 'objective' information for evidence based decision making, then surely this must be based on an honest assessment of the department's capabilities and its outputs.

Communicating such limitations is not easy. For example business managers have limited time and overloading them with provisos and caveats can be counterproductive. Their existing knowledge of limitations and assumptions may be difficult to assess and the limitations that need to be communicated will vary depending on the particular situation.

Therefore finance professionals have to strike a difficult balance in deciding what to communicate in different situations. Too much information with multiple scenarios, long lists of assumptions and no recommendations may mean that valuable information gets ignored. Too little information with no context or provisos and a decisive recommendation may result in insufficient consideration of the issues and ineffective decisions – or a request for more information!

A further consideration is that the failure to market and promote what can be achieved by finance departments will lead to them being less influential than other departments. Again a balance has to be struck between the ongoing striving of finance departments to contribute more to organisations, which among other things is highly motivational for staff, and an acceptance of the appropriate positioning of the finance department's role in a particular organisation.

#### **1.8.5 Respond to the inevitable tests of individual ethics and resilience**

The framework and the tensions and challenges identified, help us understand why the ethics and resilience of finance professionals are often severely tested. An individual's response to these tests will vary depending on their character and ability. Therefore organisations need to consider how they reduce the risks of inappropriate responses of those carrying out finance activities. Organisational leaders, managers of other functions, professional bodies, academics and consultants all have a role to play in providing support. The framework helps articulate the issues to these interested parties from which appropriate actions can be developed. These may include, inter alia:

- monitoring and responding to conflicts of interest;
- establishing the necessary checks and balances on finance function activities;
- developing and communicating ethical guidelines;
- the careful recruitment and selection of finance staff; and
- providing appropriate training, development and mentoring<sup>4</sup>.

<sup>4</sup> For further information see ICAEW, *Instilling Integrity in Organisations*, London: ICAEW, 2011.

## 1.9 Next Steps

In this section we suggest some next steps for developing the framework and further research which would add to our understanding of finance functions and how they can become more effective.

### 1.9.1 Engage in constructive discussions

We believe the framework provides a basis for useful debates around the role of the finance function and how finance activities can be made more effective. Presentations of earlier versions of the framework generated significant discussion between finance professionals, consultants and academics on a wide range of issues.

Discussion of the following questions may generate further progress:

- Does the framework adequately capture finance activities, their interrelationships and the drivers that shape the finance department's role?
- Do the inherent tensions discussed represent a comprehensive list of the potential conflicts? How can the tensions and challenges be dealt with?
- How do the interrelationships between each finance activity and between finance activities and organisational activities operate? Can the interrelationships be improved?
- When the drivers shaping finance activities change what might be the consequences for the finance function? What responses might be appropriate?
- Based on existing knowledge and evidence, what guidance, if any, can be confidently provided to help finance departments become more effective in dealing with the circumstances they face?

### 1.9.2 Organise knowledge

The framework and this report are an attempt to map some of our existing knowledge of the finance function and to make it more accessible. Additional studies, past and future, could be incorporated into our work to make it more comprehensive and further develop the arguments.

However, any way of seeing is also a way of not seeing. While we have tried to allow for multiple perspectives we are cognizant of the fact that the framework is inevitably limiting. It may obscure the rich diversity of work that has been carried out. In addition there are risks in combining different theoretical perspectives in the way that we have. The few lines we have used to summarise studies in Appendix 1 clearly simplify the findings and may suggest a coherence that is not justified. We hope however that readers of this report will delve further into the literature to build their own more nuanced understanding.

It was not an easy process trying to bring together the studies we have included. Clearly other approaches are possible. We would be interested in feedback on the usefulness of our approach in supporting the accumulation of knowledge about the finance function and discussing alternatives.

### 1.9.3 Develop the framework further

We do not see the framework as cast in stone and would like to develop it further. Such developments will be based on discussing the framework more widely, obtaining feedback from those who use the framework and suggestions for further literature to incorporate.

In particular, we have tried to track down the main English language surveys of CFOs and the finance function which cover their activities from a responsibility, time or priority perspective. However, we may have missed some, particularly those carried out before 2000. It would also be interesting to consider surveys carried out in other languages. If you can provide access to surveys not covered in this report please do let us know. The development of new surveys is discussed below.

### 1.9.4 Commit to further research

Despite the wide range of work carried out which helps us to understand the role of the finance function, clearly there is still much more that can be done. In this section we offer four suggestions of particular research areas that we believe warrant further attention.

## 1. Survey development to analyse trends and compare finance functions

As can be seen in the tables supporting the activities framework in Section 2, a large number of different terms are used to describe what finance departments do in organisations. There may be some advantages in working towards the use of more standardised terms in future surveys. This would allow the identification of trends over time and greater comparability between surveys. In addition academic work which factor analyses finance activities would also be useful.

Currently claims for changes in the role of the CFO and the finance department are based on one-off surveys and subjective views about the future. Interestingly the notable exception tells a different story. As previously mentioned the series of IBM CFO Surveys between 2003 and 2010 indicate that the proportion of time spent by finance departments on decision support is almost unchanged over the period and remains a long way short of CFO aspirations. Some standardisation of finance activity categories would enable more rigorous analysis of trends over time.

Our knowledge of how CFO roles and finance departments vary in relation to drivers such as size, nationality and industry sector would also be enhanced if surveys used similar terminology. From this basis more detailed assessments of the relationship between the nature of finance departments, the contexts they operate in and organisational performance could be derived.

There will always be debates about how best to disaggregate the activities of the finance function. However, the use of the 'big five' model of personality is also contentious but has proved useful in advancing knowledge in the field of psychology. A collaborative effort of those carrying out surveys in order to develop some guidelines and categories of activities may be similarly helpful in understanding finance functions.

## 2. Studying finance departments as a whole

A great deal of academic work has been carried out on the role of individual management accountants, performance management systems and particular financial management techniques. Case studies looking across organisations are also plentiful. However, studies at the finance department level of analysis appear to be limited.

The tensions and challenges we have identified suggest that there would be value in looking more deeply at how different parts of finance functions interact. For example how do teams responsible for Management and Control activities work with those responsible for Compliance and Investor Relations? What issues arise and how are they dealt with?

It is also worth noting that academic work studying CFOs is quite limited, perhaps as a result of difficulties in obtaining access to them.

Commercial benchmarking firms have carried out significant work on the costs of carrying out finance activities and the timeliness of report production. It would be useful to extend this to measuring the relative influence of finance functions. Possible measures include looking at finance department representation on key committees, discretionary expenditure limits of finance staff and the degree of decision making authority with respect to investment decisions.

We also think the framework could be used to both profile finance departments in order to compare them and to analyse finance departments from different perspectives. For example those with an interest in promoting sustainability could consider how the finance activities and their interrelationships would need to change to support this agenda. The impact of such changes on the inherent tensions in the framework could also be analysed.

## 3. Studying finance department relationships with other departments

As discussed in relation to the organisational Structure driver, how finance departments work with the rest of the organisation is an important area of study if we want to understand how they impact on organisational performance. The design of finance departments and allocating their responsibilities cannot be undertaken in isolation from an understanding of their relationships with other departments.

It is important to note that the interactions between finance departments and operational departments are not based purely on the use of management accounting information. Rather there are multiple, interrelated interactions which include discussions spanning management information, financial controls, tax, statutory accounting, investor relations and so on. This view is reinforced by the tensions and challenges identified which suggest that decision making will be influenced by a broad range of financial considerations. In addition, while we have identified a few studies which look at the levels of collaboration and conflict between finance and other departments in organisations there is scope for more work.

#### 4. The development of more interdisciplinary work

The benefits of interdisciplinary work have been highlighted by a number of scholars eg, Merchant, Van der Stede and Zheng<sup>5</sup>. These include the cross fertilisation of ideas and theories from one field to another and the insights generated through collaboration. For example, given the complex interrelationships shown in the framework it would seem helpful to examine the role of the finance function using complexity theory.

The benefits extend beyond academic work to that carried out by professional firms and bodies. A large amount of this work is finance staff talking about finance staff. However, much can be learned from analysing how staff in other departments work with the finance department and their perceptions of the finance department.

The barriers to carrying out work across disciplines are significant and the cost benefit trade-offs are not clear cut. However, we believe that significant progress could be made in better advising organisations if there were greater cross disciplinary collaboration. For instance understanding the relationships between the marketing department and the finance department would benefit from collaboration between the relevant marketing and accounting experts in commercial entities, universities, professional bodies and consulting firms.

### 1.10 Benefits

We believe that discussing and utilising the framework and carrying out the research highlighted above will greatly enhance our understanding of the finance function and therefore support finance function effectiveness. By acknowledging that finance activities can be conducted successfully outside of the finance department we recognise the need to focus on organisational performance, however that is defined, rather than simply promoting the interests of the finance department. Nevertheless we believe the framework can be used to analyse finance functions constructively. This analysis will provide CFOs and other senior managers with a basis for developing the capability of the finance department and positioning it to support organisational success.

<sup>5</sup> Merchant, K. A., Van der Stede, W.A., and Zheng, L., 'Disciplinary constraints on the advancement of knowledge: the case of organizational incentive systems', *Accounting, Organizations and Society*, vol 28, no 2-3 (2003), pp251-286.

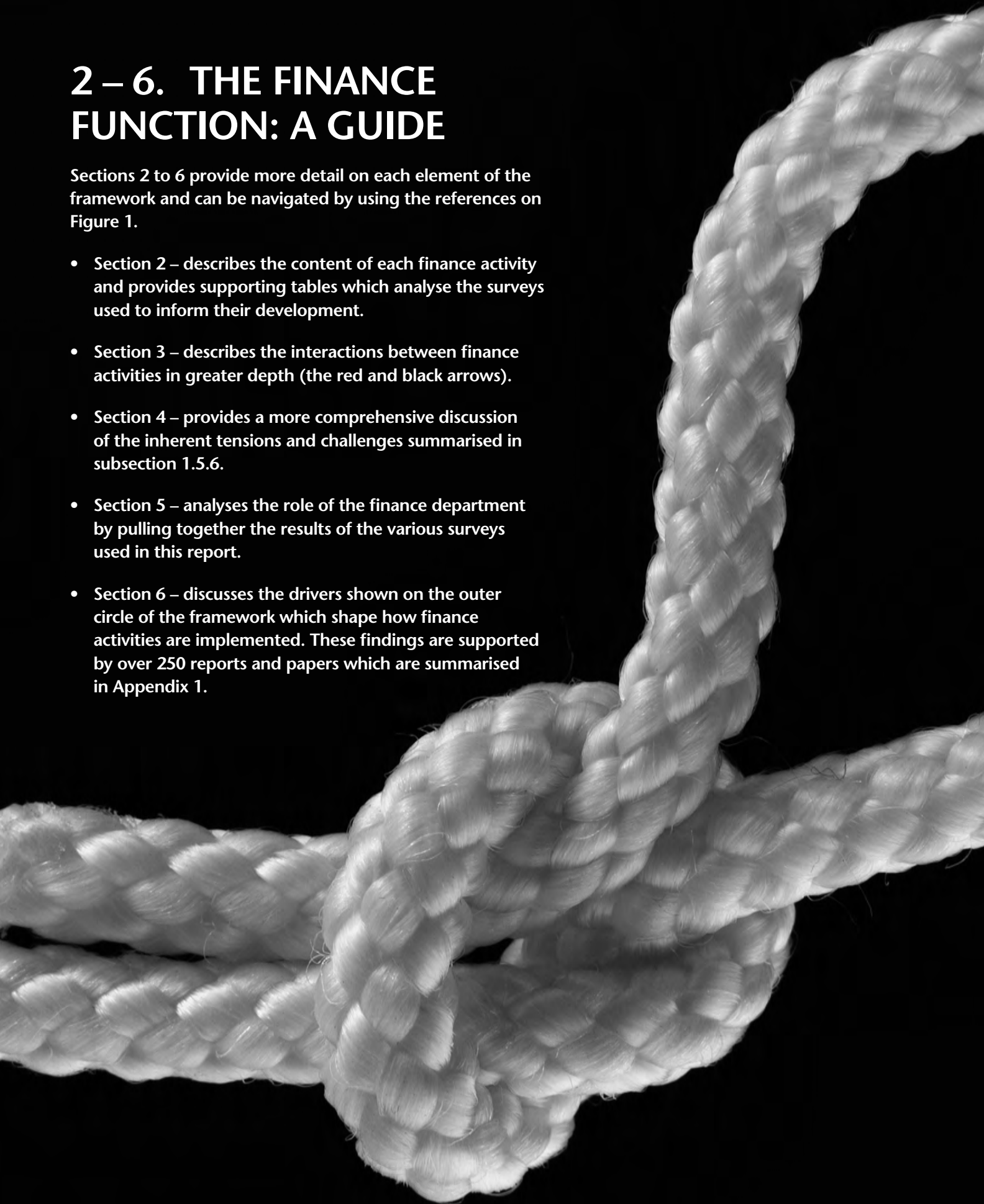




## 2 – 6. THE FINANCE FUNCTION: A GUIDE

Sections 2 to 6 provide more detail on each element of the framework and can be navigated by using the references on Figure 1.

- Section 2 – describes the content of each finance activity and provides supporting tables which analyse the surveys used to inform their development.
- Section 3 – describes the interactions between finance activities in greater depth (the red and black arrows).
- Section 4 – provides a more comprehensive discussion of the inherent tensions and challenges summarised in subsection 1.5.6.
- Section 5 – analyses the role of the finance department by pulling together the results of the various surveys used in this report.
- Section 6 – discusses the drivers shown on the outer circle of the framework which shape how finance activities are implemented. These findings are supported by over 250 reports and papers which are summarised in Appendix 1.



## 2. THE NATURE AND CONTENT OF FINANCE ACTIVITIES

In this section we provide a more detailed description of each finance activity and its subcategories. We also provide a table for each activity showing the supporting evidence from the surveys used to inform the activity categories. Survey respondents were generally CFOs and finance professionals. The references below correspond to those on Figure 1 – the first reference in each red finance activities box.

### 2.1 Accounting

The purpose of Accounting is to record the financial consequences of organisational activities. This covers any activity undertaken by or on behalf of an organisation that results in a financial obligation or benefit. The supporting evidence is shown in Table 2.1, from which three elements of Accounting are identified:

#### 2.1.1 Transaction processing

Transaction processing involves the recording and settlement of financial transactions arising from organisational activities. Cash obligations, payments and receipts are coded and recorded, usually through a double-entry bookkeeping system including standard ledgers of debtors, creditors, cash book and general.

#### 2.1.2 Accounting and reporting

The aggregations of financial transactions in general ledgers together with any required accounting adjustments enable the production of trial balances based on charts of accounts. The trial balances in turn enable the production of basic accounts in the form of profit and loss statements and balance sheets.

The double-entry system provides a central unifying process and global standard for accounting.

#### 2.1.3 Financial control

Financial controls are required to ensure the protection of assets and to ensure that all financial transactions are accurately recorded and reported. Activities include inter alia setting internal control policies, reconciling external statements and monitoring payment of invoices.

Table 2.1: Accounting

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>ACCOUNTING</b>						
<b>Transaction processing</b>						
Mckinsey	2009	R	Accounts payable	Within scope of	Fin. Dept.	79%
Mckinsey	2009	R	Accounts receivable	Within scope of	Fin. Dept.	75%
Mckinsey	2009	R	Payroll	Within scope of	Fin. Dept.	56%
Accenture	2008	I	Transaction processing	Critical performance factor for	Fin. Dept.	24%
Ernst & Young	2008	I	Administering accounts payable/receivable	Most important for	CFO	17%
Weston	1954	T	Credits and collection	% time allocation for	Fin. Dept.	7%
Weston	1954	T	Supervise cashiers	% time allocation for	Fin. Dept.	3%
IBM	2003	T	Transactional activities	% Finance workload distribution	Fin. Dept.	50%
IBM	2010	T	Transactional activities	% Finance workload distribution	Fin. Dept.	49%
<b>Accounting and reporting</b>						
IBM	2005	R	Accounting	Function reports to	CFO	93%
EIU	2006	R	Collecting and reporting financial information	Leadership resides in	Fin. Dept.	89%
CFO Research	2007	R	Financial information	Responsibility of	CFO	91%
IBM	2008	R	Accounting	Function reports to	CFO	93%
Mckinsey	2009	R	General accounting	Within scope of	Fin. Dept.	84%
Ernst & Young	2008	I	General accounting	Most important for	CFO	20%
ICAEW	2010	I	Accounting, bookkeeping, transactions	Greatest skill/role needed by	Fin. Dept.	32%
ICAEW	2010	I	Financial reporting	Greatest skill/role needed by	Fin. Dept.	35%
Weston	1954	T	Accounting	% time allocation for	Fin. Dept.	13%
ICAEW	1993	T	Internal financial reporting and control	% time allocation for	CFO	36%
CIMA	2010	T	Provision of accounting advice	% time allocation for	Fin. Exs.	4%
CIMA	2010	T	Accounting in a multinational context	% time allocation for	Fin. Exs.	3%
CIMA	2010 (a)	T	Accounting operations	% time allocation for	Fin. Exs.	20%
<b>Financial control</b>						
IBM	2005	R	Controls	Function reports to	CFO	65%
IBM	2008	R	Controls	Function reports to	CFO	68%
Mckinsey	2009	R	Travel and expense processing	Within scope of	Fin. Dept.	65%
Ernst & Young	2006	I	Internal financial controls	In top six for increased focus	CFO	67%
Accenture	2008	I	Internal controls	Critical performance factor for	Fin. Dept.	38%
Ernst & Young	2008	I	Travel and expenses management	Most important for	CFO	7%
ICAEW	2010	I	Internal financial controls	Greatest skill/role needed by	Fin. Dept.	16%
IBM	2003	T	Control activities	% Finance workload distribution	Fin. Dept.	26%
IBM	2010	T	Control activities	% Finance workload distribution	Fin. Dept.	25%

**Key:** Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

## 2.2 Compliance

The purpose of Compliance is to meet the requirements of governmental and other regulatory bodies. The evidence has been classified to distinguish two elements – regulatory and tax – with the details shown in Table 2.2.

### 2.2.1 Regulatory

Regulatory compliance covers the range of activities necessary to produce, communicate and verify financial information to meet legal and regulatory requirements (excluding tax which is covered separately below). This would include the completion of statutory accounts. Also included are activities which demonstrate to external parties that governance and control procedures meet externally set standards eg, from the UK Corporate Governance Code and Sarbanes-Oxley.

### 2.2.2 Tax

Tax relates to both complying with the tax requirements of the relevant national authority and tax planning. The surveys do not generally identify these two aspects of tax separately in which case they are included here. Where tax management is shown separately we have included it as a subcategory of Management and Control.

Tax reporting and compliance involves the analysis and aggregation of financial transactions in order to compute tax liabilities. Negotiation with tax authorities may also be required.

Table 2.2: Compliance

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>COMPLIANCE</b>						
<b>Regulatory</b>						
FEI Canada	2005	R	Government liaison	Directly accountable to	CFO	24%
IBM	2005	R	Compliance	Function reports to	CFO	53%
IBM	2008	R	Compliance	Function reports to	CFO	50%
Deloitte	2000	I	Corporate governance	Ranked:1 = very important to 5 = not important	CFO	1.94
CFO Research	2002	I	External financial reporting transparency	High/highest priority for	Fin. Dept.	58%
IBM	2003	I	Managing governance/controls/risk	In top five areas of focus for	CFO	54%
IBM	2005	I	Finance compliance programs/internal controls	Top importance for	Fin. Exs.	59%
IBM	2005	I	Meeting fiduciary and statutory requirements	Top importance for	Fin. Exs.	57%
Ernst & Young	2006	I	Regulatory compliance	In top six for increased focus	CFO	60%
Accenture	2008	I	Financial and regulatory reporting	Critical performance factor for	Fin. Dept.	30%
Ernst & Young	2008	I	Regulatory and external reporting	Most important for	CFO	45%
ICAEW	2010	I	Corporate governance, compliance	Greatest skill/role needed by	Fin. Dept.	8%
Deutsche Bank	2006	T	External financial reporting/accounting	% time allocation for	CFO	6%
Deutsche Bank	2006	T	Regulatory compliance	% time allocation for	CFO	4%
Deutsche Bank	2006	T	Accounting policies	% time allocation for	CFO	3%
CIMA	2010	T	Preparation of statutory/regulatory reports	% time allocation for	Fin. Exs.	4%
CIMA	2010	T	Analysis and application of accounting standards	% time allocation for	Fin. Exs.	3%
CIMA	2010	T	Corporate governance, compliance	% time allocation for	Fin. Exs.	3%
CIMA	2010	T	Ethical issues	% time allocation for	Fin. Exs.	2%
CIMA	2010	T	Sarbanes-Oxley issues	% time allocation for	Fin. Exs.	2%
CIMA	2010 (a)	T	External reporting	% time allocation for	Fin. Exs.	12%
<b>Tax</b>						
ICAEW	1993	R	Taxation	Responsibility of	Fin. Dept.	87%
IBM	2005	R	Tax	Function reports to	CFO	70%
IBM	2008	R	Tax	Function reports to	CFO	72%
Mckinsey	2009	R	Tax	Within scope of	Fin. Dept.	77%
ICAEW	1993	I	Taxation	High importance for	Fin. Dept.	39%
Deloitte	2000	I	Taxation	Ranked:1 = very important to 5 = not important	CFO	2.05
Accenture	2008	I	Tax management and operations	Critical performance factor for	Fin. Dept.	20%
ICAEW	2010	I	Tax	Greatest skill/role needed by	Fin. Dept.	8%

Key: Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

## 2.3 Management and Control

The purpose of Management and Control activities is to produce and use financial and support information to inform, monitor and instigate operational actions to meet organisational objectives. These activities will also play a part in defining and refining those objectives.

A wide range of overlapping terms are used in relation to Management and Control activities as demonstrated by study findings shown in Table 2.3. This makes it difficult to analyse the activities involved. However, in order to organise the findings the following typology is used:

- Processes to produce and analyse the information for management and control purposes;
- Applications of the information produced;
- Internal auditing; and
- Management accounting – as a catch-all term.

Each of these classifications is discussed further below.

### 2.3.1 Processes

'Processes' covered here include the development, production and analysis of the information used for management and control purposes. Some surveys distinguish between financial and non-financial information.

**Financial information** – the main terms used in the surveys were planning, forecasting, budgeting, target setting, analysis and reporting. Clearly these processes overlap and interact to a great extent and are also iterative. For example the reporting and analysis of actual data against forward-looking information provide the basis for action and the next cycle of forward planning. Their content and scope depend on organisationally defined aggregations and analysis of financial data and transactions, covering both the past and the future. Financial information may also be drawn from external sources for example using the accounts of other organisations when carrying out competitor analysis. Supporting information provides a link between the financial information and underlying organisational activities.

**Non-financial information** relates to information such as carbon emissions, customer feedback and elements of the balanced business scorecard. As it is not financial information it does not strictly fit into the framework of activities. However, some studies include the term in looking at finance department activities and it is likely that non-financial information is being combined with financial information.

### 2.3.2 Applications

'Applications' relate to how information is used for Management and Control. The context will determine how the information is aggregated and analysed (eg, profit-based or cash flow-based). The following four principal applications were identified:

- General management and control of operational activities, generally with an implicit focus on profitability or value for money goals. The nature of finance department involvement can vary significantly, as evidenced by the wide range of terms shown by Table 2.3.
- Cash management and treasury has two aspects. First, as a key performance dimension, for example, through company valuations based on the net present value of projected future cash flow. Second, as an asset class to be managed through treasury activities. These can include raising finance, leasing, working capital management, interest rate and currency risk management. Clearly there will be some overlap with funding activities see 2.5 below.
- Investment appraisal seeks to assess the merits of investment options, potentially using both cash approaches (eg, net present value and internal rate of return) and profit-based appraisals (eg, return on investment).
- Tax management involves the consideration of a range of factors such as decisions on transfer pricing, legal entity structures, operating locations and financing structures. Generally the focus will be on minimising tax liabilities, although reputational issues may come into play, eg, with aggressive tax avoidance schemes. As previously mentioned surveys which do not distinguish between tax compliance and tax management are discussed above as a subcategory of Compliance (2.2.2).

### 2.3.3 Internal auditing

Internal auditing may involve a range of activities but a key element will be ensuring that controls operate as designed. Clearly all finance and organisational activities may be subject to internal audit.

### 2.3.4 Management accounting

Management accounting is a catch-all term, particularly when used by academics and professional bodies, which may extend beyond Management and Control and is therefore highlighted separately.

**Table 2.3: Management and Control**

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>MANAGEMENT AND CONTROL</b>						
<b>Process – financial information</b>						
FEI Canada	2005	R	Forecasting and projections	Directly accountable to	CFO	87%
IBM	2005	R	Business/financial analysis	Function reports to	CFO	84%
IBM	2008	R	Business/financial analysis	Function reports to	CFO	81%
Mckinsey	2009	R	Financial planning and analysis	Within scope of	Fin. Dept.	86%
CFO Research	2002	I	Accuracy of earnings and revenue forecasts	High/highest priority for	Fin. Dept.	81%
CFO Research	2002	I	Profitability measurement	High/highest priority for	Fin. Dept.	56%
IBM	2003	I	Measuring/monitoring business performance	In top five areas of focus for	CFO	65%
IBM	2005	I	Measuring/monitoring business performance	Top importance for	Fin. Exs.	69%
Ernst & Young	2006	I	Financial analysis and reporting	In top six for increased focus	CFO	58%
Accenture	2008	I	Budget and forecasting	Critical performance factor for	Fin. Dept.	45%
Accenture	2008	I	Target setting	Critical performance factor for	Fin. Dept.	29%
Ernst & Young	2008	I	Business management reporting	Most important for	CFO	51%
Ernst & Young	2008	I	Annual budgeting and outlook forecasting	Most important for	CFO	61%
ICAEW	2010	I	Planning, forecasting, budgeting	Greatest skill/role needed by	Fin. Dept.	28%
Deutsche Bank	2006	T	Financial planning and analysis	% time allocation for	CFO	9%
Deutsche Bank	2006	T	Management reporting/accounting	% time allocation for	CFO	9%
CIMA	2010	T	Communication of financial information	% time allocation for	Fin. Exs.	6%
CIMA	2010	T	Prepare/interpret management accounting information	% time allocation for	Fin. Exs.	6%
<b>Process – non-financial information</b>						
EIU	2006	R	Collect and report non-financial information	Leadership resides in	Fin. Dept.	18%
CFO Research	2007	R	Non-financial information	Responsibility of	CFO	27%
ICAEW	2010	I	Non-financial measures reporting	Greatest skill/role needed by	Fin. Dept.	7%
CIMA	2010	T	Social accounting issues	% time allocation for	Fin. Exs.	1%
CIMA	2010	T	Green (environmental) issues	% time allocation for	Fin. Exs.	1%
<b>Application – general management and control</b>						
IBM	2005	R	Business support/performance management	Function reports to	CFO	54%
EIU	2006	R	Controlling costs	Leadership resides in	Fin. Dept.	69%
EIU	2006	R	Advising business units on operating decisions	Leadership resides in	Fin. Dept.	30%
IBM	2008	R	Business support/performance management	Function reports to	CFO	54%

Table 2.3: Management and Control continued

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>MANAGEMENT AND CONTROL</b>						
<b>Application – general management and control</b>						
CFO Research	2002	I	Operational decision support	High/highest priority for	Fin. Dept.	60%
CFO Research	2002	I	Flexible cost structure	High/highest priority for	Fin. Dept.	34%
IBM	2003	I	Driving cost reduction/ continuous improvement	In top five areas of focus for	CFO	52%
IBM	2005	I	Continuous process/business improvement	Top importance for	Fin. Exs.	61%
IBM	2005	I	Driving cost reduction	Top importance for	Fin. Exs.	55%
IBM	2005	I	Aligning finance with business	Top importance for	Fin. Exs.	55%
Accenture	2008	I	Performance management and reporting	Critical performance factor for	Fin. Dept.	55%
ICAEW	2010	I	Decision support, performance management	Greatest skill/role needed by	Fin. Dept.	19%
BIC	1992	T	Assisting CEO and other executives	% time allocation for	CFO	27%
BIC	1992	T	Ad hoc advice	% time allocation for	CFO	13%
IBM	2003	T	Decision support	% Finance workload distribution	Fin. Dept.	24%
Accenture	2008	T	Managing performance of overall enterprise	% time allocation of	CFO	18%
IBM	2010	T	Decision support	% Finance workload distribution	Fin. Dept.	26%
CIMA	2010	T	Provision of business advice	% time allocation for	Fin. Exs.	5%
CIMA	2010	T	Business partnering	% time allocation for	Fin. Exs.	3%
CIMA	2010 (a)	T	Management support	% time allocation for	Fin. Exs.	18%
<b>Application – cash management and treasury</b>						
ICAEW	1993	R	Treasury	Responsibility of	Fin. Dept.	83%
IBM	2005	R	Treasury	Function reports to	CFO	74%
EIU	2006	R	Advising on treasury	Leadership resides in	Fin. Dept.	70%
IBM	2008	R	Treasury	Function reports to	CFO	72%
Mckinsey	2009	R	Treasury	Within scope of	Fin. Dept.	81%
Mckinsey	2009	R	Credit decisions	Within scope of	Fin. Dept.	60%
ICAEW	1993	I	Treasury	High importance for	Fin. Dept.	50%
Deloitte	2000	I	Treasury management	Ranked: 1 = very important to 5 = not important	CFO	1.95
IBM	2003	I	Managing balance Sheet	In top five areas of focus for	CFO	39%
Ernst & Young	2008	I	Treasury management	Most important for	CFO	34%
Accenture	2008	I	Treasury management and operations	Critical performance factor for	Fin. Dept.	15%
ICAEW	2010	I	Treasury, financing cash management	Greatest skill/role needed by	Fin. Dept.	9%
Weston	1954	T	Preparation of cash budgets	% time allocation for	Fin. Dept.	5%
Deutsche Bank	2006	T	Cash management	% time allocation for	CFO	6%
Deutsche Bank	2006	T	Working capital management	% time allocation for	CFO	6%
CIMA	2010	T	Treasury/financial risk management	% time allocation for	Fin. Exs.	4%



Author	Date	Measure	About what activity	Measure	About whom	Result
<b>Application – investment appraisal</b>						
CFO Research	2002	I	Management of fixed asset investments	High/highest priority for	Fin. Dept.	27%
Ernst & Young	2008	I	Fixed assets management	Most important for	CFO	19%
Ernst & Young	2008	I	Marketing investment appraisal	Most important for	CFO	13%
Weston	1954	T	Advise on expenditures for capital assets	% time allocation for	Fin. Dept.	7%
Deutsche Bank	2006	T	Making investment decisions	% time allocation for	CFO	7%
CIMA	2010	T	Capital investment appraisal	% time allocation for	Fin. Exs.	3%
<b>Application – tax management</b>						
EIU	2006	R	Advising on tax	Leadership resides in	Fin. Dept.	70%
Deutsche Bank	2006	T	Tax management	% time allocation for	CFO	4%
CIMA	2010	T	Tax planning/compliance	% time allocation for	Fin. Exs.	3%
<b>Internal auditing</b>						
ICAEW	1993	R	Internal audit	Responsibility of	Fin. Dept.	60%
IBM	2005	R	Internal audit	Function reports to	CFO	48%
IBM	2008	R	Internal audit	Function reports to	CFO	38%
Mckinsey	2009	R	Internal audit	Within scope of	Fin. Dept.	49%
ICAEW	1993	I	Internal audit	High importance for	Fin. Dept.	16%
Deloitte	2000	I	Internal audit	Ranked:1 = very important to 5 = not important	CFO	2.77
Deutsche Bank	2006	T	Internal audit	% time allocation for	CFO	3%
CIMA	2010	T	Internal audit	% time allocation for	Fin. Exs.	3%
<b>Management accounting</b>						
ICAEW	1993	R	Management accounting	Responsibility of	Fin. Dept.	97%
ICAEW	1993	I	Management accounting	High importance for	Fin. Dept.	81%
Deloitte	2000	I	Management accounting	Ranked:1 = very important to 5 = not important	CFO	2.16
CIMA	2010 (a)	T	Management accounting	% time allocation for	Fin. Exs.	22%

**Key:** Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

## 2.4 Strategy and Risk

The purpose of Strategy and Risk activities is to inform and influence from a financial perspective the development and implementation of strategy, and to manage risk. Detailed results of the relevant activity studies are shown in Table 2.4. While mergers and acquisitions are shown separately in the table, they are treated as an aspect of strategy.

### 2.4.1 Strategy

Finance is firmly implicated in the strategy process for three main reasons:

- Financial resources: the effective implementation of strategies requires sufficient financial resources.
- Success measure: for commercial entities in particular a key measure of organisational success is financial performance.
- Cross-organisational visibility: financial information provides a uniform measure of performance across the organisation and is a key means of making organisational activities visible and thus understanding the business.

However, the wide range of terms used to describe strategic activities suggests significant variation in how finance activities are implicated in the strategy process. Again see Table 2.4.

### 2.4.2 Risk management

Definitions of risk management vary widely and are often ambiguous, although for this paper there is the linking theme of finance. One approach is to focus solely on downside risks and the harm or losses that may arise from organisational action or inaction. Examples might include the risk that cost reduction programmes lead to health and safety shortcomings. An alternative approach involves looking at the relationship between risk and upside potential. For example diversifying into a new business may be high risk but have the potential for greater returns than developing existing businesses. For this reason we have included risk management alongside strategy.

The range of activities is potentially very broad including inter alia the setting of high-level risk policies, the identification of risks across the organisation and the monitoring of action plans designed to manage such risks.

### 2.4.3 Mergers and acquisitions

A specific element of the strategy process is mergers, acquisitions and divestments. Financial considerations are central here including financial due diligence and the negotiation of price.

Table 2.4: Strategy and Risk Management

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>STRATEGY AND RISK MANAGEMENT</b>						
<b>Strategy</b>						
ICAEW	1993	R	Strategic planning	Responsibility of	Fin. Dept.	71%
FEI Canada	2005	R	Board and/or committee support	Directly accountable to	CFO	54%
FEI Canada	2005	R	Strategic and business planning	Directly accountable to	CFO	39%
FEI Canada	2005	R	Writing all/part of strategic plan	Directly accountable to	CFO	30%
IBM	2005	R	Strategic planning/business development	Function reports to	CFO	42%
EIU	2006	R	Developing long-term business strategy	Leadership resides in	Fin. Dept.	33%
IBM	2008	R	Strategic planning/business development	Function reports to	CFO	34%
Mckinsey	2009	R	Strategic planning	Within scope of	Fin. Dept.	51%
Mckinsey	2009	R	Business development	Within scope of	Fin. Dept.	23%
ICAEW	1993	I	Strategic planning	High importance for	Fin. Dept.	46%
Deloitte	2000	I	Strategic planning	Ranked:1 = very important to 5 = not important	CFO	1.47
CFO Research	2002	I	Formulation of corporate strategy	High/highest priority for	Fin. Dept.	60%
CFO Research	2002	I	Modelling the drivers of shareholder value	High/highest priority for	Fin. Dept.	42%
IBM	2003	I	Supporting CEO in creating shareholder value	In top five areas of focus for	CFO	68%
IBM	2005	I	Partnering to identify/execute growth strategies	Top importance for	Fin. Exs.	61%
IBM	2005	I	Supporting enterprise transformation activities	Top importance for	Fin. Exs.	43%
Ernst & Young	2006	I	Corporate strategy development	In top six for increased focus	CFO	52%
Accenture	2008	I	Value-centred culture orientation	Critical performance factor for	Fin. Dept.	31%
Accenture	2008	I	Strategy development	Critical performance factor for	Fin. Dept.	27%
Ernst & Young	2008	I	Strategic partner to the board	Most important for	CFO	65%
ICAEW	2010	I	Strategy formulation	Greatest skill/role needed by	Fin. Dept.	5%
Weston	1954	T	Participate in long-range firm planning	% time allocation for	Fin. Dept.	8%
Weston	1954	T	Advise the board of directors	% time allocation for	Fin. Dept.	6%
Weston	1954	T	Preparation of long-term budgets	% time allocation for	Fin. Dept.	5%
BIC	1992	T	Assisting strategic development	% time allocation for	CFO	20%
ICAEW	1993	T	Participating in strategy formulation	% time allocation for	CFO	15%
Accenture	2008	T	Planning and developing enterprise strategy	% time allocation of	CFO	16%
CIMA	2010	T	Strategic financial planning	% time allocation for	Fin. Exs.	4%
CIMA	2010	T	Strategic management accounting	% time allocation for	Fin. Exs.	4%
CIMA	2010	T	Business/thought leadership	% time allocation for	Fin. Exs.	3%
CIMA	2010	T	Value based management	% time allocation for	Fin. Exs.	2%
CIMA	2010	T	Strategic networks and alliances	% time allocation for	Fin. Exs.	2%

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>Risk management</b>						
IBM	2005	R	Risk management	Function reports to	CFO	53%
EIU	2006	R	Managing risk	Leadership resides in	Fin. Dept.	49%
IBM	2008	R	Risk management	Function reports to	CFO	48%
Mckinsey	2009	R	Financial risk management	Within scope of	Fin. Dept.	75%
Mckinsey	2009	R	Operational risk management	Within scope of	Fin. Dept.	46%
CFO Research	2002	I	Risk management	High/highest priority for	Fin. Dept.	51%
IBM	2005	I	Supporting/managing enterprise risk	Top importance for	Fin. Exs.	40%
Ernst & Young	2006	I	Risk management	In top 6 for increased focus	CFO	65%
Accenture	2008	I	Financial risk management	Critical performance factor for	Fin. Dept.	30%
Accenture	2008	I	Business risk and operational risk	Critical performance factor for	Fin. Dept.	18%
Ernst & Young	2008	I	Risk management	Most important for	CFO	57%
ICAEW	2010	I	Risk management	Greatest skill/role needed by	Fin. Dept.	13%
Deutsche Bank	2006	T	Risk management	% time allocation for	CFO	6%
Accenture	2008	T	Overseeing enterprise risk management	% time allocation of	CFO	9%
<b>Mergers and acquisitions</b>						
ICAEW	1993	R	Acquisitions	Responsibility of	Fin. Dept.	75%
FEI Canada	2005	R	Divestiture	Directly accountable to	CFO	78%
FEI Canada	2005	R	Mergers and acquisitions	Directly accountable to	CFO	33%
ICAEW	1993	I	Acquisitions	High importance for	Fin. Dept.	23%
Deloitte	2000	I	Mergers and acquisitions	Ranked:1 = very important to 5 = not important	CFO	1.68
CFO Research	2002	I	Mergers and acquisitions/alliance management	High/highest priority for	Fin. Dept.	36%
Ernst & Young	2008	I	Acquisitions and disposals	Most important for	CFO	36%
ICAEW	2010	I	Mergers and acquisitions, divestments	Greatest skill/role needed by	Fin. Dept.	4%
Weston	1954	T	Contacts with investment bankers	% time allocation for	Fin. Dept.	4%
Weston	1954	T	Approve terms for capital acquisitions	% time allocation for	Fin. Dept.	3%
ICAEW	1993	T	Involvement in acquisitions and divestments	% time allocation for	CFO	8%
Deutsche Bank	2006	T	Merger, acquisition & disposals decisions	% time allocation for	CFO	6%
CIMA	2010	T	Mergers/acquisitions/divestments	% time allocation for	Fin. Exs.	1%

**Key:** Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

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## 2.5 Funding

The purpose of Funding activities is to inform and engage with investors and funders, both current and potential, to obtain and maintain the necessary financial resources for the organisation. Engagement includes the provision of information, relationship building, and negotiation. The provision of information enables investors and funders to appraise organisational performance, actual and projected, in relation to their financial interest in the organisation. This information is in addition to that which is publicly available through regulatory disclosures.

The activity studies show a split between investor relations and debt financing as detailed in Table 2.5, which summarises the evidence. Funders include those providing loans, asset finance, grants etc. Some institutions may possess mixed stakeholdings and/or hold hybrid financial instruments. This adds a layer of complexity but does not impact the core issues.

### 2.5.1 Investor relations

Investor relations is largely concerned with equity investors including individuals, fund management institutions, hedge funds and private equity organisations. Their objective is generally to achieve a financial return. Criterion for guiding their investment decisions include the potential for growth in shareholder value relative to the riskiness of the investment; the level of running returns achievable through dividends, and gains achieved through an exit. Accordingly, their interests are met by providing guidance on the financial prospects of the organisation, how plans will be achieved and the risks involved. The level of information equity investors can obtain will be determined by the extent and nature of their equity holding and their relationship with the organisation and other shareholders. For example, a majority shareholder of a private company is likely to have full access to all available internal information; the information access of a shareholder in a quoted company will be determined by listings requirements.

### 2.5.2 Debt financing

Those providing debt finance covered by the practitioner studies are in broad terms commercial lenders (eg, banks). Their focus is to ensure that their loans plus interest and fees are repaid, either from operating cash flow or from the liquidation of collateral. Thus, their requirements are met if an organisation remains solvent, generates sufficient cash to meet repayment requirements and ensures that any security provided retains its value and remains unencumbered. Finance activities include negotiating with debt funders who are aiming to protect their position by negotiating terms and lending covenants that set minimum performance criteria, which, if met, are intended to ensure repayment. Typically, a flow of information will be agreed (eg, monthly accounts, covenant results) which will allow the funder to confirm compliance on an ongoing basis and to take action to recover funds in the event of the agreed terms and criteria not being met.

Other types of funder, not explicitly covered by the practitioner studies, include donors to charities or grant providers (eg, development agencies). Their focus is on ensuring that the funding provided has been spent in accordance with the intended objectives; this will include an interest in the solvency of the organisation to ensure its continuity.

Table 2.5: Funding

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>FUNDING</b>						
<b>Investor relations</b>						
ICAEW	1993	R	Investor relations	Responsibility of	Fin. Dept.	50%
FEI Canada	2005	R	Investor relations	Directly accountable to	CFO	46%
FEI Canada	2005	R	Stakeholder relations	Directly accountable to	CFO	29%
IBM	2005	R	Shareholder relations	Function reports to	CFO	41%
EIU	2006	R	Guiding investors on business performance	Leadership resides in	Fin. Dept.	48%
IBM	2008	R	Shareholder relations	Function reports to	CFO	36%
ICAEW	1993	I	Investor relations	High importance for	Fin. Dept.	30%
Deloitte	2000	I	Investor relations	Ranked:1 = very important to 5 = not important	CFO	1.44
Accenture	2008	I	Investor relations	Critical performance factor for	Fin. Dept.	10%
Weston	1954	T	Advise on dividend policy	% time allocation for	Fin. Dept.	3%
BIC	1992	T	Cultivating external relations	% time allocation for	CFO	11%
ICAEW	1993	T	Dealing with brokers and analysts	% time allocation for	CFO	9%
Deutsche Bank	2006	T	Investor relations	% time allocation for	CFO	8%
Deutsche Bank	2006	T	Dividend and share buy back policy	% time allocation for	CFO	2%
Deutsche Bank	2006	T	Equity issuance	% time allocation for	CFO	1%
Accenture	2008	T	Interface with board of directors/investor relations	% time allocation of	CFO	10%
CIMA	2010	T	Corporate finance	% time allocation for	Fin. Exs.	3%
<b>Debt financing</b>						
FEI Canada	2005	R	Finance/capital structure change	Directly accountable to	CFO	80%
Deloitte	2000	I	Finance/funding	Ranked:1 = very important to 5 = not important	CFO	1.34
Accenture	2008	I	Capital management	Critical performance factor for	Fin. Dept.	26%
Weston	1954	T	Contacts with banks/short term funders	% time allocation for	Fin. Dept.	7%
Weston	1954	T	Planning security issues	% time allocation for	Fin. Dept.	2%
Deutsche Bank	2006	T	Debt issuance and management	% time allocation for	CFO	5%
Deutsche Bank	2006	T	Bank relations	% time allocation for	CFO	8%
Deutsche Bank	2006	T	Capital structure	% time allocation for	CFO	3%

**Key:** Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

## 2.6 Management and resourcing of activities

As part of the organisational activities the finance activities covered in the framework have to be managed, organised and resourced. The surveys cover three main categories: people management, finance systems and outsourcing and shared services. The detailed results of the activity studies are shown in Table 2.6.

### 2.6.1 Finance systems

The finance activities shown in the framework require the development, implementation and management of finance systems. We have included quite a wide range of related survey items under this heading but have tried to exclude items which relate to managing an organisation's IT function as a whole (See Table 2.7 – Other activities).

### 2.6.2 People management

The management and development of the people carrying out finance activities will generally be the responsibility of the relevant line managers. Therefore the questions asked in surveys relate to importance and time allocation rather than responsibility.

### 2.6.3 Outsourcing and shared services

Outsourcing and shared service centres represent a particular way of resourcing finance activities. In the case of outsourcing, responsibilities will relate to managing the relationship and contract with the provider of the outsourced services, whereas shared services responsibilities will relate to managing the people and systems which provide the services.

## 2.7 Other activities

In order to ensure completeness it is important to consider other activities that the surveys indicate may be the responsibility of the CFO or the finance department. These are summarised in Table 2.7. While it could be argued that some are based in financial information eg, pensions and insurance, others are quite separate eg, human resources and legal. The view taken here is that there is no coherent interlinking with the finance activities in the framework which are based in the production and use of financial information.



Table 2.6: Management and resourcing of activities

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>MANAGEMENT AND RESOURCING</b>						
<b>Finance systems</b>						
CFO Research	2002	I	Overcoming barriers to transforming finance	High/highest priority for	Fin. Dept.	49%
IBM	2005	I	Driving integration of information	Top importance for	Fin. Exs.	35%
Ernst & Young	2006	I	Performance measurement systems	In top six for increased focus	CFO	49%
ICAEW	2010	I	New financial processes, technology	Greatest skill/role needed by	Fin. Dept.	18%
CIMA	2010	T	Maintenance of financial systems	% time allocation for	Fin. Exs.	4%
CIMA	2010	T	Develop management accounting systems	% time allocation for	Fin. Exs.	4%
CIMA	2010 (a)	T	Management information systems	% time allocation for	Fin. Exs.	12%
<b>People management</b>						
IBM	2005	I	Developing your people	Top importance for	Fin. Exs.	55%
Accenture	2008	I	Workforce management	Critical performance factor for	Fin. Dept.	30%
Accenture	2008	I	Finance organisation strategy and structure	Critical performance factor for	Fin. Dept.	56%
ICAEW	2010	I	Management of team	Greatest skill/role needed by	Fin. Dept.	8%
BIC	1992	T	Supervising finance function	% time allocation for	CFO	27%
Accenture	2008	T	Managing finance and operations	% time allocation of	CFO	34%
Accenture	2008	T	Addressing workforce effectiveness	% time allocation of	CFO	11%
CIMA	2010	T	Managing staff	% time allocation for	Fin. Exs.	6%
CIMA	2010	T	Management of projects	% time allocation for	Fin. Exs.	5%
<b>Outsourcing and shared services</b>						
IBM	2005	R	Shared services – finance and accounting	Function reports to	CFO	51%
IBM	2005	R	Outsourcing – finance and accounting	Function reports to	CFO	39%
IBM	2008	R	Shared services – finance and accounting	Function reports to	CFO	40%
IBM	2008	R	Outsourcing – finance and accounting	Function reports to	CFO	28%

Key: Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

Table 2.7: Other activities

Author	Date	Measure	About what activity	Measure	About whom	Result
<b>OTHER ACTIVITIES</b>						
<b>Organisation wide IT</b>						
ICAEW	1993	R	IT	Responsibility of	Fin. Dept.	68%
IBM	2005	R	IT	Function reports to	CFO	33%
IBM	2008	R	IT	Function reports to	CFO	27%
ICAEW	1993	I	IT	High importance for	Fin. Dept.	40%
Deloitte	2000	I	IT	Ranked:1 = very important to 5 = not important	CFO	1.98
CIMA	2010	T	E-business technologies	% time allocation for	Fin. Exs.	2%
CIMA	2010	T	Implementation/management of IT systems	% time allocation for	Fin. Exs.	3%
<b>Legal</b>						
ICAEW	1993	R	Legal affairs	Responsibility of	Fin. Dept.	58%
FEI Canada	2005	R	Primary contact with external legal council	Directly accountable to	CFO	33%
FEI Canada	2005	R	In house legal council	Directly accountable to	CFO	23%
ICAEW	1993	I	Legal affairs	High importance for	Fin. Dept.	15%
Deloitte	2000	I	Legal/regulatory matters	Ranked:1 = very important to 5 = not important	CFO	2.71
<b>HR</b>						
IBM	2005	R	Human resources/administration	Function reports to	CFO	11%
IBM	2008	R	Human resources/administration	Function reports to	CFO	10%
Deloitte	2000	I	Personnel matters	Ranked:1 = very important to 5 = not important	CFO	3.02
<b>Pensions</b>						
ICAEW	1993	R	Pensions	Responsibility of	Fin. Dept.	65%
ICAEW	1993	I	Pensions	High importance for	Fin. Dept.	19%
Deutsche Bank	2006	T	Pensions management	% time allocation for	CFO	2%
<b>Property</b>						
ICAEW	1993	R	Property management	Responsibility of	Fin. Dept.	47%
ICAEW	1993	I	Property management	High importance for	Fin. Dept.	6%
<b>Insurance</b>						
ICAEW	1993	R	Insurance	Responsibility of	Fin. Dept.	71%
ICAEW	1993	I	Insurance	High importance for	Fin. Dept.	12%
<b>Other</b>						
IBM	2005	R	Procurement	Function reports to	CFO	29%
IBM	2005	R	Alliance management	Function reports to	CFO	10%
IBM	2005	R	Other	Function reports to	CFO	10%
IBM	2008	R	Procurement	Function reports to	CFO	24%
IBM	2008	R	Alliance management	Function reports to	CFO	10%
Deloitte	2000	I	Overseas operations	Ranked:1 = very important to 5 = not important	CFO	2.80
Deloitte	2000	I	Administration	Ranked:1 = very important to 5 = not important	CFO	2.97
ICAEW	2010	I	Other management roles	Greatest skill/role needed by	Fin. Dept	8%
ICAEW	1993	T	Other	% time allocation for	CFO	32%

Key: Measure R = Responsibility, I = Importance, T = Time; Respondent: Fin. Exs. = Financial Executives, Fin. Dept. = Finance Department

# 3. THE INTERACTIONS BETWEEN FINANCE ACTIVITIES

In this section we describe the main, direct interactions between finance activities. Each reference below matches the interaction reference next to the arrows on Figure 1.

As previously discussed the interactions consist of two types:

- **Inform:** The flow of information – both financial and support information – from one activity for use by another (black arrows on Figure 1).
- **Influence and direct:** The use of the information by one activity to influence and direct which activities are carried out and how they are implemented (red arrows on Figure 1).

Where these interactions fail to take place effectively, organisations are likely to face a number of issues. These are discussed for each activity as tensions and challenges.

It should be noted that other interactions between activities may occur – there is no logic that excludes them taking place. However, it is useful to eliminate those interactions which currently do not seem to be prevalent.

## 3.1 Organisational activities with Accounting

**Organisational activities inform Accounting:** Organisational activities trigger financial transactions and obligations which are processed by Accounting. These financial transactions can be communicated in numerous ways, with varying degrees of formality – from paper-based purchase orders to oral requests for accruals. It should be noted that some financial transactions are generated by finance activities themselves, such as funding transactions.

**Accounting informs organisational activities** through the provision of basic transactional information such as unpaid invoices that require line management attention.

**Organisational activities influence and direct Accounting** for example through input to decisions on payment terms and discount arrangements for customers and suppliers.

**Accounting influences and directs organisational activities** through internal control processes to be implemented at the point of organisational actions (eg, purchase orders, authorisations, stock systems, transactional coding rules). These are required to ensure the validity, completeness and accuracy of financial obligations.

## 3.2 Accounting with Compliance

**Accounting informs Compliance activities** by providing the required information, in the form of data files, financial reports and supporting information.

**Compliance influences and directs Accounting activities** by specifying the aggregations, analyses and controls needed for Compliance. Examples include accounting standards and Basel banking regulations.

It should be noted that Accounting interacts indirectly with other finance activities as the information produced provides a core input to all finance activities and financial controls influence all activities.

## 3.3 Accounting with Management and Control

**Accounting informs Management and Control** by providing financial information – ‘the actuals’ – which form the basis for further analysis, such as comparison to targets and plans, and reconciliation to information generated elsewhere.

**Management and Control informs Accounting** by generating information to be recorded in accounting systems. This can be either as a matter of course, for example funding entries generated by treasury activities, or optionally, such as the recording of budgets in ledger systems.

**Accounting influences and directs Management and Control and is influenced by Management and Control** in a two-way, iterative process. This involves the negotiation of the formats of the financial information which can be provided by accounting systems given various needs.

### 3.4 Compliance with Management and Control

**Compliance informs Management and Control** where financial performance may be measured based on compliance requirements, for example return on risk assets or regulatory capital as determined by banking regulation.

**Management and Control informs Compliance** through the provision of information to meet regulatory requirements such as narrative disclosures on business performance and risk.

**Compliance influences and directs Management and Control** where regulatory requirements act as constraints on the organisation for example minimum capital requirements in the financial services sector.

It should be noted that Compliance also impacts on organisational activities and Strategy and Risk via Management and Control by imposing constraints on organisational actions and strategies.

### 3.5 Compliance with Funding

**Compliance informs Funding** through the provision of information that will be made publicly available, such as account filings or statements made in line with listing requirements. This information provides a way of validating other information produced by the organisation, particularly when it is subject to external assurance processes.

**Funding informs Compliance** through the provision of information to meet regulatory requirements such as details of major shareholders.

### 3.6 Organisational activities with Management and Control

**Management and Control informs organisational activities** by providing financial and support information and analysis which supports control, decision making and organisational actions.

**Organisational activities inform Management and Control** by providing financial data and information sourced from operational systems and processes. This is an additional information flow to that provided by Accounting.

**Management and Control directs and influences organisational activities and is directed and influenced by organisational activities.** This is the fulfilment of the principal purpose of the activity - to use financial and support information to influence, manage and control organisational activities to meet organisational objectives. It is a two-way iterative process, as information is subject to continual reinterpretation and reassessment, in response to both unfolding events and differing management opinions.

### 3.7 Management and Control with Funding

**Management and Control informs Funding** by providing information in the formats agreed, eg, cash flow forecasts.

**Funding informs Management and Control** by providing information on projected funding costs, investment hurdle rates and minimum performance requirements, such as those imposed by bank covenants.

**Management and Control influences and directs Funding** and is directed and influenced by Funding. This is a two-way process in which the content and format of the flow of information to investors and funders will be agreed.

It should be noted that Funding also impacts on organisational activities via Management and Control and Strategy and Risk because the availability of funding constrains or facilitates organisational actions.

### 3.8 Management and Control with Strategy and Risk

**Management and Control informs Strategy and Risk** by providing information on current and prospective financial performance, including evidence and assessment of the income, cost and balance sheet dynamics driving performance.

**Management and Control influences and directs Strategy and Risk** as emerging operational outcomes and developments, together with their associated financial consequences, influence strategy formulation and risk assessment.

**Strategy and Risk influences and directs Management and Control** by providing the strategic agenda and context for the production and use of information. Risk management activities will also be important factors influencing the nature of information produced.

### 3.9 Organisational activities with Strategy and Risk

**Strategy and Risk informs organisational activities** by communicating the financial strategy and performance against it, together with the risks that the organisation needs to manage.

**Organisational activities inform Strategy and Risk** by providing information on opportunities, threats, strengths and weaknesses. Given the flow is direct to Strategy and Risk and not via Management and Control then the information provided will not be primarily finance based, although it is likely to include financial content.

**Strategy and Risk influence and direct organisational activities** by providing the strategic direction to guide the development of organisational actions and approach to risks.

**Organisational activities influence and direct Strategy and Risk** as emerging operational outcomes and developments, together with their associated financial consequences, influence strategy formulation and risk assessment.

### 3.10 Strategy and Risk with Funding

**Strategy and Risk informs Funding** by communicating the (financial) strategy and risks of the organisation to facilitate the negotiations for funding provision or investment. A key consideration will be the degree to which such communication is integrated with management and control information to anchor medium/long-term strategy in historic, current and prospective performance.

**Funding informs Strategy and Risk** by feeding back investor and funder views of the organisation gleaned from meetings, presentations and roadshows.

**Strategy and Risk influences and directs Funding and is influenced and directed by Funding.** This involves the negotiation of the fit between the organisational strategy, the provision of funding and anticipated returns for investors and funders. It can be of specific importance where there is a requirement to fund new strategic initiatives, such as mergers and acquisitions, growth programmes or when dealing with financial crises.



# 4. INHERENT TENSIONS AND CHALLENGES

The nature of finance activities and the interactions between them result in a number of inherent tensions and challenges. These are discussed below for each Finance activity. The top level references correspond with the second reference in each red activity box on Figure 1.

## 4.1 Accounting

### 4.1.1 Validity of information and financial control

The financial information produced by Accounting flows via Compliance and Management and Control through the whole framework. If Accounting activities do not operate effectively the validity of information used throughout the organisation is compromised. This may lead to serious organisational problems such as loss of assets, impaired decision making or the breakdown of investor confidence.

### 4.1.2 Weighing the costs and benefits of financial controls

We have already noted the importance of financial controls. However, assessing the costs and benefits of such controls is not always easy. Organisations have to decide on the degree to which they can trust people to do the right thing and the risks that might arise if they do not. For example fiddling expenses may be significantly more likely and damaging, both financially and reputationally, in certain industry sectors compared to others.

There are two further complications. Firstly, the benefits of financial controls are difficult to assess as it is difficult to know what losses have been prevented when controls operate effectively. Secondly, ill-designed financial controls can restrict an organisation's ability to adapt and innovate which may be necessary to maintain profitability or meet other organisational objectives. For example requiring multiple sign-offs for relatively low levels of expenditure at senior management level can lead to slow decision making and implementation.

The upshot is that difficult judgements are required in deciding how detailed and rigorous financial controls should be.

### 4.1.3 Differing information required for Compliance and Management and Control

The financial information required for Compliance and that required for Management and Control is based on the aggregation and analysis of the same underlying financial consequences of organisational activities. However, the information content, the methods of classification and analysis, the period lengths and the timeliness deemed appropriate are likely to be different. This can be problematic. Indeed Johnson and Kaplan (1987) in their seminal book 'Relevance Lost: The Rise and Fall of Management Accounting' argued that management accounting lost its usefulness when it started to focus on using information required for compliance which was irrelevant for managing and controlling performance.

Particular problems arise in how to design and implement accounting and operational systems which can meet both Compliance and Management and Control needs. The degree to which such information can and should be consistent/reconciled is also contested (see also related tensions 4.2.1 and 4.3.1).

## 4.2 Compliance

### 4.2.1 Differences between public information and internal reporting

The information contained in publicly available reports is likely to differ from that produced for internal management purposes. Organisational management may therefore question the relevance of external accounts. However, given that investors and funders will use such information as the basis for assessing organisational performance, management cannot afford to ignore the picture that external accounts portray. External accounts, being standardised and sometimes subject to external assurance, enable investors to compare the performance of competing organisations.

Full reconciliations between internal and external reporting can be difficult to achieve, especially when the information is produced to differing timescales. Furthermore investors may make adjustments to external accounts for their own purposes including the treatment of one-off costs, goodwill, fair value accounting, cost allocations, stock valuation and leases. Even to the extent that reconciliations are achieved, explaining the differences to non-financial managers is not easy. The threat is that the apparent inconsistencies can lead to the questioning of the validity of both internal and external reporting by both organisational management and investors and funders.

### 4.2.2 Compulsory external requirements have to be met

The level and nature of work required for Compliance is dependent on factors largely outside of the control of the organisation. This has two significant consequences:

- **Uncertain and uncontrollable resource requirements:** The work commitment necessary to meet regulatory requirements can be increased and altered with limited potential to mitigate the impact. Sarbanes-Oxley, for example, meant some organisations had to transfer skilled staff from other activities, such as Management and Control, to meet this non-negotiable requirement.
- **Danger of non-compliance:** Meeting regulatory requirements cannot be guaranteed. Clearance by the relevant regulatory authorities may take place sometime after the reporting period in question, thereby increasing the risk that regulatory requirements are not proactively identified and met.

Further, monitoring and meeting financial compliance and regulatory requirements can be perceived as being expensive and of limited value. This leads to pressure for these activities to be carried out at the lowest cost possible, and, perhaps, to limit the care taken. However, this is a dangerous approach as the costs and reputational damage of regulatory failure can be high and, at the extreme, lead to business collapse.

### 4.2.3 High reported profits attract investors but increase tax liabilities

In jurisdictions where tax liabilities are assessed based on adjusted statutory accounts there will be conflicting pressures on the level of profit to report. This is because while accounting judgements which lead to reporting 'higher' profits will provide a positive message to funders they may also result in a higher tax liability.

## 4.3 Management and Control

### 4.3.1 Differences between operational and accounting information

While both operational and accounting information used by Management and Control are drawn from the same underlying organisational activities, their nature will differ significantly, as summarised in Table 4.3. Both sources have comparative advantages and disadvantages.

The main advantage of operationally sourced information is that it can have a direct connection to organisational activities. It can be real time and be collected and analysed to reflect organisational structures (eg, by branch, product, customer, salesperson) and cycles (eg, daily, weekly) as appropriate. It can also be both formal and informal and quickly adapted to respond to changed requirements. Its disadvantage is that it is difficult to build in controls to ensure validity and reliability (eg, to ensure that all costs incurred have been captured).

Accounting-sourced information has the opposite disadvantages and advantages. It does not have the same close link to organisational activities - being more formal, time-lagged, produced to accounting timescales (often monthly) and analysed in line with a chart of accounts, which are generally rigid and standardised. On the other hand such standardisation and the inherent controls of the double-entry system can provide accounting information with greater validity and reliability.



A range of potential consequences follow from this, principally relating to the extent to which operational and accounting information are reconcilable or consistent:

- The different sources of information may give rise to differing interpretations of organisational performance resulting in uncertainty and conflict.
- Time can be wasted discussing the accuracy of the information rather than focusing on analysis and the implications of the information for decision making.
- On the other hand the difference can be constructive when consideration of information from different perspectives gives rise to new insights. Blindly accepting one source of information or the other because it supports a particular interest may be dysfunctional.
- More sophisticated ledger and Enterprise Resource Planning (ERP) systems may increase the integration of accounting and operational information and reduce the differences highlighted.

**Table 4.3: Operational-sourced information compared to accounting-sourced information**

Characteristics	Operational source	Accounting source
<b>Overall</b>		
Information status	Operational data	Accounting system output
Core reason to produce	Management information	Cash control/compliance
Users	Management	Compliance, investors, management
Operational connection	Direct	Indirect
<b>Link to operations</b>		
Time periods	To fit organisational cycles	Monthly/Annual
Collection speed	Real time	Lagged
Classification standard	To fit analysis required	Chart of accounts
<b>Production</b>		
Recording medium	Internal systems	Accounting records
Validity controls	Organisationally designed	Financial controls/double-entry
Reporting basis	Management techniques	Accounting policies
Link to cash	Indirect	Direct
Link to tax	Indirect	Direct

### 4.3.2 Deciding which information to use as the primary performance measure

The four different Management and Control applications identified – general management and control, cash management and treasury, investment appraisal and tax - require different information and different formats, albeit they are all based on financial data. The skill sets required to produce and analyse such information will also differ. Moreover the interests of different stakeholders will come into play. For example banks may focus on cash, shareholders on profit, individual proprietors on minimising tax liabilities and senior managers on growth. The upshot is that conflicts can arise in determining which format and interpretation to provide as the primary performance measure and focus for management actions.

### 4.3.3 Interpretation of variances

In broad terms variances between 'actuals' and plans/targets occur for two main reasons:

1. A failure in the execution of organisational activity designed to meet planned outcomes. In this instance understanding variances facilitates the assessment, investigation and modification of behaviours and processes.

and/or

2. The assumptions which underpinned plans/targets were, or have become, unrealistic. In this instance understanding variances facilitates the reassessment of strategies, plans and projections.

Differentiating between the two can be difficult, especially if the cause is a mixture of both. Clearly, failure to identify the causes of variances, or misinterpreting their cause, can lead to difficulty and uncertainty in developing appropriate responses.

### 4.3.4 Ensuring plans and targets are owned by operational managers

As previously highlighted, the finance activities framework does not identify or recommend who should carry out such activities. However, the production of financial plans and targets may be carried out by specialist staff. While operational staff responsible for implementation can be closely involved with this process, this is not necessarily the case. Problems arise where operational staff are not sufficiently involved in understanding, setting and agreeing plans/targets against which performance will be assessed. This can lead to the plans and targets being disowned by those responsible for implementation. Negative consequences can include operational actions which conflict with financial targets, lack of accountability and targets and plans detached from organisational realities.

### 4.3.5 Gaming

Management and Control processes may be subject to gaming by operational managers. Budgeting processes in particular are well known for being subject to gaming by those responsible for delivering financial outcomes. The most common distortion is for budgets to be padded, income understated and costs overstated, in order to ensure budgets are achieved or exceeded and the associated rewards obtained. Although such gaming is usually viewed as dysfunctional, some benefits may accrue by enabling organisational adaptability.

## 4.4 Strategy and Risk

### 4.4.1 Financial versus non-financial orientation

A central advantage of financial appraisals is that they can provide a clear performance measure. However, their disadvantage is not being able to assess contributors to organisational performance which cannot be easily quantified, for example the capacity to innovate, internally developed intellectual property and service quality.

There is a risk that initiatives with more easily measurable and apparent financial outcomes crowd out options with more subjective, intangible benefits which nonetheless may produce significant returns. Difficult judgements have to be made, perhaps supported by the use of more non-financial information integrated with financial information.

### 4.4.2 Short term versus long term

Similar to the above point is the often discussed issue of too much focus on the short term. Generally Management and Control activities focus on the achievement of short-term targets, using short-term performance measures. A tension arises if actions to achieve short-term performance are at variance with actions required to meet longer-term strategic objectives. A common case in point is reducing maintenance costs and investment in new machinery in the short term and thus potentially harming long-term prospects. The trade-off requires balancing the benefits of optimising short-term performance, including cash flow, against uncertain long-term benefits. In practice this can be difficult to achieve.

### 4.4.3 Involvement versus objectivity

Financial activities may be seen as stopping with the provision and analysis of information to support strategic decisions made by others. However, there is the potential for those responsible for finance activities to be implicated more directly in decision making – from making recommendations through to actually making decisions and being accountable for them. There is trade-off between the loss of objectivity that may result against the benefits to decision making that deep financial knowledge and insight can bring.

### 4.4.4 Mismatch of funding availability versus strategic requirements

Strategic initiatives require sufficient funding. Where funding needs to be raised externally, funding providers tend to require some form of collateral, evidence of successful implementation of previous strategies and/or assurance over the certainty of future outcomes. Issues can arise in two ways:

1. Giving in to pressures to provide assurances to funders and investors of implementation success beyond that which can reasonably be given; or
2. Being overly accepting that strategy implementation will be determined by the ease of obtaining funding rather than the potential attractiveness of the strategy.

In both cases finance activities move centre stage in determining an organisation's strategic development. The level of resilience and capability among those responsible for finance activities will be a key factor in how these tensions play out.

## 4.5 Funding

### 4.5.1 Consistency and coherence of information

The information provided to funders and investors is drawn from two sources:

1. Publicly available information (eg, published accounts) to meet regulatory requirements; and
2. Internally focused information to meet management and control and strategy requirements, which in itself can be drawn from mixed sources - accounting and/or operational.

Internal information can be reconfigured to meet investor and funder requirements and to support managerial interpretation and external communication of performance. However, publicly available information must meet fixed standards. This can result in differences between the two information sources for example due to different accounting treatments, modes of analysis or time horizons. A pressure point arises because such differences may undermine credibility with funders and investors who require the information to be valid, plausible, coherent and consistent.

### 4.5.2 Pressure of uncertainty

The relationships with investors/funders generally require the provision of prospective information on future financial performance, together with management's assurances about their validity. These can relate to both commercial prospects and the confirmation of continuing solvency. The validity of prospective information is dependent on the accuracy of the assumptions made about the future and may be subject to significant uncertainty. However, in order to obtain financial resources and meet investor and funder expectations there may be pressure to downplay such uncertainties and commit to a greater level of certainty on the achievability of future cash flows than is warranted. Failure to meet committed future cash flow performance can lead to a break down in credibility with funders, with potentially harmful consequences.

### 4.5.3 Changes to funders' terms and lending covenants

Sufficient funding is essential for the continued viability of an organisation. However, funding is generally provided on a conditional basis for limited time periods, which are subject to renewal negotiations. Challenges arise in having to deal with such uncertainty. The level of uncertainty is increased because funding facilities may be withdrawn due to circumstances beyond an organisation's control eg, a change in the funder's internal strategies or policies. Moreover, funders such as banks are often larger and more powerful than the organisations they fund.

### 4.5.4 Conflicting interests between investors, funders and managers

Investors and funders have different core interests – investors in increased shareholder value and funders in the return of their financial commitment together with fees and interest. Further where there are multiple funders or investors, there can be conflicting interests and rights within each category; for example differing levels of security for funders and differing levels of management control for shareholders. They may also differ in their views on commercial prospects. Managers' objectives can also diverge from those of other stakeholders for example by focussing on increasing the size of the organisation. These different interests can result in conflict in relation to strategy, dividend policy, borrowing levels, approaches to winding up etc. Such conflicts will place additional pressures on finance activities.

## 4.6 Resourcing – key challenge

The key inherent challenge is that the effective development and management of both people and systems is essential to the effective implementation of the interlinked activities in the framework. However, those involved in finance activities may not have developed leadership, management and IT skills to the same level as their finance technical skills.

## 4.7 Other activities – key challenge

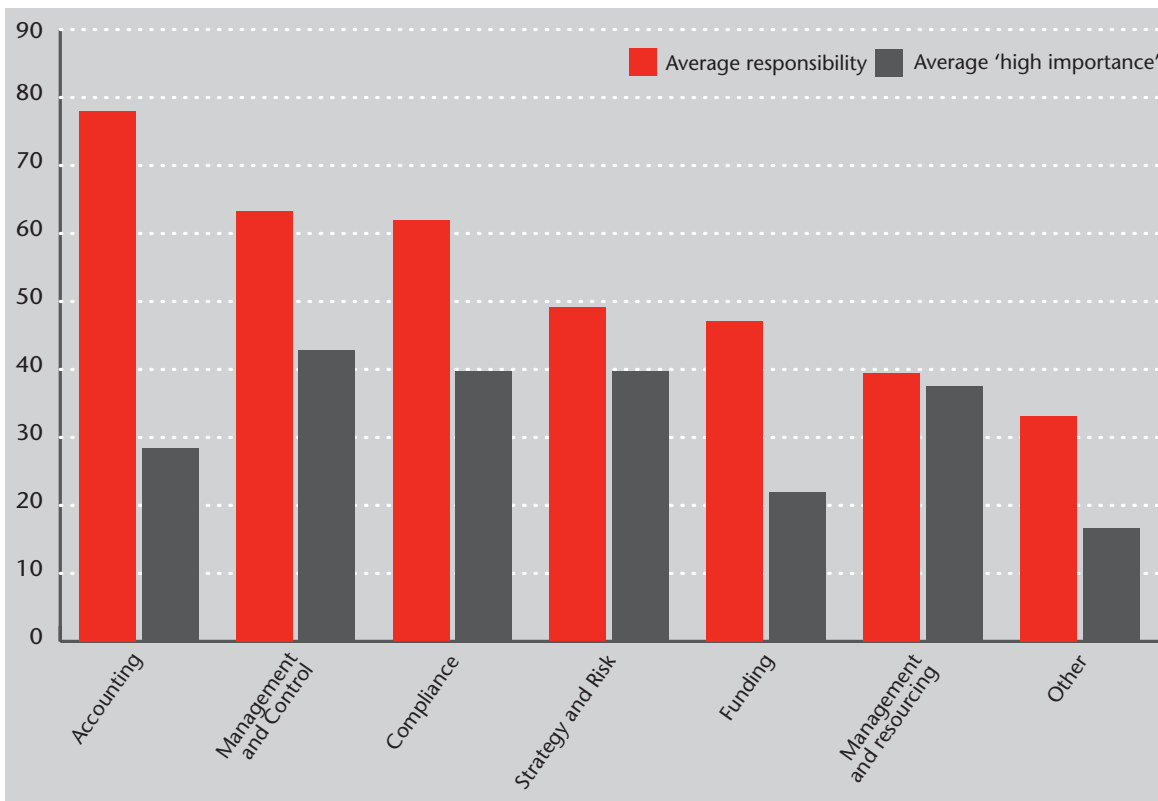
Given the decision to exclude these other activities from the finance activities framework clearly there are no inherent tensions. However, the addition of such responsibilities to those responsible for finance activities will lead to the need to develop unrelated specialist skill sets. The loss of benefits associated with specialisation will need to be weighed against the benefits of allocating responsibilities in this way.

# 5. THE ROLE OF THE FINANCE DEPARTMENT

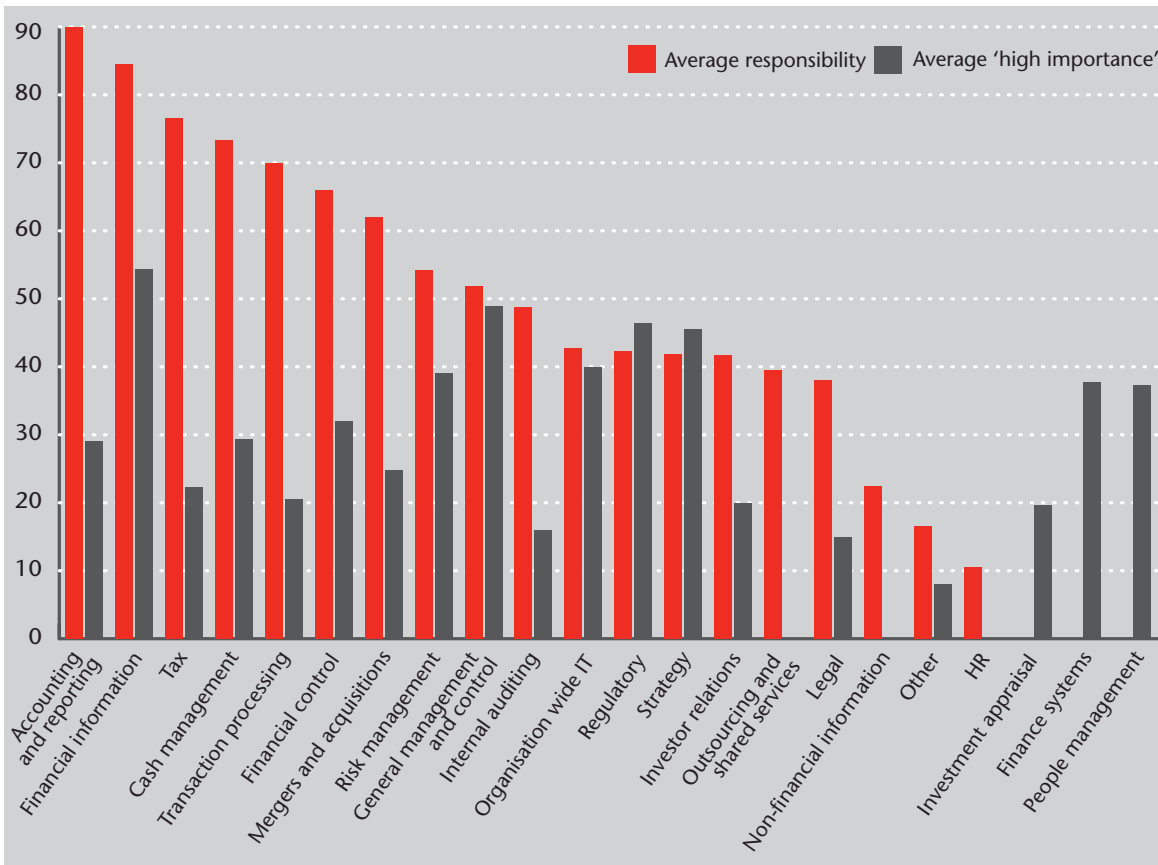
In this section we summarise the detailed tables of survey data in order to consider the role of the finance department. As discussed further at the end of this section the consolidated analysis needs to be treated with caution because of the nature of the surveys and the wide range of terminology used. However, by interpreting the averaged data in relation to the detailed responses some patterns do emerge.

Graph 5.1 below shows the averages of survey responses showing the levels of responsibility and importance for each finance activity discussed above. Graph 5.2 shows the same data for the subcategories of activities, excluding items only covered by one survey. The results are sorted by averages of finance department responsibility.

**Graph 5.1: Average responsibility and 'high importance' results for finance activities**



Graph 5.2: Average responsibility and 'high importance' results for finance activity subcategories excluding single responses



## 5.1 Finance department responsibilities

Not surprisingly the evidence shows a general pattern of high finance department responsibility for financial processes, with lower levels of responsibility for less direct applications. Thus:

- High levels of finance department responsibility (60% to 90%).** This principally covers the core process type activities – accounting, transaction processing, financial information, tax, cash management and financial controls. The transaction processing responsibility result of 70% would have been higher if payroll at 56% had been excluded. It is interesting to note that responsibility for accounting is not 100% which may be because those using shared service centres or outsourcing services no longer regard accounting as their responsibility. The only non-core process type activity in this band is mergers and acquisitions.
- Medium levels of finance department responsibility (40% to 59%).** This band principally covers application type activities such as general management and control and strategy and risk management. These areas of activity are often those where CFOs and finance departments have long aspired to achieve more influence. Further research is required to better understand why such aspirations are in many cases not being achieved and indeed to consider whether greater influence would be beneficial to organisations.

Responsibility for internal audit and organisation-wide IT also fall into this band. However, the surveys show that finance department responsibility for these areas may be declining over time. With respect to internal audit this is possibly due to the increased focus on the need for internal audit to maintain its independence from the finance department. In the case of IT this may reflect the fact that historically the finance department was one of the major users of IT, but now most parts of organisations are IT dependent and IT capability is often a major contributor to competitive advantage. This is also reflected in the development of the role of the Chief Information Officer with a reporting line to the CEO.

- Lower levels of finance department responsibility (20% to 39% and not covered).** Unsurprisingly lower levels of responsibility are reported for outsourcing and shared services as many organisations will not have pursued this approach to delivering finance activities.

Investment appraisal, debt financing, finance systems and people management were not covered by enough surveys from a responsibility point of view to be included. This may be because they are subsumed by broader categories in some surveys. In the case of finance systems and people management, responsibility for the activities may be taken for granted as a means of delivering the other activities.

The collating and reporting of non-financial information also shows a low level of finance responsibility based on two surveys in 2007 and 2008. It will be interesting to see whether finance departments will respond to the calls made by some commentators to take greater responsibility for non-financial measures through tools such as the balanced business scorecard.

## 5.2 Finance activities considered to be of high importance

'High importance' results will vary significantly across time and between organisations because priorities are influenced by the drivers shown in the framework and the particular situation of an organisation. Therefore averages must be treated with caution.

Financial information, which includes management reporting, financial analysis, budgeting and forecasting, shows the highest average 'high importance' score. The explanation may be that these are activities where finance departments have high responsibility and the potential to significantly impact on organisational performance. There are likely to be high expectations that finance departments will perform these activities to a high standard and problems will need to be addressed urgently. A similar argument can be made for the high importance attached to general management and control.

High importance is also attached to both Strategy and Compliance. Assessing the relative priority to give to these two areas is often a key challenge for finance departments. Developing and implementing an appropriate strategy is essential in achieving organisational success and is perceived as an interesting area to be involved in. However, to some extent finance department involvement is discretionary – particularly in respect of strategy formulation. Clearly compliance with regulation is compulsory and must receive some focus. This focus often increases in response to financial scandals.

Although important treasury and cash management are not rated as highly as the above probably because the surveys concerned were carried out before the 2008 financial crisis.

People management, finance systems and organisation-wide IT are also seen as highly important. This is to be expected as they are key enablers of finance department and organisational performance.

Accounting and reporting, transaction processing and financial controls receive lower 'high importance' ratings. These activities are often perceived as 'hygiene' factors – the expectation is that they will be carried out effectively and efficiently but they are not seen as adding value to an organisation. They will only receive significant management attention when major problems occur or there is scope for significant cost savings.

## 5.3 Time spent on activities

Time-based responsibilities have not been consolidated because the variation in survey approaches means that the results are potentially misleading. Greater insights are gained by looking at the detailed tables in Section 2.

The most telling trend is highlighted by the IBM surveys of 2003 and 2010, one of the few surveys to use similar terminology over time. These surveys show that the proportion of time spent by finance departments on transactional activities, control activities and decision support has hardly changed. Despite aspirations to spend more time on decision support and the increased availability of technology to facilitate this, finance departments spent 24% of their time on decision support in 2003 and 26% in 2010. There are a number of possible reasons for this. Maybe technology advances are largely used to cut staff numbers rather than free up people to work on decision support. It is also possible there is some sort of limit to the proportion of time it makes sense for finance departments to spend on decision support. It should also be noted that the statistics do not indicate whether the quality of the time spent on decision support has improved.

## 5.4 Interpreting the results

Caution must be placed on interpreting these results too precisely, as they are based on averages of surveys, with relatively small numbers of surveys using each detailed category (one to eight surveys). Terminology varies significantly. They also cover a long time period, although the majority were carried out between 2002 and 2010, with differing specific questions and quality levels. On the other hand the total number of people surveyed, the number of survey questions and the number of surveys is high, providing some basis for the discussion above.

The benefits of developing more consistent terminology and conducting surveys which enable the profiling of finance departments and comparisons over time are discussed in Section 5.

## 5.5 How finance activities are implemented is idiosyncratic

We have argued that there is a coherent set of interlinked activities that make up the finance function of an organisation. The process aspects of producing information, including financial controls are generally the responsibility of a finance department. The application of the information is more variably the responsibility of the finance department and some finance departments take a lead role in strategy and risk. We infer from this is that how these activities are undertaken in any particular organisation will be idiosyncratic and shaped by the impact of the drivers described in Section 6.



# 6. DRIVERS SHAPING THE IMPLEMENTATION OF FINANCE ACTIVITIES

This section discusses a number of interrelated drivers which shape how finance activities are implemented in an organisation. These fit three groupings, as shown in the outer circle of the framework (Figure 1):

- **The Environmental drivers** provide the context within which organisations, and thus their finance activities, operate. These impact finance activities both directly and indirectly.
- **The Accounting Environment drivers** are a subset of the Environmental drivers which have specific relevance to the role of the finance function. Their nature and content is principally driven by the Environmental drivers although they also play a role in shaping the environment. The Accounting environment drivers also impact directly and indirectly on finance activities.
- **The Organisational drivers** arise from the economic, operational and behavioural profile of an organisation. Their nature and impact is influenced by interactions with both the Environmental and Accounting environment drivers. There is a complex interaction between the Organisational drivers and finance activities because finance activities both respond to the Organisational drivers and play a part in shaping them.

The number of influencing drivers identified and the fact that they interact makes for complex relationships between the drivers and finance activities. This complexity is amplified by the fact that the drivers identified are subject to ongoing change which may be gradual or abrupt.

The precise content, nature and interaction of the influencing drivers will be different for each organisation, given that each operates in a unique context. Consequently their collective impact on how finance activities are implemented will also be different for each organisation. However, there are likely to be some common tendencies and trends. This is because the same range of drivers impact each organisation, certain drivers at any one time may be particularly powerful and organisations often copy one another.

A number of papers and reports have identified a range of drivers which impact on finance activities. Their focus tends to be on the role of the CFO and Management and Control activities. This literature has been used to build up the range of drivers discussed below. Details of the papers used are shown in Appendix 1, Table A.1.

We now go on to discuss each driver in detail which can be navigated using the references shown against each driver in Figure 1.

## 6.1 Environmental drivers influencing the finance function

The Environmental drivers shape how finance activities are implemented, both by their direct impact on the activities themselves, and indirectly via their impact on the Accounting environment and Organisational drivers. Five Environmental drivers have been identified:

### 6.1.1 Political and social

**Political and social drivers are fundamental to the context within which financial activities are undertaken.** For example politics will influence regulatory systems including tax, company, contract, property and employment laws. The social context will impact on many areas including attitudes to shareholder value, sustainability and business ethics. Clearly where organisations operate transnationally or globally, finance activities will need to respond to social and political differences between countries.

The impact of political and social drivers is implied in a number of studies but those discussing them most directly are covered in Appendix 1, Table A.1.1.

### 6.1.2 Market

The Market driver is defined widely to include the economic and financial environment, and customer and supplier relationships.

**The nature of, and changes to, the competitive environment and capital markets drive how finance activities are organised and which activities are prioritised, in particular:**

- **Management and Control activities respond to market changes.** Management and control practices aim to support organisational survival and goal achievement. Therefore to be effective these practices need to reflect, adapt and respond to the ongoing impact of market forces on the organisation.
- **Strategy and Risk activities respond to market changes.** In the same way strategy and risk management practices need to reflect, adapt and respond to the ongoing impact of market forces. Competitive markets and instability make long-term value creation extremely difficult and finance departments have a role to play in analysing and explaining the strategic impact of market conditions and the related risks.
- **Financial staff may become more closely involved in operational activities.** Also related to the above, increasing market pressures lead to a greater focus on financial performance which can provide the opportunity for closer involvement of finance staff in supporting operational activities. This is reflected by the growing use of such terms as business partner, business support and hybrid accountant to describe the roles of finance staff.
- **Financial crises can have pronounced effects on how finance activities are undertaken.** Financial crises mean finance activities are placed centre stage with significant management focus. Finance departments are used to both identify what needs to be done (eg, cost reduction, retrenchment, asset management and/or capacity utilisation) and provide institutional sanction for it being done. Despite increased requirements from the finance department, they themselves can come under pressure to reduce their own costs and headcount. Unsurprisingly poor organisational performance is associated with an increased likelihood of the CFO being replaced.

See Appendix 1, Table A.1.2 for further details.

### 6.1.3 Location

**National differences, globalisation and the interplay between them provide strong, often conflicting, influences on how finance activities are implemented. The main impacts are on:**

- **Compliance.** Organisations operating in single jurisdictions have to meet local regulatory requirements, although they may have to respond to changes which arise from globalisation, for example the introduction of IFRS. Where organisations operate in multiple jurisdictions, there will be a need to contend with the complex balancing of global, head office and local requirements.
- **Management and control systems design and implementation.** There is a complex interplay between divergent national influences and convergent global influences. Local traditions influence the role of finance staff, how accounting is mobilised and the choice of performance management techniques and processes. Against this globalisation leads to greater international consistency for example through the global consulting industry. Global organisations and global supply chains also seek to standardise processes and policies to improve communication and automation.
- **The relative importance of financial information and finance departments.** Differing national cultures can ascribe differing levels of importance to financial information and how it is interpreted. This in turn impacts on the influence that finance departments have in organisations.

See Appendix 1, Table A.1.3 for further details.

### 6.1.4 Information Technology

**Relentless IT development may have a transformative impact on the implementation of finance activities and also provides an ongoing challenge.** Impacts include:

- **Reduction in resources required for transaction processing** as IT enables the automation and standardisation of processes.

- **Potential to improve information collection and analysis for Management and Control activities.** IT improves the capacity for collection, integration and analysis of financial information and indeed access to new types of relevant information. This in turn provides the potential for finance departments to make a greater contribution to business support, performance management and decision making.
- **Changes to the role of finance staff through diffusion of information.** IT enables financial information to become more easily accessible and usable throughout organisations. This can lead to either a contraction or expansion in the roles of finance staff. Expansion through finance staff becoming more closely involved in operational decisions; contraction if the availability of financial information means line managers can use the information, without the need to involve finance staff.
- **Problems resulting from the introduction of new systems or IT shortcomings.** In addition to the potential benefits and organisational changes resulting from IT developments identified above, the threat of fragmentation is equally important.

Information sources can become fragmented where new systems are introduced alongside existing systems. This can arise for a number of reasons including the obsolescence of earlier systems; mergers and acquisitions and the introduction of new products and services. The difficulties in combining and reconciling the various sources of information may lead to significant errors and misunderstandings. In many organisations finance staff spend large amounts of time trying to address the root causes and symptoms of such issues.

In addition problems can occur through information overload. IT enables cheaper access to new, broader information sources with increased detail. The downside is that this may lead to information overload making the most relevant and useful information difficult to discern.

See Appendix 1, Table A.1.4 for further details.

### 6.1.5 Sector

**Differences in industry sector impact on how finance activities are implemented, especially Management and Control and Strategy and Risk.** Much of the evidence focuses on variations associated with differing levels of uncertainty in different sectors. For example utility companies may face less uncertainty than IT software companies. In addition certain finance activities in the service industries will be different from those in manufacturing because it is more difficult to standardise processes and measure outputs in the service sector. It should also be noted that organisations in particular sectors will often mimic the organisational structures of their peers. As yet no clear evidence base has been established to assist in aligning the design of performance management systems with sector characteristics.

See Appendix 1, Table A.1.5 for further details.

## 6.2 Accounting environment drivers

The Accounting environment drivers are a subset of the Environmental drivers, which have specific relevance to the role of the finance function. Four drivers are identified:

### 6.2.1 Accounting representation

**Financial information and accounting reports can only ever provide a partial representation of organisational reality.** Accounting representations are based on interpretations by those who produce them and in turn have to be interpreted by their users. Although the information generated through accounting is central to decision making and running an organisation, finance departments and other users of accounting information should not lose sight of accounting's inherent limitations.

- **Accounting reports are based on uncertain assumptions about both future outcomes and the appropriateness of income and cost allocations.** Much of the information contained in accounting reports is based on assumptions about an uncertain future. Uncertainties related to accounting for day to day activities include whether accrued revenues will be collected, depreciation rates match the actual lives of fixed assets and provisions for warranties are sufficient. Accounting for one-off events may also require judgements about the future such as whether legal claims will be successfully defended or not. These issues contribute to the continual reworking of accounting standards resulting in changes to which finance functions have to respond. Therefore financial reports are subject to ongoing restatements as outcomes differ from prior assumptions and accounting standards change.

In addition decisions about how revenues and costs are allocated to different lines of business and to different periods may have significant implications for how a business unit's performance is perceived. Ongoing debates about whether and how overheads and central costs should be allocated and the number of different costing techniques advocated are indicative of the problem.

- **Finance functions differ in the ways that they apply accounting standards and make organisationally specific assumptions to create a working certainty.** For many purposes this is totally adequate in practice. However, if subsequent events show these assumptions to be mistaken, the prior accounting reports can be challenged as unreliable. If the resulting adjustments are material, the credibility of those who produced the information and used it as the basis of decision making and action can be called into question.

See Appendix 1, Table A.1.6 for further details.

### 6.2.2 Management and control techniques

How Management and Control activities are implemented is strongly impacted by the type of technique used to analyse, project and report financial information. Two key themes emerge:

- **The type of technique used impacts on how Management and Control activities operate.** However, no clear guidelines have evolved to appraise which is most appropriate. A wide array of management accounting techniques have been developed over time, generally in response to specific historic, organisational and/or environmental contexts. Despite a wide range of research on their use, no coherent patterns have been identified to help guide the choice of technique which is most appropriate in a given situation. Rather, the evidence suggests that the techniques in use are determined by such factors as subjective appraisal, historical usage or pressure from managers or advisors to use the latest technique (or fad).
- **Some organisations have developed greater integration of financial and non-financial measures with the aim of improving performance.** However, the evidence also suggests that while this may be desirable, it can be difficult to implement in practice.

See Appendix 1, Table A.1.7 for further details. It should be noted that the table only shows a small sample of the very wide range of research available.

### 6.2.3 Regulation

Compliance activities are directly driven by external requirements, with a knock-on impact to other, interconnected finance activities.

- **The weight of regulation determines the significance, complexity and technical requirements of Compliance activities.** Over a number of years regulatory requirements have been increasing and have led to significant changes in finance departments. As they are largely non-negotiable, this has increased the amount of time and focus required from finance executives. It has also raised the strategic importance of Compliance given the increasing risks from non-compliance. The increased regulatory burden can also have the knock-on effect of crowding out other finance activities, such as Management and Control.
- **Moreover financial scandals increase the focus on its importance.** A clear example of this was the implementation of Sarbanes-Oxley in response to Enron, Worldcom etc.
- **Regulation feeds through to impact on Management and Control and Accounting activities.** Clearly the information and financial controls required to comply with financial regulation impacts on Accounting activities which must respond to external as well as internal requirements. There is also an impact on Management and Control where regulations place constraints on organisational activities and also where there is a preference to maintain consistency between management information and external reporting.
- **There is some pressure for finance professional to work on broader regulatory issues including sustainability.** The prominence of natural environment, ethical and governance issues is leading to the finance function extending its scope beyond the narrow financial.

See Appendix 1, Table A.1.8 for further details.

## 6.2.4 Professionalisation of accounting

The accounting profession can play an influential role on finance activities, specifically:

- **In some parts of the world the implementation of finance activities is strongly influenced by the training standards and ethics required by professional bodies to which a large proportion of finance executives belong.** This professionalisation of accountancy grew out of the requirement for professional objectivity in meeting early regulatory standards, especially in relation to insolvency and audit.
- **The accounting profession has consolidated and continues to expand its influence and impact.** For example the membership of professional accounting bodies has continued to expand and they have helped drive the convergence of international accounting practices.
- **Conversely there are challenges from rules-based regulation and greater attachment to employers rather than the accounting profession.** In recent years regulatory requirements have increasingly been prescribed by governmental and global institutions, reducing the impact of the professions. In addition there is an intrinsic tension between professional and employer allegiances.

See Appendix 1, Table A.1.9 for further details.

## 6.3 Organisational drivers

Organisational drivers relate to the nature of the organisation within which finance activities are carried out. The Organisational drivers are influenced by the Environmental and Accounting environment drivers as organisations adapt to their circumstances. It is important to note that as finance activities are an integral part of an organisation, the organisational drivers both influence and are influenced by the functioning of finance activities. Seven drivers are identified:

### 6.3.1 Ownership

**Owners and those who hold an organisation accountable have a significant impact on how all finance activities are undertaken. Specific aspects include:**

- **Pressure to meet and manage financial expectations.** The level and nature of the pressure to meet financial expectations for commercial organisations will vary depending on the nature of organisational ownership. For example many private equity owners focus on high financial returns which support their exit strategies whereas institutional investors such as pension funds often take a longer-term view. Where organisations do focus on the financial expectations of investors it can enhance the influence of the CFO. On the other hand the CFO and the finance department will also be under pressure to reduce costs and headcount.
- **The degree of owner intervention on finance activities varies.** Owner managers, such as family owners or partnerships, by definition have wide authority in determining how finance activities are carried out. When outside investors become involved this may bring pressure to change finance processes and outputs. In particular interventionist, private equity firms may impose specific requirements concerning financial reporting and control. Organisations established as joint ventures may face complex and possibly conflicting requirements from the owning partners. For public listed companies with broad based shareholders there will be less direct owner influence on how finance activities are undertaken.
- **The impact of a change in ownership.** This can trigger changes in all aspects of finance activities either to meet the changed requirement of the new owners or to integrate the processes of merged or acquired organisations. Dealing with a change of ownership can be extremely difficult with compatibility issues in relation to all finance processes, including behavioural and organisational aspects, IT systems and financial policies.
- **The impact of public ownership or charitable status.** With public ownership/accountability or charitable status come organisational goals which are different to commercial organisations. Financial goals do not form a central part of organisational objectives as the espoused outcome is the provision of service levels. Financial priorities are expressed as providing value for money services and safeguarding public money or charitable resources.

See Appendix 1, Table A.1.10 for further details.

### 6.3.2 Size

An organisation's size has a significant impact on how finance activities are implemented, specifically:

- **Larger organisations tend to have more sophisticated and formalised management and control systems, with the greater use of specialists.** Indeed it has been argued that the development of accounting systems have played a key role in enabling large, multi-divisional firms to exist.
- **In smaller organisations finance staff may have broader responsibilities and finance activities will tend to be less complex.** Such broader activities result from limited management resources. Management and control processes are likely to be simpler and gaps may become apparent when new circumstances develop.
- **However, the specific impact of size is not always clear because of its interaction with other drivers.** This can be particularly so in larger multidivisional organisations, where finance activities can be spread widely, with varying degrees of responsibility and sophistication depending on the structure of the organisation.

See Appendix 1, Table A.1.11 for further details.

### 6.3.3 Strategy

Strategic focus drives how finance activities are implemented especially Management and Control. More specifically:

- **The compatibility of strategy with Management and Control practices is generally believed to be beneficial to organisational performance.** As a consequence the effective implementation of new strategies may require changes to Management and Control activities.
- **However, aligning Management and Control practices and strategy can be challenging.** Management and control processes tend to focus on short-term performance, whereas strategy tends to have a medium/long-term time horizon. Ensuring alignment can be difficult, especially where actions that enhance short-term performance can damage long-term prospects (eg, reductions in expenditure on marketing or research and development).
- **Management and Control feedback can become embedded in strategy development.** The feedback from Management and Control activities can be a primary input to the development of strategy. Where this is the case there will be an ongoing feedback loop between strategy development and the implementation of Management and Control activities. It is also worth noting that the importance of the finance department relative to other departments may be higher in firms pursuing acquisitive growth or retrenchment rather than organic growth.

See Appendix 1, Table A.1.12 for further details.

### 6.3.4 Organisational structure

Organisational structure is intertwined with how finance activities are undertaken, specifically:

- **Organisational structure influences and is influenced by finance activities.** The organisational structure will have a central impact on the way in which financial information is aggregated and analysed (eg, profit centre categorisation), how it is produced (eg, centralised or decentralised), who produces it (eg, in the finance department or elsewhere) and to whom it is disseminated. Conversely financial considerations will impact on the organisational structure, for example through the need for appropriate legal entity structures for tax and regulatory purposes.
- **Departmental structures influence the degree and nature of collaboration and conflict between finance and other functions.** Departments in organisations rely on each other to meet their objectives but these objectives may conflict. Relationships between them depend on a number of factors including levels of interdependence, overlaps in responsibilities and conflict resolution mechanisms.
- **One possible tendency is a closer involvement of finance staff with operational activities.** However, this aspiration has been talked about for many years and the degree to which the aspiration has been achieved varies significantly between organisations.
- **Financial incentives influence the behaviour of those carrying out finance activities.** The impact can be functional or dysfunctional. A key question is whether rewarding finance staff based on the financial performance of organisations jeopardises their objectivity and leads to unethical behaviour.

- **Outsourcing and shared service centres have a specific impact on how finance activities are implemented.** These changes include where finance activities are undertaken, how they are undertaken and the management responsibility for their effective implementation.

See Appendix 1, Table A.1.13 for further details.

### 6.3.5 People

**The knowledge, skills, interests and attitudes of finance staff and their relationship with staff in other functions impact on how finance activities are implemented. The following themes emerged:**

- **The skills of staff play a major part in determining the effectiveness of finance departments.** A large number of studies suggest that the degree to which finance departments recruit, train and retain staff with appropriate skills and personal characteristics will influence the nature and the effectiveness of activities carried out in the department. The degree of diversity in the finance department will also have an impact.
- **However, attracting appropriately skilled staff can be difficult.** Studies identify skill shortages as a major issue although it should be noted these studies were carried out before the 2008 financial crisis. Part of the difficulty may be that the sheer number of skills and personal characteristics sometimes listed as necessary for effective finance personnel may result in unrealistic expectations. Moreover some required personal characteristics may be seen as at odds with one another, for example attention to detail and strategic thinking.
- **Finance departments can play a major part in shaping their own role.** Finance department staff can influence which activities they take responsibility for, how tasks are prioritised and the resources and processes used to carry out the tasks. In addition, commentators have argued that finance departments who want to take on broader business roles will need to proactively pursue this goal rather than wait for the organisation to give them such opportunities.
- **However, top management teams also play a key role in how finance activities are carried out.** The relationship between the CFO and the CEO is particularly important in determining the influence of the finance department. Studies also suggest that the functional backgrounds of top management team members will play a role in influencing strategy and the information that is attended to. For example there is some evidence top management teams with more executives from a finance background are more likely to focus on acquisitions than organic growth.

See Appendix 1, Table 1.14 for further details.

### 6.3.6 Culture

**Finance activities are intertwined with organisational culture and politics.** Organisational culture, power relationships and politics will have a significant impact on how finance activities are implemented and how information is interpreted and used. In addition, changes to finance activities and the introduction of new accounting techniques will impact on the culture of an organisation and may change the distribution of power. As a result such changes are likely to face resistance and be difficult to implement. Proactive attention to such factors will be required for finance activities, and changes to them, to be effective. Top level support for proposed changes is argued to be an essential prerequisite to success.

See Appendix 1, Table A.1.15 for further details.

### 6.3.7 Routines

**Finance activities are intertwined with organisational routines.** Broader organisational routines and processes will tend to shape, and be shaped by, how finance activities are implemented. Finance activities are part of overall organisational routines and may reflect or conflict with such routines. Moreover finance activities may change or be changed by institutional forces which in turn adapt to their external environmental and management interventions.

See Appendix 1, Table A.1.16 for further details.





# APPENDIX 1 – SUPPORTING EVIDENCE FOR THE DRIVERS

Table A.1: Papers covering a range of drivers

Author	Date	Findings
<b>A number of papers and reports have identified a range of drivers which impact on finance activities</b>		
KPMG/The Institute of Chartered Accountants in Australia	1998	Competitive pressures, technological innovation, globalisation, new business structures, the need to focus on value, the demand for new skills and changing attitudes to work will impact the finance function.
Sheridan	1998	The main drivers of change for financial management include new attitudes to quality and service, social pressures from stakeholder activism, as well as intense competition, new opportunities and risks, and regulatory and environmental pressures.
Waggoner et al.	1999	Performance management systems change in response to a wide range of factors. These include internal influences such as power relationships, peer pressure and the search for legitimacy; external influences such as legislation, market volatility, information technology; process issues including the manner of implementation and system design and transformational issues such as the degree of top level support and the impact of organisational culture.
Chenhall	2003	Discusses the impact of the external environment, technology, organisational size, organisational structure, strategy and national culture on the design of management control systems. More detailed propositions are summarised in the relevant sections.
Burns and Baldvinsdottir	2005	Key drivers of role change for management accountants include globalisation and internationalisation, new management philosophies and strategic goals, organisational restructuring and the actions of influential groups and individuals.
FEI Canada	2005	The top challenges faced by Chief Financial Officers (CFOs) are compliance, finance availability, strategic planning, human resource (HR) issues, personal pressures and market conditions.
Ernst & Young	2006	The CFO's role has been affected most by increasing corporate governance obligations but also increasing demands from investors, increasing penalties for mistakes, changes in technology and a broader set of demands from board colleagues.
Byrne and Pierce	2007	The role of management accountants is influenced by a wide range of factors. These include external factors (ownership, environment and regulation), internal factors (size, structure, culture, technology, management, business nature and circumstances, location, performance systems) and individual factors (orientation, background, skills and personal characteristics).
Ernst & Young	2008	Factors most contributing to the changing role of the CFO are increasing regulatory requirements, expectations from board and audit committees, corporate governance obligations and risk management.
Ernst & Young	2008(a)	The challenges and opportunities for the financial controller are increasing because businesses are becoming more global and complex; finance is becoming a business partner at the heart of the organisation; increased pressure to deliver high-quality management information; there are pressures to move from efficiency to effectiveness including dealing with shared services, outsourcing and mature technical systems; the CFO is passing more work to the financial controller (FC) as he or she spends more time on investor relations.
KPMG	2008	The finance function is shaped by market influences including globalisation, investor demands, the rise of regulation, the power of technology and an increased focus on the social responsibilities of organisations.

**Table A.1: Papers covering a range of drivers continued**

Author	Date	Findings
Ferreira and Otley	2009	Performance management systems (PMS) need to be viewed in a holistic manner and take into account a number of areas. These include an organisation's vision and mission, key success factors, structure, strategies and plans, key performance measures, target setting, performance evaluation and reward systems. Also important are the ways PMS are used; the feedback and feedforward information flows and associated systems and networks and how PMS change and respond to the environment and the strength of the links between the components of PMS. Contextual and cultural factors also need to be considered.
Bhimani and Bromwich	2010	Management accounting and management accountants are impacted by the increasingly global, digital and volatile environment faced by enterprises; the adoption of flexible supply chains; new management techniques and growing regulatory requirements.
CIMA	2010	Finance function changes can be seen as either motivated by the need for cost-efficiency or the need for value creation. The range and extent of change is affected by organisational size, sector, location, increased competition, increased risk and uncertainty, advances in information technology (IT), the impact of regulation, new markets, changes in top management and increased service demands.

**Table A.1.1: Political and social**

Author	Date	Findings
<b>Political and social drivers are key to the context within which financial activities are undertaken</b>		
DiMaggio and Powell	1983	Organisations come to resemble one another through social and political pressures, copying other organisations in order to achieve legitimacy and the influence of professional networks that span organisations.
BIC	1992	The 1990s saw the collapse of communism, the gulf war, the return to economic health of Latin America and a prolonged recession, so that coping with rapid and unpredictable change becomes a top priority for business. This in turn requires the finance function to become more strategic in outlook and more outspoken and open in their views.
Sheridan	1998	The main drivers of change for financial management include new attitudes to quality and service, social pressures from stakeholder activism, as well as intense competition, new opportunities and risks, and regulatory and environmental pressures.
Zambon and Zan	2000	It is well known that accounting is relative to and contingent upon organisational and social contexts.
Fligstein	2004	Social and political forces mean that the role of shareholder value as a predominant driver of organisational activities has ended. In addition companies can no longer achieve profitability through financial engineering.
Napier	2006	The nature of accounting change is strongly intertwined in the social. Accounting is seen to be implicated in wider arenas, with networks of practices, principles and people constituting a variety of 'accounting constellations'.
IBM	2008	The world is undeniably risky – 62% of businesses with revenues over US\$5 billion have encountered material risk events in the last three years - 87% of which were strategic, geopolitical, environmental, operational or legal.

**Table A.1.2: Market**

Author	Date	Findings
<b>The nature of, and changes to, the competitive environment and capital markets drive how finance activities are organised and which activities are prioritised, in particular:</b>		
<b>Management and Control activities respond to market changes</b>		
Turney and Anderson	1989	Competition from Japan precipitated significant organisational changes. Accounting change was an essential part of the success in supporting the need for modern manufacturing techniques and continuous improvement.
Cooper	1996	The growing importance of cost management is changing the practice of management accounting. While management accounting is more important, management accountants and the management accounting function is less important. They need to take a supportive and monitoring role with more individuals actively involved in the cost management process.
Chapman	1997	Under conditions of rapid change accounting systems are unable to just optimise faster. Therefore operational considerations must be involved in the decision process, not coded but in their original form.

Author	Date	Findings
<b>Management and Control activities respond to market changes</b>		
Ezzamel et al.	1997	Emphasis on improving bottom line results entails more use of accounting and other quantitative controls.
Helden et al.	2001	Competitive pressures led to the introduction of business units responsible for their own results and the questioning of performance management and transfer pricing practices.
Ezzamel et al.	2004	Commercial pressures from a changed trading environment can lead to the reconstitution of accounting measures to facilitate the changes necessary for commercial salvation.
Busco et al.	2006 (a)	Performance measurement systems as a common organisational language are central to adapting to changed market conditions which require collaboration across the organisation.
Smith	2007	Management accounting systems must be able to respond flexibly to unanticipated market changes.
Abdel-Kader and Luther	2008	Differences in management accounting sophistication are significantly explained by a range of factors including environmental uncertainty and customer power.
<b>Strategy and Risk activities respond to market changes</b>		
Simons	1995	Competitive environments require responses. This leads to the requirement for interactive control systems, which focus organisational attention on strategic uncertainties and provoke the emergence of new initiatives and strategies (eg, profit planning systems).
Froud et al.	2000	The effective use of financial metrics to identify and implement actions that lead to increased long-term shareholder value is limited by the inherent competitiveness of the market.
Booz Allen Hamilton	2006	The CFO's role has evolved significantly over the last decade, and now needs to drive an organisation's overall risk management programme, which must be defined broadly, and consider changing market conditions.
Widener	2007	Strategic risk and uncertainty drive how levers of control are used.
CFO Research Services/ACCA	2009	The turbulent economic environment has meant greater CFO involvement and focus on strategy and risk management.
Mckinsey	2009	CFOs believe the global economic turmoil will lead to the following permanent reactions by the finance function: 1) a continuous effort to reduce costs (52% respondents); 2) tighter management of working capital (48%); and 3) an increased focus on operational and financial risk management (43%).
<b>Financial staff may become more closely involved in operational activities</b>		
Gerstner and Anderson	1976	Financial resources have become the critical determinant of corporate plans and strategies and therefore the CFO's involvement in operational decisions is much greater than it was in the late 1960s.
Phillips and Ross	1996	The two main drivers of change in the finance function are the business environment and IT, leading to the need to adopt a more business-orientated approach. This leads to a shift away from producing numbers, towards working with other departments, becoming more involved in non-financial matters and adopting a strategic viewpoint.
EIU	1997	Global market changes demand a response from the CFO and the finance function.
Burns and Scapens	2000(a)	Competitive market conditions mean accountants take on hybrid roles which encompass accounting knowledge and an in-depth understanding of the operating functions or commercial processes of the business.
Kulmala et al.	2002	In pursuing competitive advantage, organisations have adopted network structures and complex supply chains. These changes demand new management accounting techniques eg, open book accounting and proactive, managerial roles for management accountants, including working in cross-disciplinary teams.
CFO Research Services/SAP	2007	Finance is pulled in two directions – regulation on one side and competition and investor expectations on the other. The pressure is for the finance function to respond by moving beyond the narrow finance role.
Sorenson	2009	Global competition drives management accounting change with finance professionals increasingly taking on business support roles.

**Table A.1.2: Market continued**

Author	Date	Findings
<b>Financial crises can have pronounced effects on how finance activities are undertaken</b>		
Hopwood	1987	Difficult market conditions lead to accounting changes but it is very difficult to generalise on the changes required.
Euske et al.	1993	When there was a crisis, organisations abandoned both their formal and informal control mechanisms, and implemented high-intensity forms of control including real time, high-involvement management.
Mian	2001	Poor organisational performance tends to lead to both CFO replacement and high Chief Executive Office (CEO) turnover.
Radcliffe et al.	2001	Trading crises can lead to downsizing, where accounting is used to both identify what needs to be done (eg, cost reduction, retrenchment, asset management, capacity utilisation), and provide institutional sanction for it being done.
Gurd et al.	2002	Financial difficulties provided a strong pressure to introduce change and reduced the time required to introduce accounting changes.
Arthaud-Day et al.	2006	High CFO and CEO turnover has been observed in US firms filing material misstatements.
IBM	2010	The global economic downturn has put CFOs under the spotlight and their finance organisations have had to deal with urgent financial issues. Uncertainty and volatility has drawn them into boardroom conversations about forecasts, profitability, risk management and strategic decisions. As a result CFOs are emerging with far more influence at the enterprise level.

**Table A.1.3: Location**

Author	Date	Findings
<b>Location – national differences, globalisation and the interplay between them provide strong, often conflicting influences on how finance activities are implemented. The main impacts are on:</b>		
<b>Compliance</b>		
Fligstein and Freeland	1995	There is no evidence of convergence across societies toward a single form of governance. This is mainly a function of three factors - timing of entry into industrialisation, the role of states in property rights and regulations, and the social organisation of national elites.
ICAEW	2006	Different national compliance pressures lead to differing requirements.
Lindsay	2007	Globalisation is associated with a number of reporting complexities for finance activities, including different generally accepted accounting principles (GAAP) regimes and transitional periods when moving to International Financial Reporting Standards (IFRS).
ACCA	2008	Global implementation of IFRS will lead to global harmonisation of regulations and auditing standards.
<b>Management and Control systems design and implementation</b>		
Demirag	1994	In general Japanese companies operating in Britain paid less attention to financial control systems than to achieving smooth production and good quality products.
Cooper	1996	In Japanese firms, job rotation exposes engineers to accounting and other aspects of the business. This enables them to undertake management accounting tasks without the need for management accountants, who carry out such tasks in western firms.
Ahrens	1997	In Germany, accountants and accounting served to legitimise completed operational proposals. In the UK, accountants mobilised accounting to influence emerging proposals as soon as possible.
Brewer	1998	A top-down approach to implementing ABC for Harris Semiconductor's worked better for their Malaysian plants than their US plants.
Carr and Tomkins	1998	Anglo-American short termism, as compared to Germany and Japan, is seen in the over-reliance on high 'comfort factor' financial hurdle rates in making strategic investment decisions. In addition some German CEOs did not see their senior finance executives as sufficiently involved in these decisions to warrant interviewing.
Granlund and Lukka	1998	Globalisation of markets and the global consulting industry drives convergence of management accounting practices. On the other hand national legislation, regulation, institutions, cultures and companies drive divergence.
Whitley	1999	The nature of labour markets impact on what control systems work; for example a top-down centralised approach works better in high-authority societies, but not so well in societies where there is a high degree of labour skill and autonomy.

Author	Date	Findings
<b>Management and Control systems design and implementation</b>		
Chow et al.	1999	National cultures affect the design, and employee preferences for, different types of management controls but the study also found that the relationship between the two remains ambiguous.
Ahrens and Chapman	2000	The underlying occupational identity of management accountants in Britain and Germany involved a common concern to drive economic pressure into their organisations. However, this was expressed differently - the British highlighted their marketable experience; the Germans their ability to provide a distanced analysis of economic flows.
Kulmala et al.	2002	Globalisation pressures can push a company to move to a network mode of operation, especially as companies outsource. This highlights the importance of cost management and, where there is outsourcing, cost transparency across the network. This can be difficult to achieve.
Chenall	2003	National culture is associated with how management control systems are designed but no specific conclusions can be drawn.
Ewert and Wagenhofer	2007	A distinctive feature of German management accounting is its separation from financial accounting. The advantage of this is that it allowed independent development of sophisticated systems. The disadvantage is that it can lead to the emergence of differing earnings figures. There is now pressure for greater convergence of financial accounting and management accounting.
Chow et al.	2007	Chinese management accounting practices have become increasingly receptive to modern management accounting applications since the open door policy began in 1978. The pace of adoption has accelerated since 1997 because of increased marketisation and privatisation.
Accenture	2008	Increasing globalisation results in pressure to deal with heightened complexity, competition and cost control.
Busco et al.	2008	There is a tension between global performance management systems aimed at achieving a global unity of effort, versus the contradictory forces emanating from multiple centres of decision making.
Chanegrih	2008	National cultures and macroeconomic contexts impact on how management accounting change is implemented and its success.
Deloitte	2008	Complex networks of production, distribution, suppliers and customers make common measurement and tracking of financial performance difficult.
Dossi and Patelli	2008	Cultural tolerance for uncertainty, pressures to globalise, subsidiary participation and subsidiary size give performance management systems a greater influence on decisions.
IBM	2008	The response to globally interdependent market places has usually been to allow finance activities to operate according to specialised standards and local preferences, although this is usually not the best approach.
Hoffjan et al.	2009	Differences in management accounting arise due to culture. For example profits may be calculated differently, with Anglophone countries relying on the general ledger and Germanic countries using separate costing systems. Further, accounting is taught as a discipline in Germany, but is a profession in Anglophone countries.
<b>The relative importance of financial information and finance departments</b>		
Budde et al.	1982	High profitability and growth were the dominant goals for both British and West German companies. Where differences emerged it was not clear whether this arose from cultural factors rather than, for example, the generally greater success of German organisations.
Bhimani	1994	Cultural differences impact on how accounting information is valued and interpreted.
Ezzamel et al.	1997	Accounting is presented as being much less central in the USA than in the UK.
Froud et al.	2000	The spread of financialisation is limited by structural barriers and by institutional differences between national economies.
Vámosi	2000	There were both differences and similarities between management accounting in communist and western capitalist regimes. For example, the role of costing was the same, but cash flow was a new discipline for organisations in previously communist countries.
Lascu et al.	2006	The relative impact of finance and accounting is stronger than marketing in Poland compared to the USA as a consequence of the former planned economy.
Vasilou and Daskalakis	2009	Generally, while there are differences in institutional characteristics between Greek and other US and European companies, this does not seem to affect the way of thinking of financial managers when they decide on capital structure issues.

**Table A.1.3: Location continued**

Author	Date	Findings
<b>The relative importance of financial information and finance departments</b>		
Accenture	2008(a)	Globalisation provides an opportunity to enhance the capability of the finance function through taking advantage of multiple sourcing options, access to more skilled and diverse staff/leadership, and expanded opportunities for outsourcing.
CIMA	2010(a)	The West is moving ahead of the East in terms of the trend for finance professionals to move towards roles that add value beyond traditional financial recording and reporting. This may be due to different starting positions, organisational structures, the mix of manufacturing and service industries, and cultural climates.

**Table A.1.4: IT**

Author	Date	Findings
<b>Relentless IT development may have a transformative impact on the implementation of finance activities and also provides an ongoing challenge. Impacts include:</b>		
<b>Reduction in resources required for transaction processing</b>		
Harding	1963	The use of computers can achieve a great deal of productivity improvement in finance.
IMA	1997	There is a need to redesign the finance function in order to effectively use IT to save transaction processing costs and to enable management to be more involved in decision support and strategy.
Ernst & Young	2003	World-class finance functions spend much less on transaction processing by standardising technology, simplifying processes and consolidating and eliminating redundant resources.
KPMG	2008	Over the past 20 years, technology has been the single biggest change agent in the transformation of business and the finance function. It reduces the man hours required to process transactions, enabling both the workplace to exist anywhere, and the real-time exchange of information.
<b>Potential to improve information collection and analysis for Management and Control activities</b>		
Drucker	1990	The frustration of manufacturing automators with traditional accounting methods, which did not capture the benefits of reduced non-production time and improved quality, led to the development of new cost accounting techniques.
Davis and Albright	2000	This case shows that new IT both drives organisational change and facilitates organisational choices. The impact on accounting was to reduce headcount and manual processes with some evidence of remaining accounting staff taking on more analytical roles.
Scapens et al.	2003	IT developments, particularly databases which enable the storage of information to meet different user needs and technologies that enable ease of access to information around the organisation, lead to significant changes in the role of management accountants. Some evidence that management accountants are becoming integral members of management teams.
Scapens and Jazayeri	2003	The introduction of an Enterprise Resource Planning (ERP) system facilitated changes already in train including for management accounting the removal of routine jobs, the development of line managers accounting knowledge, more forward-looking information and a wider role for management accountants.
Mercer	2006	Technological change and globalisation have reduced the lives of business models meaning that the role of finance is expanding beyond assessing new opportunities and threats to managing complex operations and new business risks.
Capgemini	2008	Integrated IT and highly capable employees are key components in establishing an overarching performance management framework. Globalised, standardised and integrated finance and control processes, emphasising global master data and regulation documents, should support flexible company performance management. This will result in the replacement of a silo mentality in the finance and controlling organisation and enable integrated working methods.
Grabski et al.	2008	ERP system implementations have major but variable impacts on the role of management accountants. These include less time on data collection, more on data analysis, more involvement in decision making, increased focus on internal reporting and an increased focus on benchmarking.

Author	Date	Findings
<b>Changes to the role of finance staff through diffusion of information</b>		
Hopwood	1987	Different information technologies are creating the potential for continued shifts in the locus and organisational significance of the accounting craft.
BIC	1992	CFOs have realised in order to succeed in their role, the finance organisation needs to be restructured with new technology and work methods introduced to ensure finance can meet its new commitments.
Coombs et al.	1992	IT systems transform culture, control and competition.
Phillips and Ross	1996	IT is one of the major drivers of change for the finance function. However, many finance functions in the UK are not taking advantage of the resulting potential to become further integrated into the business.
EIU	1997	Relentless innovation in information management technology gives CFOs the opportunity to rearrange the human resources, processes and technology they control.
Ezzamel et al.	1997	The IT capacity for large databases has given the finance staff the potential both to widen their scope for monitoring activities and, as time on accounts preparation reduces, spend more time on new calculations, including the non-financial. There is also the scope to significantly reduce accounting personnel. IT developments raise the question of how far management accounting, as a distinctive practice, can survive the possible demise of the management accountant, as a distinctive and ubiquitous practitioner.
Granlund and Lukka	1998	Advanced IT and production technologies (eg, ERP) drive convergence of management accounting practices.
Jazayeri and Hopper	1999	The introduction of world class manufacturing processes and associated finance systems changes had a complex impact on the finance function. On the one hand financial accounting and budgetary control systems run by accounting remained in tact and product costing systems were not changed to incorporate activity-based drivers. On the other hand there was a marked decline on the influence of the accounting department with production staff taking responsibility for cost management.
Burns and Scapens	2000(a)	The advances in IT, and in particular the rise in database systems decentres accounting knowledge, leading accountants to become more involved in operations and the provision of a commercial orientation leading to hybrid accountants.
Burrows et al.	2001	IT systems enable operational staff, in this case pilots, to engage in real time cost management of aircraft operations. It is doubtful whether management accountants themselves have been prominent in this innovation.
Caglio	2003	The adoption of ERP systems have ambiguous and inconsistent consequences for accountants. In this case the result was hybrid roles for accountants (encompassing business management, strategic thinking and IT) and improved recognition for their expertise.
Quattrone and Hopper	2005	ERP systems have the potential to change the relationship between head office and scattered subsidiaries. In one case the ERP system left organisational structures unchanged and incrementally improved prevailing practices of central control. In the other case the ERP system broke down functional barriers and distances, with information accessed and input from different locations - 'everyone is an accountant now'.
O'Donnell et al.	2004	Emerging e-business technologies will impact on the roles of CFOs. Questions remain as to whether they will gain power or lose out to Chief Information Officers.
Nevries et al.	2008	Management accounting departments are under threat from sophisticated IT systems and other suppliers, but this study provides evidence that they positively impact on performance, enabling resistance to this threat.
<b>Problems resulting from the introduction of new systems or IT shortcomings</b>		
KPMG/The Institute of Chartered Accountants in Australia	2001	Although ERP systems are common, many have not been implemented so as to deliver as much business value as they could.
CFO Research Services/ Capgemini Ernst & Young	2002	Inadequate IT systems block finance transformations and finance remains bogged down by transaction processing.
Granlund and Malmi	2002	ERP systems have not, as yet, had an impact on management accounting, which continues to operate as a separate system. The reasons seem to be functional/economic such as integration problems, complexity, modest functionality and interface problems.
CFO Research Service/Booz Allen Hamilton	2004	CFOs who are 'Growth Navigators' or 'Execution Maestros' see outmoded business intelligence, a lack of forward-planning capabilities and fragmented technology as barriers to achieving their finance goals.

Table A.1.4: IT continued

Author	Date	Findings
<b>Problems resulting from the introduction of new systems or IT shortcomings</b>		
Dechow and Mouritsen	2005	The impact of ERP systems on control systems can create blind spots where they do not provide coverage. ERP systems are a collective affair, not the property of the accounting function.
IBM	2005	Structural complexity, fragmented information systems and lack of standardisation results in 'various versions of the truth', with manual data reconciliations and ineffective use of technology inhibiting finance's ability to influence decisions and deliver insight.
Deloitte	2008	Lack of up-to-date information for strategic and operational purposes and inadequate process and data standards are key barriers to improving business performance. Finance has a key role in overcoming these barriers.
CFO Research Services	2008	Many organisations still wrestle with how to take disparate sources and legacy systems - sometimes built with 20-year old obscure computer languages, or relying on manual feeds into a comprehensive database - and improve processes to make them faster, smoother, and more streamlined.
CIMA	2008	ERP systems have left accountants busy using spreadsheets to format reports and conduct ad hoc analysis. However, vendors are now overcoming these limitations which release capacity for accountants to become finance/business partners.
CIMA	2009	Software issues such as out-dated, inflexible and poorly integrated systems (requiring manual reconciliations) or lack of strategic vision for IT are one of the main issues confronting the management accounting function.

Table A.1.5: Sector

Author	Date	Findings
<b>Differences in industry sector impact on how finance activities are implemented, especially Management and Control and Strategy and Risk</b>		
Burchell et al.	1980	The level of certainty over cause and effect arising from sector characteristics will impact on the role of accounting practice.
Hambrick	1981	Executives had high power if, by virtue either of their functional area or scanning behaviour, they coped with the dominant requirement imposed by their industry's environment. Accounting executives had greater power where cost control was the dominant need.
Goold and Quinn	1990	Managers in businesses that face turbulent and rapidly changing environments may gain less benefit from strategic controls, than managers in more stable or mature businesses.
Lowry	1993	Management accounting practices differ between the manufacturing and service sectors. In manufacturing outputs can be quantified whereas services are characterised by non-standard outputs, non-routine technology and have fewer repetitive procedures. Therefore services are less susceptible to control through management accounting.
Chong	1996	Under high task certainty, the use of broad scope management accounting systems led to effective decisions; under low task certainty it led to information overload.
Brignall	1997	The nature and use of costing and performance management systems should be contingent on the interaction of competitive environment, chosen mission and strategy and service process type.
Whitley	1999	Diversity of activities and rate of change impact on how control systems develop.
Spekle	2001	The type of control device that is appropriate depends on the nature of the activities to be controlled. Activities can be defined in three dimensions – extent of programmability, degree of asset specificity and intensity of ex post information impact.
Chenall	2003	Three propositions are made, drawn from a review of prior studies, on what management control system designs are best suited to particular operating environment characteristics. These are: 1) standard processes lead to standard controls; 2) task uncertainty leads to more informal controls; and 3) interdependencies lead to more informal systems.
CFO Research Services/Booz Allen Hamilton	2005	Sector conditions are a major driver of the CFO/finance team approach required. Mature/high fixed cost sectors need 'Execution Maestros'; disrupted sectors require 'Turnaround Surgeons'; high-growth, high-margin sectors require 'Growth Navigators'; and sectors subject to major market changes require 'Business Transformers'.
Deutsche Bank	2006	The finance function adds most value in high growth, non-investment grade companies.
Zoni and Merchant	2007	Controller involvement in decision making is positively related to some situational variables, including capital intensity, operating interdependency, line managers' financial competence and formalisation of strategic planning and budgeting processes.



Author	Date	Findings
<b>Differences in industry sector impact on how finance activities are implemented, especially Management and Control and Strategy and Risk</b>		
Abdel-Kader and Luther	2008	Greater sophistication in management accounting is significantly related to greater environmental uncertainty, customer power, decentralisation and size and the use of Advanced Manufacturing Technology, Total Quality Management and Just-In-Time.
Yang	2008	Organisations mimic their peers in their adoption of different work systems.
Mckinsey	2009	CFOs in manufacturing are significantly more likely to be 'value managers' than those in the financial services industry, where finance staff focus more on transactions.
CIMA	2009	On average the manufacturing and financial services sectors use more management accounting tools than other service sectors and the public sector.
Bhimani and Bromwich	2010	For internet businesses based on generating advertising revenues, income and cost dynamics will be significantly different from more traditional businesses. Management accountants will have a role to play in analysing plausible revenue opportunities that are dissociated from the underlying product.

**Table A.1.6: Accounting representation**

Author	Date	Findings
<b>Financial information and accounting reports can only ever provide a partial representation of organisational reality</b>		
Accounting reports are based on uncertain assumptions about both future outcomes and the appropriateness of income and cost allocations		
Morgan	1988	Accountants typically construct reality in one-sided ways. The idea of objectivity in accounting is largely a myth and stands in the way of future interesting developments in the discipline.
Phelan	1997	Financial techniques based on assumptions about the future are unreliable as the future is uncertain. They need to be supplemented by management judgement and strategic thinking.
McSweeney	2000	Accounting reports are dependent on assumption as to the future.
Mattessich	2003	Accounting statements cannot be inherently true in a positivistic sense, as they are irredeemably dependent on subjective allocations to periods.
Lindsay	2007	More complex financial instruments make it difficult to give an accurate picture of the organisation and establish performance indicators.
Smith	2007	Validity of reporting is inherently uncertain due to period allocation, cost centre allocation and recognition issues.
Moore	2009	The inherent paradoxes and limitations of accounting mean that it is not possible to express an economic reality via bottom line based measurements - the interdependent nature of phenomena precludes perfect measurement.
Priddy	2010	Even the most rudimentary set of financial statements is shot through with assumptions about the unknowable future. Companies' accounts are prepared on a going concern basis. This feeds into assumptions about provisions and impairments, useful economic lives, the value of long-term contracts and work in progress, and most controversially into post-retirement benefits. All these assumptions are based on the centrality and the dangerous simplicity of a compounded and discounted future.
<b>Finance functions differ in the ways that they apply accounting standards and make organisationally specific assumptions to create a working certainty</b>		
Hines	1988	By communicating financial accounting reports as a reality, reality is created.
Macintosh et al.	2000	Accounting has become hyperreal and self-referential. However it does impart some element of exogeneity and predictability, and can therefore be relied on for real consequences.
Wouters and Verdaasdonk	2002	Accounting provides a common quantification measure of information for decision making although it loses the richness of operational knowledge.
Mouck	2004	Accounting standards are akin to the rules of a game – therefore by implication accountants must know how to play the game. Accounts can only give fuzzy indicators of wealth and changes in wealth. The standard-setter has therefore to be constantly amending rules to keep accounting reporting within the bounds of acceptable perceptions of reality.

**Table A.1.6: Accounting representation continued**

Author	Date	Findings
<b>Finance functions differ in the ways that they apply accounting standards and make organisationally specific assumptions to create a working certainty</b>		
Andon et al.	2007	Accounting inscriptions are fabricated through situated and experimental means. Accounting as a 'knowledge object' is inherently unsettled, reflecting partial and changing 'ontologies', reshaped by the variegated and shifting collectives of elements tied to it.
McKernan	2007	Accounting inquiry can and ought to be maintained as a form of truth seeking; but the pursuit of objective truth in accounting needs to be grounded in intersubjectivity, in communication between subjects relating to a shared world, it cannot be divorced from the political, from human interests and needs.
Smith	2007	The profit goal can provide a unified corporate objective and performance measure.
Oracle	2008 (a)	The concept of 'one version of the truth' is a myth, as the 'truth' is dependant on context. Generally, information is aggregated vertically, up the organisational structure, thus moving through a range of contexts, leading to information that cannot be reconciled or compared. The solution is to look at information horizontally, thus making its use context specific.
Hall	2010	Managers primarily use accounting information to develop knowledge of their work environment and it is just one of many information sources. It is primarily through talk rather than written reports that accounting information becomes implicated in managerial work.

**Table A.1.7: Management and control techniques**

Author	Date	Findings
<b>How Management and Control activities are implemented is strongly impacted by the type of technique used to analyse, project and report financial information. Two key themes emerge:</b>		
<b>The type of technique used impacts on how Management and Control activities operate</b>		
Robins and Foster	1957	Use of management accounting techniques (eg, break-even) can help profit planning.
Johnson and Kaplan	1987	Management accounting techniques have developed over time in response to specific industry factors and historical developments. Producing management accounts based on Financial Reporting requirements can lead to them being inappropriate. Accounting systems are required to support three functions: 1) external financial reporting; 2) short-term operational control; and 3) long-term product costing.
Miller and O'Leary	1987	Budgeting and standard costs emerged in the early 20th century as the accounting representation of the scientific management philosophy, which treated the individual as a governable person.
Fleischman and Parker	1990	Cost accounting developed as a discipline in early capitalism covering expenditure control, department cost management, overhead allocation, cost comparison, costs for decision making, budgeting, forecasting and inventory control.
Drury and Tayles	1995	The rock of management accounting practice is financial accounting based monthly accounts. Full absorption costing is widely used for decision making – but its validity for this purpose is often not checked.
Horngren	1995	There have been three noteworthy developments in management accounting in the last 30 years – contribution reporting, zero-based budgeting and Activity Based Costing (ABC). But the search for cost systems that link cause and effect is never-ending. There are also trade-offs between desires for simplicity and the need to deal with complexity.
Drury and Tayles	1997	Survey evidence suggests that many companies use the same inventory valuation methods for financial and management accounts, even though this does not provide the most appropriate internal analysis measure. A key reason for this is that companies want internal accounts to be congruent with external reporting.
Freidman and Lyne	1997	The advent of activity-based techniques has the potential to improve the operational usefulness of information provided by management accounting. This could lead to either management accountants becoming more business oriented or, if the techniques are assimilated by other disciplines, being displaced by non-accountants.

Author	Date	Findings
<b>The type of technique used impacts on how Management and Control activities operate</b>		
Chenhall and Langfield-Smith	1998(a)	There are a large array of management accounting techniques available with variations in their use and perceived benefits.
Miller	1998	Accounting is an assemblage of calculative practices and rationales that were invented in other contexts and for other purposes. Practices that are now regarded as central to accounting were at the margins previously and practices that are at the margins today may be at the core of accounting in the future.
Zimmerman	2001	The empirical management accounting literature has failed to produce a substantive cumulative body of knowledge.
Colwyn Jones and Dugdale	2002	ABC is an example of how new management accounting ideas are developed by management knowledge entrepreneurs. These ideas may not be intellectually coherent and therefore dissolve into a melange of competing and contradictory practices.
Meyer	2002	Activity-based profitability analysis is the best measure of organisational performance, as it overcomes the problems of multiple, often contradictory non-financial measures.
Ezzamel and Burns	2005	Evidence of how tensions arose between finance managers and buyers/merchandisers, as a consequence of the attempted introduction of Economic Value Added in a major retailer.
Boyns and Edwards	2007	Calculative techniques have been used for centuries for planning, decision making and control. However, the precise nature of the accounting tools and techniques has changed dramatically over the years.
CFO Europe Research	2007	One factor hindering the progress of finance professionals towards a business partnering role may be the diversity of management information required by decision makers.
Sorenson	2009	The use of ABC, strategic management accounting and balanced business scorecards have facilitated the involvement of accountants in multiple perspectives of performance management.
<b>Some organisations have developed greater integration of financial and non-financial measures with the aim of improving performance</b>		
Johnson	1992	Non-financial performance indicators need to replace accounting as the main information source and need to be provided real time to people who carry out operational actions.
Agrawal et al.	1998	Cost management systems must meet two objectives – beat global competition and continuously improve. A comprehensive system will include ABC, Total Quality Management, Just-In-Time and process improvement.
Nilsson and Rapp	1999	Introduction of flow-oriented production reduced the need for planning and coordination. Great emphasis was placed on simplifying the control system and on using non-monetary information instead. This was partly because control systems, structured exclusively around monetary data, are less reliable in an environment characterised by uncertainty.
Ambler	2000	Marketing metrics are a mix of financial and non-financial information. The only department that can realistically integrate the two is finance, except for large companies with specialised departments.
Lillis	2002	The difficulty in designing completely integrated financial and non-financial performance measures inhibits the effectiveness of a PMS as a facilitator of strategy implementation.
Busco et al.	2006 (a)	Implementation of non-financial performance measures (six sigma) was linked to business financials and reinforced organisational alignment.
Fullerton and Kennedy	2008	The use of lean accounting techniques led to changes in the content and impact of finance activities. This included using a greater number of lean tools, having more cross-trained work teams, using more visual presentations of performance on the shop floor, streamlined accounting processes and less tracking of labour and overhead allocations.
De Geuser et al.	2009	Evidence that the balanced scorecard has a positive impact on organisational performance. This is achieved through a better translation of strategy into operational terms; the fact that strategising becomes a continuous process and the greater alignment of various processes, services, competencies and units of an organisation.

Table A.1.8: Regulation

Author	Date	Findings
<b>Compliance activities are directly driven by external regulation, with a knock-on impact to other, interconnected finance activities.</b>		
The weight of regulation determines the significance, complexity and technical requirements of Compliance activities		
Sathe	1983	The finance function has responsibility for ensuring compliance with designated policies, procedures and standards dictated by the requirements of governmental agencies and regulatory bodies, in addition to the business support role.
ICAEW	1993	The weight of corporate governance adds to complexity.
Sheridan	1998	Regulation is one of the major drivers of change in the finance function.
Ernst & Young	2003	Increasing demands from shareholders, non-executives, regulators and governments, including the introduction of Sarbanes Oxley (SOX) and Higgs and Smith, are critical challenges for the finance function.
FEI Canada	2005	In 2005 compliance was regarded as the top challenge by survey respondents although it was not expected to be so in three years time.
Ernst & Young	2006	Corporate governance has been the main driver of change in the CFO's role over the past five years.
Mercer	2006	SOX has increased regulatory demands. Regulatory changes have made the CFO's relationship with auditors more difficult and the interaction with boards more intense.
CFO Research Services/SAP	2007	Finance is pulled in two directions - regulation on one side and competition and investor expectations on the other. It has to respond to both pressures.
Deloitte	2007	The rising number of financial restatements means finance departments become heavily focused on accounting, reporting and regulatory compliance.
Capgemini	2008	Corporate governance continues to be of key importance.
Ernst & Young	2008	Factors most contributing to the changing role of the CFO are increasing regulatory requirements, expectations from board and audit committees, corporate governance obligations and risk management.
<b>Moreover financial scandals increase the focus on its importance</b>		
BIC	1992	The importance of corporate governance has been heightened due to rise of shareholder activism (especially in the US), furore over executive compensation, the cosy relationship between management and bankers, poor profit performance in many companies and the desire to overcome short-termism among many managers. Responses include strengthening the investor relations department and audit committees, and engaging with key shareholders.
CFO Research Services/ Capgemini Ernst & Young	2002	Accounting scandals and recession drive focus on reporting accuracy.
EIU	2006	Compliance is a long-term challenge and very time-consuming. Corporate scandals have led to investors requiring more CFO time.
KPMG/The Institute of Chartered Accountants in Australia	2007	The CFOs increasing focus on strategy was interrupted by the impact of Enron, which forced CFOs to focus on stewardship. 2007 saw a more balanced position developing with an equal focus on stewardship and strategy development/value adding functions.
KPMG	2008	Enron caused greater emphasis on controls and risk management.
<b>Regulation feeds through to impact on Management and Control and Accounting activities</b>		
Johnson and Kaplan	1987	The need to produce external reporting that meets financial accounting requirements is a major driver of management reporting practices.
CFO Research Services/SAP	2007	Regulatory pressures, especially SOX, push the finance department towards more rigour in controllership and financial reporting.
<b>There is some pressure for finance professional to work on broader regulatory issues including sustainability</b>		
Ezzamel et al.	1997	Accounting's increasing involvement in non-financial information flows, coupled with increasing financial awareness in other specialisms, will begin to threaten accounting as a distinctive function. Yet paradoxically, its success within the new game depends on its ability to maintain such an identity which, of course, remains founded on its external reporting role.
KPMG/The Institute of Chartered Accountants in Australia	2001	Finance professionals need to monitor and respond to growing concern over the natural environment which may lead to changed investment criteria, new reporting content (triple bottom line) and new green taxes.
ACCA	2007	Greater stakeholder scrutiny expands the role of CFO further into ethical and governance issues.

**Table A.1.9: Professionalisation of accounting**

Author	Date	Findings
<b>The accounting profession can play an influential role on finance activities. Specifically:</b>		
In some parts of the world the implementation of finance activities is strongly influenced by the training standards and ethics required by professional bodies to which a large proportion of finance executives belong		
Armstrong	1985	Accountancy, as a broad range of subjects and technologies, has a heavy representation at key decision making levels. This is partly the result of efforts by the accounting profession to achieve managerial ascendancy in competition with other professions. However, in Germany and Japan accountants are less numerous and less senior in management hierarchies.
Loft	1986	Accounting developed as a profession with ICAEW establishing itself towards the second half of the 19th century. Professionalisation was transferred into internal management accounting with the foundation of CIMA after World War I. In the UK accounting is carried out by professional accountants with allegiances to their professional associations as well as to their employers. The professional bodies are closely involved with the creation of management accounting as it is.
Whittington and Whipp	1990	The finance profession was successful, relative to marketing and engineers, in developing a professional apparatus capable of conferring both technological competence and ideological credibility.
Matthews et al.	1998	In the UK accounting qualifications have been the dominant professional preparation for a career in business.
Jackson	2004	ICAEW fundamental principals are – integrity, objectivity, competence, performance, courtesy.
International Federation of Accountants	2005	A professional accountant in business must be committed to integrity and ethics.
IMA	2008	Management accounting is a professional discipline integral in formulating and implementing an organisation’s strategy.
Anderson and Walker	2009	Organisations such as ICAEW became significant players on the British professional scene and were to exert considerable influence on the development of accountancy institutions and professional ideologies in several locations.
<b>The accounting profession has consolidated and continues to expand its influence and impact</b>		
Granlund and Lukka	1998	Management accounting professionalisation and university teaching and research drives convergence of practice.
Lambert	2002	Professional qualifications are essential for a career in finance.
Fogarty et al.	2006	Professionals can seek to expand their domain of practice beyond the limit of their technical competence.
Professional Oversight Board	2006	Membership of UK based professional accounting bodies expanded between 2000 and 2005 with women making up an increasing percentage of members.
Chen and Chan	2009	The public accounting profession has gradually come to play an important and indispensable role in China’s fast-growing economy.
Spada	2009	The professions, including accounting, are vital to the UK economy.
<b>Conversely, there are challenges from rules based regulation and greater attachment to employers rather than the accounting profession</b>		
Cohen et al.	2002	Relationship between professionals and the organisation they work for are complex and changing.
ACCA	2008	Increased regulation may see the demise of professional judgement in favour of rules based regimes.

Table A.1.10: Ownership

Author	Date	Findings
<b>Owners and those who hold an organisation accountable have a significant impact on how all finance activities are undertaken. Specific aspects include:</b>		
<b>Pressure to meet and manage financial expectations</b>		
Demirag	1995	CFOs perceive that capital market pressures are increasingly directed to short-term performance evaluation, but also do not seem to believe that their companies behave in a short-term manner.
EIU	1997	The potential of global opportunities makes investors drive for better profitability and finance functions must respond.
Grinyer et al.	1998	The emphasis placed by the capital markets on reported earnings make many of the CFOs of large UK companies short-termist in their perceptions and behaviours.
Froud et al.	2000	Institutional investors are not all the same. Venture capitalist and break-up specialists focus on the short term while pension funds and insurance companies pursue predictable medium-term flows. The gap between investor expectations and what management can deliver leads to change.
CFO Research Services/ Capgemini Ernst & Young	2002	CFOs have to deal with demands for organisations to make immediate returns on investments and do much more with less. They need to reduce transaction processing costs while increasing the effectiveness of decision support and strategic activity.
Zorn	2004	Over the period of 1963 to 2000 the influence of the CFO has risen in US firms. Originating as part of the conglomerate ideal to handle the funding of diversifying acquisitions, via being the solution from 1979 for responding to earnings threatening changes to accounting standards, to a continually expanding role focussing on managing shareholders and stock prices.
Mercer	2006	Capital market demands have intensified requiring greater CFO engagement with investors.
Sawyers	2008	Pressure from the City to provide explanation of the numbers is becoming very time-consuming.
<b>The degree of owner intervention on finance activities varies</b>		
Hopwood	1987	The approach and strategic intent of owners impacts on the ways that accounting activities and roles develop.
Whitley	1999	Shareholder lock-in and the degree of owner management impact on how control systems develop.
Collier	2005	Social control of the owner-manager is crucial in the development and operation of a control system.
Davila	2005	The existence of outside investors will be a driver of the emergence of a management control system.
CFO Research Services/SAP	2007	Higher expectations from investors, together with competitive pressures and line manager demands, pull finance executives towards a more active role in setting, validating, overseeing and ensuring execution of business strategy.
<b>The impact of a change in ownership</b>		
Jones	1985	The use of accounting controls post acquisition had a major impact on the operation of the acquired company. Inappropriate change such as overly formal budgeting procedures and a focus on internal information, as opposed to external relationships with stakeholders such as banks, caused considerable undesirable effects.
Euske and Riccaboni	1999	Evidence on how with a change of ownership existing systems can be used to meet different ends.
Nilsson and Rapp	1999	Pressure to improve profitability following an acquisition led to changes in management control systems.
Busco et al.	2006 (a)	When the new owner drove change through the accounting system, its utility was dependent on ensuring the new systems were trusted.
Deloitte	2007	CFOs are now more involved in navigating key strategic events such as mergers and acquisitions. This, together with a rising number of financial restatements, means CFOs are having to rethink their role especially in terms of how risk is managed.
Nor-Aziah and Scapens	2007	Evidence of how management accounting change triggered by a change in the type of public ownership met resistance. The accounting changes became separated from and only loosely coupled with other organisational changes.

Author	Date	Findings
<b>The impact of public sector accountability or charitable status</b>		
Audit commission	2005	The public sector faces a changing and complex operational environment and, given the special accountabilities attached to the stewardship and use of public money, all public bodies need to rise to the challenge of improving financial management.
Oracle	2008	Public sector organisations are subject to many of the same drivers as the private sector. However, of particular note are increasing public expectations and government initiatives to tighten financial control, improve financial management and promote partnership working.
CIPFA	2009	The public sector needs influential, qualified finance directors to ensure public sector resources are used wisely.

**Table A.1.11: Size**

Author	Date	Findings
<b>An organisation's size has a significant impact on how finance activities are implemented, specifically:</b>		
Larger organisations tend to have more sophisticated and formalised management and control systems, with the greater use of specialists		
Chandler	1977	Large scale businesses developed because administrative coordination mechanisms (including accounting processes), permitted greater productivity, lower costs and higher profits than coordination by market mechanisms.
Sathe	1983	With increasing size and business complexity, the importance of the specialist's contributions to the business decision making process is increasing.
Johnson and Kaplan	1987	Accounting procedures which enable centralised control with decentralised responsibility were essential to the performance of large firms adopting multidivisional structures after the 1920s.
Moore and Yuen	2001	The movement through organisational life cycles (birth, growth, maturity, revival, decline) impacts on the formality of management control systems.
Chenall	2003	Large organisations are likely to have more formalised management control systems, divisional structures and more sophisticated controls.
Cao et al.	2005	In China there is a significant correlation between organisational size and the number of accountants employed.
Davila	2005	Size will be a driver of the type of management control system that develops.
In smaller organisations finance staff may have broader responsibilities and finance activities will tend to be less complex		
Hussain et al.	1998	Small companies in Finland did not have effective management accounting systems and did not pick up on new techniques such as ABC.
Greenhalgh	2000	This case shows an SME continuing to cope with the increased complexity of transnational expansion by using a simple, traditional accounting system. The approach seemed to be cost-effective without any adverse effects.
Berry et al.	2002	Suggests that there is patchy use of management and control information in UK SMEs.
International Federation of Accountants	2008	In SMEs finance executives typically have HR and other multi-functional responsibilities.
However, the specific impact of size is not always clear because of its interaction with other drivers		
Child	1973	The impact of size needs to be considered in relation to technology, location, environmental variables and complexity to draw meaningful conclusions. Although size is the major predictor of formalisation.
Deloitte	2000	Findings varied little between FTSE-100 to small capitalisation quoted companies on how CFOs see their current role, and how it will change over five years.
Abdel-Kader and Luther	2007	Differences in management accounting sophistication are significantly explained by size, as well as environmental uncertainty, customer power, decentralisation, Advanced Manufacturing Techniques, Total Quality Management and Just-In-Time.
Cadez and Guilding	2008	There are no universally appropriate strategic management accounting applications, as they depend on a range of complex factors including size, strategy type and market orientation.
Dossi and Patelli	2008	Evidence that subsidiary participation, cultural tolerance for uncertainty, subsidiary size and global pressure give PMS a greater influence on decisions.

Table A.1.12: Strategy

Author	Date	Findings
<b>Strategic focus drives how finance activities are implemented especially Management &amp; Control. More specifically:</b>		
The compatibility of strategy with management and control practices is generally believed to be beneficial to organisational performance		
Bruggeman et al.	1988	Management control systems should be compatible with strategy in order to be effective.
Chenhall and Langfield-Smith	1998	Some evidence that organisational performance is positively related to management accounting practices and management techniques that are consistent with strategic priorities.
Otley	1999	Performance management systems should include five integrated elements – objectives, strategies and plans for their attainment, target setting, incentive and reward structures and information feedback loops. Different types of organisational plans and strategies will tend to cause different control system configurations.
Neely et al.	2001	The major value in redesigning planning and budgeting processes comes from ensuring they are aligned with strategy.
Chenall	2003	Propositions include: 1) defender strategies are associated with traditional, formal management control systems; 2) a competitor focussed strategy is associated with broad scope management control systems; and 3) an entrepreneurial strategy is associated with formal management control systems but organic decision making.
Cappgemini	2007	The finance department must take a lead role by identifying the drivers of real value and embedding the relevant metrics in the organisational structure.
Hyvönen	2007	Fit between customer-focused strategy and financial performance measures improves customer related performance (eg, market share).
Cadez and Guilding	2008	There is no universally appropriate strategic management accounting application – it depends on a range of complex factors including strategy.
<b>However aligning management and control practices and strategy can be challenging</b>		
Langfield-Smith	1997	A review of the literature indicates that knowledge of the relationship between management control systems and strategy is unclear.
Cooper and Kaplan	1998	Operational control systems and ABC systems have fundamentally different purposes. Operational control systems provide information about process efficiencies; ABC about underlying economics of the business.
Malmi and Ikaheimo	2003	A value-based management strategy was found to be just rhetoric in some organisations, whereas in others it impacted both decision making and control systems, taking various forms from one firm to another.
Henri	2006(a)	Interactive performance management systems stimulate strategy development, whereas diagnostic performance management systems can hinder it. Working in parallel they can provide dynamic tension.
<b>Management and Control feedback can become embedded in strategy development</b>		
Snow and Hrebiniak	1980	Defenders, prospectors and analysers all show competence in general and financial management.
Hitt et al.	1982	The primary, top level organisational strategy significantly influences the relative importance of certain organisational functions. Finance tends to be strong when firms pursue acquisitive growth, stability or retrenchment and less strong when pursuing internal growth.
Fligstein	1987	Between 1954 and 1979 finance personnel have become increasingly dominant as top managers. This was because of changes in the strategy and structure of organisations, changes in anti-trust laws that promoted unrelated mergers and the mimicking of firms in similar environments.
Colignon and Covaleski	1993	Evidence of how accounting practices are part of the strategic control system; they interpret the environment, and direct the adaptation of the organisation in a manner particular to the interests of corporate decision makers.
Naranjo-Gil and Hartmann	2007	The use of management accounting systems partially mediates the relationship between top management team heterogeneity and strategic change.
Aernoudts et al.	2008	A wide range of studies provide evidence of the interplay between management control systems and strategic development.



Table A.1.13: Organisational structure

Author	Date	Findings
<b>Organisational structure is intertwined with how finance activities are undertaken. Specifically:</b>		
Organisational structure influences and is influenced by finance activities.		
Hopper	1980	Organisational structure impinges directly on the quality, methods and usage of management accounting. There may be benefits relating to decentralisation of the finance function, although this must be balanced against the additional cost and loss of hierarchical control.
Hopper	1980(a)	Decentralisation was associated with greater interaction between accountants and other managers and with the provision of accounting information perceived as more pertinent to managerial needs. However, the accountants' passivity in management was criticised under both centralised and decentralised structures.
Dearden	1987	Profit performance control must focus on monitoring what managers can influence.
Chenall	2003	Propositions include that team-based structures are associated with participation and comprehensive performance measures used for compensation, and that organic organisational structures are associated with future oriented management control systems and activity-cost analysis.
Gerdin	2005	Some evidence that management accounting system design is adapted to fit organisational structure and departmental interdependencies.
CFO Europe Research	2007	Organisational complexity (eg, different reporting lines and different product lines) are a big barrier to producing good management information.
Abdel-Kader and Luther	2008	Differences in management accounting sophistication are partly explained by the level of decentralisation.
Organisational structure influences and is influenced by finance activities		
Chenhall	2008	Move to horizontal organisational structures provide both opportunities and challenges for management accounting techniques.
Miller et al.	2008	Accounting and risk management is impacted both by evolving organisational hybridisation (defined to include organisational forms, practices, processes and disciplines) and the hybridisation of accounting techniques through encounters with other disciplines.
Departmental structures influence the degree and nature of collaboration and conflict between finance and other functions		
Landsberger	1961	Dilemmas faced by organisations result in conflicts between departments. Departments tend to take a stand on one side of dilemmas including flexibility versus stability, short-run versus long-run considerations, emphasis on the clearly measurable versus the intangible and emphasising economic results versus non-economic values.
Ruekert and Walker	1987	The effectiveness of relationships between departments and the level of conflict depend on a range of factors including overlaps in responsibilities and objectives, the nature of communication, formal rules and procedures and conflict resolution mechanisms. One specific finding was that marketing departments perceived the relationship with the accounting department as positively related to the amount of conflict, possibly because they obtain a greater share of resource allocation by taking a hard line.
Lascu et al.	2006	The level of connectedness (sharing of responsibilities and information) between finance, marketing, production and research departments is positively associated with firm performance. US companies showed more interdepartmental connectedness than Polish ones.
One possible tendency is closer involvement of finance staff with operational activities		
BIC	1992	Concern with finance efficiency leads to use of systems based solutions together with elimination of unnecessary work and the devolution of certain responsibilities to finance functions within operating units.
Burns and Scapens	2000(a)	Organisations with process structures use cross-disciplinary teams with hybrid accountants who encompass accounting knowledge and an in-depth understanding of the operating functions or commercial processes of the business.
Maas and Matjka	2009	Emphasising the corporate control responsibilities of business unit controllers is negatively associated with their ability to support local decision making. In addition the role conflict and stress caused by this focus may lead to an increased tolerance of data misreporting.
Bhimani and Bromwich	2010	IT developments are driving the development of new flexible and fluid organisational structures and business models operating on a global scale. Management accountants can respond by moving to being business partners and working closely with the business to understand enterprise technology and marketing strategy.

**Table A.1.13: Organisational structure continued**

Author	Date	Findings
<b>Financial incentives influence the behaviours of those carrying out finance activities</b>		
Kerr	1995	Reward systems have a major impact on behaviour. However, organisations often reward inappropriate behaviours rather than those they wish to encourage.
Gillet and Uddin	2005	Compensation structure that is more performance related is not a good indicator of CFO intentions to report fraudulently.
Pfeffer and Sutton	2006	Financial incentives have a powerful impact on organisational performance – positive and negative. This results from motivating functional or dysfunctional behaviours, attracting or repelling appropriate/inappropriate staff and providing information on the values and priorities of an organisation.
PwC	2008	Bonus structures in financial services finance departments often reward the solving of immediate problems which fosters a ‘fire-fighting’ approach rather than the development of long-term solutions. Where finance department rewards are linked to the performance of front office teams this can lead to an inherent conflict of interest in which finance professionals may not want to challenge revenue generators.
Indjejikian and Matějka	2009	Between 2003 and 2007 public companies mitigated misreporting practices in part by reducing the percentage of CFO bonuses tied to financial performance.
<b>Outsourcing and shared service centres have a specific impact on how finance activities are implemented</b>		
KPMG	1998	The responsibility for finance activities may move outside of the finance department with transaction processing and specialist roles being outsourced while decision support is integrated into the business.
Kulmala et al.	2002	Outsourcing eg, of manufacturing, places additional pressures on accounting to achieve consistency of cost calculations in order to gain the benefits of open book accounting.
EIU	2006	Shared service centres, not outsourcing, is likely to be the way forward for finance departments.
Capgemini	2008	The establishment of shared service centres in the finance and control function will strengthen the position of the CFO.
CIMA	2008	The use of shared service centres - often offshore - to reduce the cost of transaction processing is widespread. Some organisations use business process outsourcing to improve efficiency.

**Table A.1.14: People**

Author	Date	Findings
<b>The knowledge, skills, interests and attitudes of finance staff and their relationship with staff in other functions impact on how finance activities are implemented. The following themes emerged:</b>		
<b>The skills of staff play a major part in determining the effectiveness of finance departments</b>		
Simon et al.	1954	In the long run, the degree to which finance departments take on broader responsibilities will depend on their ability to attract people of superior competence.
EIU	1997	The drive to transform finance, leverage new technology and acquire new capabilities places a premium on staff skills.
Cooper and Taylor	2000	The work of clerical accountants has become increasingly deskilled in accordance with scientific management principles. The trend may also start to impact on more senior roles.
KPMG/The Institute of Chartered Accountants in Australia	2001	Accountants need to upgrade their skills to enable them to take on additional responsibilities.
Bunderson and Sutcliffe	2002	Functionally diverse management teams where each member has a broad range of functional experiences share information and perform better than teams where members are more specialised.
Bunderson	2003	A functional background that provides valuable expertise and is similar to the functional backgrounds of other team members will be associated with centrality in a team’s workflow and involvement in team decision making. However power centralisation will be a critical moderator of decision involvement.
International Federation of Accountants	2005	Professional accountants in business need a deep understanding of corporate finance, economics and accounting.

Author	Date	Findings
<b>The skills of staff play a major part in determining the effectiveness of finance departments</b>		
Deutsche Bank	2006	Finance staff provide good execution in bank relationships, debt issuance, capital structure and investor relationships. However, less well executed are working capital management, decision support and risk management.
Mercer	2006	Increased pressures and complexity mean that CFOs need to expand their skill sets and many organisations are looking outside to fill the top financial role.
ACCA	2007	The top skills required for finance leaders are strategic and business insight, regulatory knowledge and change management.
CFO Research Services/SAP	2007	Twin pressure for commercial performance and regulatory compliance push the need for new and different skills in the finance function.
Smith	2007	In assessing staff performance there is uncertainty in determining the extent to which the level of performance achieved was a consequence of the skill of the staff or the nature of the task.
CIMA	2008	The key to business partnering is financial expertise and analytical rigour, not an ability to provide expertise in other disciplines. Finance can provide both qualitative and quantitative management information.
KPMG	2009	Skilled finance professionals are required to interpret and make effective use of business intelligence.
<b>However, attracting appropriately skilled staff can be difficult</b>		
Sathe	1983	There is an inherent tension between the controller's responsibility to ensure compliance versus contribution to decision making. Relatively few individuals have the skills and judgement necessary to deal with this effectively.
Pierce and O'Dea	2003	Evidence of a perception gap between management accountants and managers. For example accountants may focus too much on technical validity rather than organisational relevance. Some accountants were able to balance the simultaneous need for independence and involvement but this remains challenging.
Hoffjan	2004	Evidence from a survey of advertisements that in the German context management accountants are portrayed as specialists focused on cost savings. They are well organised but inflexible, passive and uncreative.
EIU	2006	Finance faces a skill crunch - recruiting skilled staff is the key obstacle to transforming the finance function.
Deloitte	2007(a)	People from financial planning and analysis backgrounds are sought after but difficult to find.
ACCA	2008	A scarcity of skilled finance professionals means there is a need for organisations to develop talent management programmes.
Accenture	2008	Attracting and retaining finance function talent is a major challenge.
Ernst & Young	2008(a)	Recruiting skilled finance staff is the main challenge for finance functions.
Baldvinsdottir et al.	2009	The image of the accountant, as depicted by accounting software adverts, has changed from the 1970s to date through the following stereotypes - from a responsible person to a rational person, a communicating person, an action man, a follower of the instructions of management gurus, a person giving up control and a hedonistic person.
CIMA	2009	Issues facing the management accounting function include a shortage of skills in finance and other departments and a lack of investment in finance. There is also a lack of understanding about the contribution of management accountants, both from the accountants themselves and from users.
Ernst & Young	2010	CFOs' grasp of the finance fundamentals and their management strengths lead to expanding roles. However, this increases the possibility of conflicts of interest for example the need to be the objective voice and to win resources for operational roles. In addition the sheer demands on the role can restrict the strategic input of CFOs.
<b>Finance departments can play a major part in shaping their own role</b>		
Robins and Foster	1957	The controller's role has risen in importance due to the willingness of the controller to assume interpretive responsibilities.
Ezzamel et al.	1997	Accountants adapt to the influence from other disciplines by showing how accounting is critical in the implementation of alternative expertise most notably with respect to IT.
Chapman	1998	Accounting is an ongoing process not a collection of techniques. Therefore the individuals involved in these processes have a substantial role in shaping them.

**Table A.1.14: People continued**

Author	Date	Findings
<b>Finance departments can play a major part in shaping their own role</b>		
Burns and Scapens	2000(a)	More pro-active management accountants are emerging who increasingly become part of the management team within a business process.
Seigel et al.	2003	The achievement of business partnering has to be pro-actively driven by finance staff and requires expert accounting skills, excellent interpersonal skills and an understanding of business.
Capgemini	2007	For success in an uncertain and complex business environment, CFOs and their finance functions must take hold of their own destinies and define their own futures. Against the backdrop of fluctuating economies, unstable currencies, and the continued burden of compliance this is not easy.
Baxter and Chua	2008	Theoretical and practical evidence of how a CFO uses an approach perceived as different to a typical CFO and yet mobilised technical accounting practices to shape his role and build influence.
<b>However, top management teams also play a key role in how finance activities are carried out</b>		
Chaganti and Sambharya	1987	Evidence from the tobacco industry that the profile of an organisation's top management, including their functional background, will impact on the strategy orientation of an organisation. Those pursuing a defender strategy tend to have relatively more executives with a finance background than those with prospector or analyser strategies.
Finkelstein	1992	Top management teams with functional backgrounds in finance are associated with diversification and acquisition activity. This may be because they lack operational experience but are adept at carrying out deals, achieving financial synergies and building the necessary capital structure. Indeed, the managerial job in a diversified organisation may resemble that of managing a financial portfolio.
Houghton and Neubaum	1994	Top managers functional experiences influence their belief structures and the strategic issues they identify.
Melone	1994	CFOs tend to be less optimistic than Corporate Development Executives in assessing potential acquisition targets. In addition CFOs place more weight on financial matters whereas Corporate Development Executives balance strategic and financial considerations.
Amason	1996	Diversity in top management teams may lead to decision making benefits where different perspectives result in cognitive conflict but not if affective (emotional) conflict arises.
Euske and Riccaboni	1999	The role of the CEO was possibly the fundamental element in how the management control system was used and evolved in an Italian bank.
Bruce/International Federation of Accountants	2002	In interviewing 10 CFOs it was always information, its uses and power, which lay at the heart of what they were saying. The pivotal role of the CFO would remain and the relationship with the CEO would be at the heart of that - whether as restraining influence, guardian of the corporate conscience, or as the real strategist behind the boards plans.
Malmi and Ikaheimo	2003	The power of the Value Based Management (VBM) champion may determine how it is adopted. In one case where VBM was suggested by the CFO others were not very appreciative and VBM did not penetrate as far down the organisation when compared to a case where the CEO was a strong supporter.
Davila	2005	A replacement to the founder CEO drove the development of management control systems - in effect replacing an entrepreneurial approach with a professional management approach.
Davila and Foster	2005	For growing companies the hiring of a financial manager and the adoption of management accounting systems are associated with CEOs with more years of work experience and who value planning, as well as with larger companies and companies with external investors.
Canella et al.	2008	Top management teams whose members have a wide range of functional experience positively impact firm performance. This impact increases as the proportion of staff with offices in the same location increases and environmental uncertainty increases.
CIMA	2009(a)	Business leaders should consider what role they would like the finance function to play. Despite much rhetoric about business partnering, in most organisations there has not been a step-change in the role of finance. Although there is some evidence of a more business-oriented role, many accountants are mainly occupied in transactional accounting and financial reporting.
DirectorBank Group/Grant Thornton	2010	The CFOs ability to build relationships, particularly with the CEO, is essential to his or her success. The CFO is expected to challenge the CEO while at the same time supporting the CEO and the board.

**Table A.1.15: Culture**

Author	Date	Findings
Finance activities are intertwined with organisational culture and politics		
Bhimani	1994	Accounting processes are affected by behavioural factors, political pursuits, institutional forces and socio-cultural values which interface within the organisation.
Malmi	1997	Accounting systems such as ABC potentially change the power distribution in organisations and are therefore likely to be contested.
Fernandez-Revuelta and Robson	1999	Political pressures meant the budgeting process became decoupled from operational reality - providing a ritual legitimation to ensure the continuity of a plant, despite its severe financial difficulties.
Waggoner et al.	1999	Internal influences such as power relations and dominant coalitions have a major impact on the development of performance measurement systems. The management of political process, amount of top-level support, and the risk of loss/gain for the staff involved are key factors that shape changes to operational management systems.
Ahrens and Chapman	2002	While contests of accountability and differing management approaches lead to considerable local diversity on the detail of how central performance reports are used, in broad terms they disseminate head office strategy to operating units.
Gurd et al.	2002	Changes to accounting systems often lag behind organisational changes. Management commitment, strong leadership, education and customer focus tend to reduce such lag as does the need to respond to financial distress. Workforce participation, however, did not prove to be a significant factor in reducing accounting lag.
CFO Research Services/Booz Allen Hamilton	2005	CFOs view intractable corporate cultures as a major barrier to change.
Booz Allen Hamilton	2006	The CFOs increasing role in risk management needs to cover cultural risks such as misaligned incentives, unethical behaviour and communication breakdowns.
Henri	2006	Cultures characterised by flexibility will use more performance measures and use them to focus organisational attention, support strategic decision making and legitimate actions to a greater extent than cultures characterised by control dominance.
Ahrens and Chapman	2007	Organisational members can actively reconstitute their management control systems by drawing on them as a shared resource; further as structures of intentionality they both shape, and are shaped by, shared norms and understandings.
Järvenpää	2007	Cultural change interventions have an important role to play in changing and embedding management accounting practices - in this case moving to a more decentralised business controller function.

**Table A.1.16: Routines**

Author	Date	Findings
Finance activities are intertwined with organisational routines		
Hopwood	1987	Accounting is embedded in the functioning of the organisation, co-existing and interdependent with such other aspects of the organisation as its strategy, structure, approaches to the segmentation of work and other organisational technologies and practices.
Argyris	1990	Management will always develop defensive gaming responses to overcome the pressure to perform resulting from management control systems such as budgeting. Therefore it is necessary to design interventions which accept and engage with such defensive routines.
Walsh and Stewart	1993	Organisations cannot be understood in isolation from the activity of accounting – nor can accounting be understood in isolation from the organisation.
Simons	1995	Beliefs and boundaries levers of control provide formal information-based routines that managers use to maintain or alter patterns of organisational activity.
Burns and Scapens	2000	Management accounting change will be influenced by institutional structure and operational routines.
Granlund	2001	Economic, institutional and individual forces are relevant to change and stability in accounting systems. The case study found forces for change included management needs, the imitation of other companies' practices and the will of finance staff. However, continuity won out because of factors such as existing organisational routines and the resistance of a key finance manager.

**Table A.1.16: Routines**

Author	Date	Findings
Finance activities are intertwined with organisational routines		
Helden et al.	2001	Provides evidence of how a transfer pricing system can only be understood in the context of the other control systems, which are used for the coordination of internal transactions and for organisational control in general.
Joseph	2006	Recent evidence suggest that the role of the accountant and the CFO is moving from traditional control to strategic decision making, by providing value-adding information. However for this transformation to be understood, it is necessary to emphasise the accountant’s instrumental roles in interacting between with institutional structures in initiating change.
Kilfoyle et al.	2009	Informal accounting systems develop alongside and interact with formal systems driven in response to day-to-day requirements.

# APPENDIX 2 – DEVELOPMENT OF THE FINDINGS

## A2.1 Summary

We developed the findings through the following iterative process:

- Literature reviews of academic and practitioner studies to identify findings relevant to assessing the role of the finance function.
- Proposal development drawn from synthesising and interpreting the study findings.
- Consultations with a wide range of practitioners and academics, leading to the introduction of further literature and/or further development of the proposals.

The process was informed by the pre-understanding of the research team as finance function practitioners; the test for validity was whether the conclusions resonated with the understandings of practitioners.

## A2.2 Literature Review

As a result of the iterations mentioned above we selected 261 studies for inclusion in this report. We selected the academic studies from the accounting and organisational literature on the basis that they provided findings relevant to the understanding of finance activities and finance departments. They were identified by database searches and discussions with academics and practitioners. Accessing practitioner surveys and reports cannot be carried out in such a systematic way as older surveys are not generally archived. While we have included a wide range of studies, more could have been included particularly in respect the relationship between finance departments and management control. A full bibliography is provided at the back of the report.

We would welcome suggestions for other studies to be included in updates to this report.

A significant proportion of the literature informed the way we have delineated and presented the finance activities in the framework. However, the focus of our analysis relates to 20 surveys which specifically researched the activities undertaken by finance departments, CFOs or finance executives. In the main these surveys were undertaken by leading global accounting, consultancy and financial services organisations. They all included questions in relation to three areas:

- Responsibility: Do the respondents/departments have responsibility for XXX activity?
- Importance: Do the respondents/departments consider XXX activity to be of high importance?
- Time allocation: What percentage of time do the respondents/departments allocate to XXX activity?

The vast majority of the papers also provided relevant evidence on how finance activities are implemented. As shown in Appendix 1, Table A some of these studies were aimed at identifying a range of drivers which impact on the role of the finance function or the nature of performance management and control within organisations. The other papers covered more specific research questions and therefore considered only a few of the relevant factors.

## A2.3 Proposal development

The study findings were analysed and synthesised to identify themes relevant to understanding and describing the finance function and how finance activities are organised. The initial pattern to emerge was the overall distinction between finance activities and the drivers which shape how such activities are implemented. These were then refined into groupings and subgroupings.

For the finance activities the start point was to list the potential activities from the survey responses to the practitioner studies. This process achieved a wide coverage, given the range of timescales, geographies, respondent type and research organisations sampled by the studies.

Based on the premise that finance activities are linked by the production and use of financial information we made a number of attempts to present the activities identified and the links between them in a concise and meaningful way. Through a number of iterations, discussions and consultations we alighted on the activities element of the framework presented in this report.

The drivers were developed by isolating, for each study, the evidence and findings that related to how finance activities are implemented. The findings of the individual studies were then organised into themes, helped in part by those studies which covered multiple drivers. Again the process of organising was iterative and developed through discussion, consultation, reassessment and redevelopment.

## A2.4 Consultation

The initial framework and interim findings were tested through consultations with leading accounting practitioners and academics. The feedback resulted in the introduction of further literature, the reassessment of existing literature and iterative reinterpretations of the findings. The practitioner consultations were undertaken with senior technical staff at ICAEW, members of the ICAEW Finance and Management Faculty and other senior, practicing accounting professionals. The academic consultations were undertaken with a range of leading academics and through presentations at leading accounting conferences at the London School of Economics and Gent University.

## A2.5 Limitations

There are a number of limitations which need to be considered in relation to the findings of this report:

- The practitioner studies were generally produced by commercial or professional organisations to meet their institutional objectives, not disinterestedly adding to general knowledge. Nevertheless, as the finance department and the CFO were their principal areas of focus, these organisations have a vested interest in ensuring that their research is credible and valid.
- The academic studies generally take a more disinterested approach, where developing knowledge and greater understanding is the key objective, with the identification of practical implications a secondary consideration. Neither the role of the finance department as a whole nor the role of the CFO have been a major focus for academic accounting research. However, research on management accountants, management control and accounting practice do provide a relevant source of evidence for understanding the finance function.
- The finance function aspect of the framework represents a stylised presentation of a complex set of interrelated activities. The range of terminology used to describe finance activities in the surveys is indicative of this complexity. A significant level of interpretation has been required to categorise the activities in the way that we have. Other interpretations are of course possible.
- We have only used English language surveys and literature. While a number of the surveys have respondents from a wide range of countries there is a significant bias to English-speaking countries.
- The literature was largely selected from the fields of accounting and organisational behaviour. Other disciplines, such as strategy and marketing, may be useful sources of additional insights.
- We are aware that we have used literature from a broad range of theoretical perspectives and have interpreted and highlighted findings which are relevant to our focus on the role of the finance function. In some cases the findings highlighted in the tables in Appendix 1 are not the main focus of the study.



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Robert Scapens

Members of the Finance and Management Faculty Committee

Attendees at the Management Accounting Research Group Conference, London School of Economics, 2010

Attendees at the 10th Manufacturing Accounting Research Conference, Ghent University, 2010

None of the commentators should be assumed to agree with the views expressed in this report, and they are not responsible for any errors or omissions.

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