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GMAP

GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES

Effective management accounting:
Improving decisions and building successful organisations

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Foreword

Business leadership has never needed stronger foundations.

Economic and societal change in recent years has been relentless with major innovations in working practices, business models, and customer needs.

Adding to this factor have been significant technology and environmental, social, and governance (ESG) considerations which have upended priorities as organisations attempt to keep pace with the rate of change. The Global Management Accounting Principles (GMAP) will help organisations navigate this developing ESG ecosystem.

We have seen many business operations upended overnight and restructured into a digital success whilst others that have lacked agility have failed. The COVID-19 pandemic has, in turn, increased business stresses to an extent perhaps not seen in our lifetimes. In the 2020s, there is an abundance of management information, and the pace of data analytics available to business leaders is unprecedented.

Against this backdrop of unprecedented change, we have therefore updated our GMAP to reflect this new context.

Management accounting has always been about decision-making based on financial understanding but increasingly it is about global business leadership and wider predictive judgements around the value creation cycle that can make or break an organisation quickly.

By outlining how our principles used in everyday practice enhance long-term sustainable decision-making and generate corporate success this new edition:

- **Provides a new assessment and pathway** to creating value by following the four principles of management accounting decision-making
- **Provides additional insight into good decision-making** by applying the four principles to every management accounting practice area
- **Shows how performance management and the four principles can be applied together** to enable a better understanding of how principled decision-making and performance management together may produce higher-value outcomes for business
- **Provides additional acumen** by including key management accounting research knowledge that we have created over the recent years
- **Links to a recent case study on how businesses** have used the principles to make better business decisions

Our strategy in updating the principles is to provide more holistic Principle-based best-practice guidance on how to achieve better business decisions and to demonstrate how to drive the creation of more resilient and sustainable value.

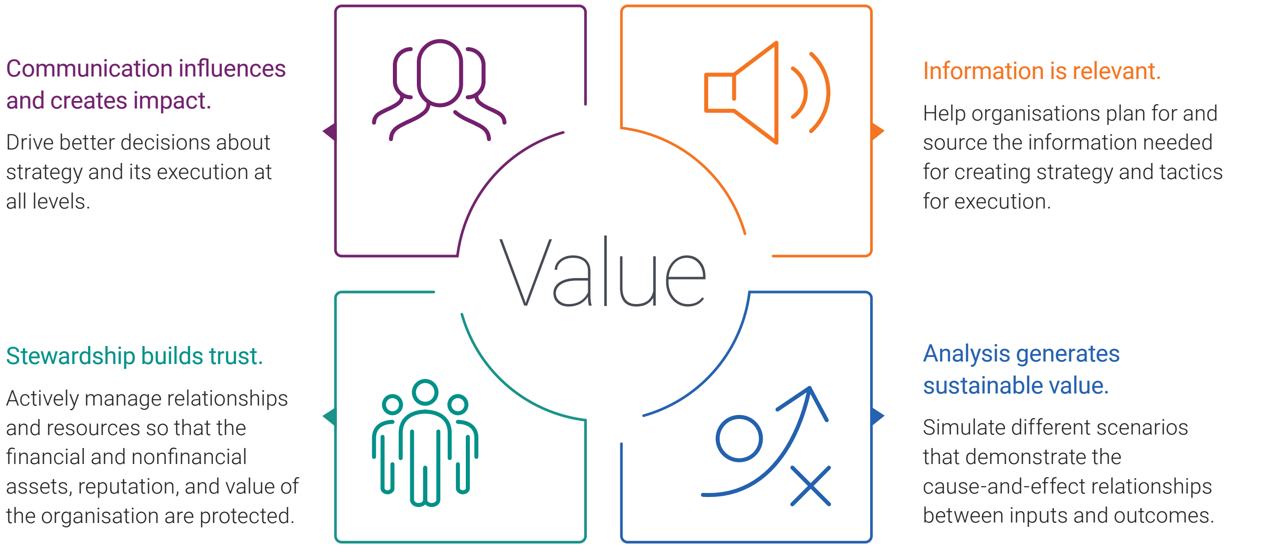
The principles were prepared by the American Institute of CPAs (AICPA) and The Chartered Institute of Management Accountants (CIMA) — which together represent nearly 700,000 members and students in 177 countries.

Ash Noah, CPA, FCMA, CGMA
VP & Managing Director Management Accounting & ESG

Chapter 1

The Global Management Accounting Principles

Figure 1: The Global Management Accounting Principles



Definition: Management accounting is the sourcing, analysis, communication, and use of decision-relevant financial and nonfinancial information to generate and preserve value for organisations.

The Global Management Accounting Principles (GMAP) are for application in practice. They are created for use in day-to-day finance operations and they capture the way in which management accounting should be applied in day-to-day business.

Management accounting has a unique combination of skills and competencies designed to enable value creation and preservation across a huge variety of settings: public companies, private companies, government owned and within society.

The GMAP are a further refinement of practice, an ultimate evolutionary design in practice, to enable better value-adding decision-making in business, and a decision-making framework that is characterised by integrated thinking, and a framework that possess a better appreciation of the many different factors that can affect the success or failure of business decisions or indeed decision-making in any value creation setting.

The principles exist to bring management accounting to life and to give that definition purpose in practice. But this definition of management accounting could also be described as:

- The management accounting mindset that enables the co-piloting — with the CEO as pilot — of the business model at every level of the business
- The very core of the checklist or route map of good management accounting practice which every practitioner should use to ensure that their value-generating decision has been processed through each of the principles and has been validated and enhanced by each of them
- The management accountants' embracing of value that drives decision-making pathways of business to enable better and more holistic and integrated outcomes

The GMAP were created for the new VUCA (volatile, uncertain, complex and ambiguous) era of business. They reflect the perspective of CEOs, CFOs, academics, regulators, government bodies, and other professionals in 20 countries across five continents. This included a 90-day public consultation in which more than 400 people participated.

Public as well as private sector representation has been included so that the principles have universal applicability.

The principles and their application

CIMA's CGMA® Professional Qualification syllabus and CIMA's CGMA® Competency Framework together with the principles represent the main elements of the management accountants' competitive advantage.

This section sets out what the principles are and how, through indicative behaviours, the principles can be applied to decision-making, management actions and performance.

Indicative behaviours

Indicative behaviours specify, but do not constitute an exhaustive list of, the kind of behaviour which may establish compliance with or contravention of the principles.

They are intended to guide the work of management accountants.

For each principle, we describe a tangible objective, suggest how to achieve this, and propose a variety of outcomes that could have positive impacts on an organisation.

These examples should not be considered exhaustive because the GMAP can be applied across a wide range of situations and settings.

Defining best practice and better organisation outcomes

The principles describe the fundamental values, qualities, norms, and features to which management accounting professionals should aspire to perform in day-to-day practice. This second edition of the principles has been combined with a global research exercise examining the latest thinking in practice, accounting education and performance management.

Figure 1 outlines the management accounting value creation cycle which operationalises the definition of management accounting.

Figure 2 shows how the four overarching principles are key to achieving success and affecting the leadership of the business. Taken together and applied as a financial practice system, the interconnected four principles will create better outcomes for creating and preserving value for organisations.

Context

Management accounting professionals should have a fundamental impact on their business' purpose and values. The organisation's core values can provide a filter for decisions, and these should be articulated based on fundamentally sound ethical, environmental, social and governance standards. The principles should help to underpin core purpose and can be used to determine organisation values.

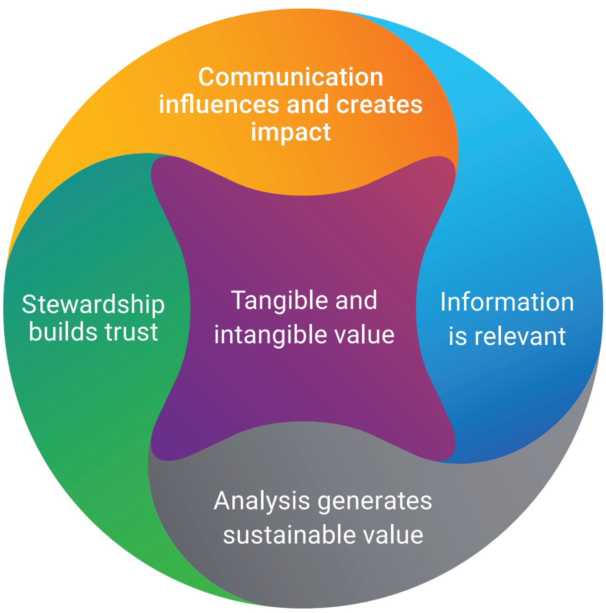
An example of this in management accounting practice is providing information that is misleading or open to misinterpretation. Applying principle one — communication influences and creates impact — should help prevent this.

The letter and the spirit of laws, codes, and regulations should be followed. Behaviour that falls short of this should be challenged and appropriately escalated to the relevant authority.

Chartered Global Management Accountants are governed by the professional code of conduct of their respective issuing body, either the AICPA[1] or CIMA.[2] CIMA's and the AICPA's professional codes are similar and are built on: integrity and objectivity; professional competence and due care; confidentiality; and professional behaviour and conduct.

Therefore, we believe that the GMAP can enhance our professional competencies and our behaviours.

Figure 2: Global Management Accounting Principles enabling sustainable value creation



Principle one — Communication influences and creates impact

Objective — To drive better decisions about strategy, operations, and sustainable value creation. Management accounting requires all communications to be well articulated, received and understood by their recipients. By following principle one, the management accountant should provide valuable, insightful, and expert analysis, engaging commentaries and opinions that bring the figures to life and persuade. 'Communication influences and creates impact' was identified in the 2018 Future of Finance research project as a key must-have for good management accountants.[3]

This means, as defined in our competency framework, 'the ability to translate and convey financial and nonfinancial information effectively to a variety of audiences using a range of mediums, including digital tools'.

Indicative behaviours

One way to illustrate principle one is by using our business model framework, the core component of which is the value creation cycle. This framework shows how the value that an organisation creates is generated. By asking questions about the business, practitioners can build a picture of how value is created and preserved. The model is divided into four sections: define, create, deliver and capture.

Practitioners should use each of these four areas to ask themselves critical questions about the business. The model can in this way be used to build a more holistic mental and physical picture of the organisation and its business model. This picture can then be developed into a narrative or comprehensive report which can be used to engage with all parts of the organisation to check its accuracy and test its effectiveness and purpose.

1 AICPA Professional Code of Conduct
2 'CIMA Code of Ethics: For Professional Accountants', CIMA (2020).
3 Martin Farrar, 'Re-inventing Finance for a Digital World', CIMA (2019).

By using this model, the consequences of actions in one area of the business on another area can be better understood, accepted, or repaired. The model allows the management accountant to develop questions around each potential activity that can be used going forward within the business to create value.[4]

For example: When a major investment decision is needed, the model can prompt discussion and opinion across board members concerning its merits.

We believe that at any point the management accountant can use this framework to create and communicate an understanding of the impact of a decision that has been taken or will be taken. The model can be used across all four stages of the value creation cycle.

Our business model framework outlines the four stages of the value creation cycle:

Value is defined by customers, investors, and other stakeholders. The process involves identifying and prioritising the organisation's stakeholders; finding out their needs; and formulating propositions to meet those needs. Management accountants need to appreciate that not all value created can be measured in financial terms; organisations create a range of value for a variety of stakeholders (see sidebar in chapter 2: "Tangible and Intangible Value"). At this stage, the organisation should be asking the question, 'For whom and with whom will we create value'?

Value is created through the harnessing of key resources and relationships. These inputs provide the resources that are converted into outputs through the activities and processes of the organisation. Most of the financial costs of the organisation are incurred at this stage, although value creation is not limited to the organisation. Employees value their pay and derive job satisfaction; suppliers and partners benefit from financial rewards for co-creation activities; and society benefits from operating taxes and duties such as those relating to payroll, land and building usage and import/export activities.

The *key question* for management accountants to consider in this good practice lens is: How and with what or with whom do we create the products, services, and experiences that meet customer needs? These questions can often be developed through use of a risk management framework, such as is available in the CGMA Risk Management Tool.

Value is delivered to ever more demanding and sophisticated customers when the outputs from the value creation element yield favourable outcomes: revenue, security, customer satisfaction, customer loyalty, etc. To do this effectively, the organisation must segment its customers and understand the channels through which the products and services can be delivered to these customers. Most of the organisation's revenue is earned at this stage. The organisation seeks answers to this question: How do we match and deliver our products and services to the right customer at the right time, place and price?

[4] CGMA® Competency Framework (2019 update)', AICPA & CIMA (2019).

In the context of profit-oriented organisations, **value** is captured for stakeholders when the revenue received from delivering value exceed the costs incurred when creating value. This surplus is reinvested and/or distributed to shareholders (dividends); employees (performance-related pay); and the wider society (taxes). In the public sector, value is captured for stakeholders when the public utility or societal benefit derived from delivering services exceeds their costs. The primary question here is: How do we share the benefits of value creation in a manner that incentivises all key stakeholders to continue to partner with the organisation in creating and delivering value? This is a critical question for management accountants to understand and apply.[5]

This **value creation cycle** is an important concept for management accountants to apply in the round, but we would argue — based on recent research into how the principles have been operationalised in practice over the last five years — that understanding this value creation cycle can markedly boost the value outcomes of principles two and three when operationalised across a business model.

Outcomes

Therefore, as a management accountant uses Principle one — communication influences and creates impact — in everyday practice, this should enhance long-term sustainable decision-making across an organisation and generate better corporate success. This is usually measured through increased profit maximisation coupled with improved stakeholder satisfaction. This can be seen through exemplary corporate reporting and a well-told value story to investors and other stakeholders.

Principle two — Information is relevant

Objective — Management accountants should aim to provide the corporate board, investors, and stakeholders with the information needed for creating successful strategy and contemporary tactics for execution. The goal is to create higher levels of business foresight, insight, and creativity, which will boost the business partnering outcomes that management accountancy, as described in our definition of management accounting, can achieve.

To achieve this objective, the principles are underpinned by several indicative behaviours that combine to produce best practices.

Indicative behaviours

- Principle two involves the identification, collection, validation, preparation, and storage of actionable information. As technology increasingly supports collection, the practitioner should focus more on context, data integrity and relevance to the organisation.
- Increasingly the management accounting practitioners should look beyond the historical accounts towards predictive practices such as environmental protection, social inclusion, good governance, human rights and workforce development. Modern organisations have real-time data to help inform the board what is happening on the ground, but it is management accountants who identify the salient information sources and put them into context.

5 'CGMA Business Model Framework: Global Consultation Paper 2017', CGMA (2017).

- Additionally, management accounting practitioners should evaluate information from outside the organisation's core structure. This involves making predictions for the future around the viability of an organisation based on objective facts. In this new digital age, there are numerous tools for assessing viability that management accountants can use but the Future of Finance research project led us to argue that management accountants must include more external information in their analytical functions to develop a more holistic picture of the organisations in its business ecosystem. Chapter 4 discusses this in more depth.
- Management accountants should have at their disposal the best tools and techniques to acquire information. This means data analytics (see "Data analytics" sidebar), new technology, and up-to-date business information.
- Management accountants involved in business transformation should aim to build access to the best available resources so that they have information relevant to the decision being considered, the persons making the decision and the decision style or process being used.
- Incomplete or uncertain information should be highlighted using risk management techniques such as impact versus likelihood.

Data analytics

In an increasingly digital world, rapid changes in technology are creating challenges for organisations' business models. It also makes it difficult for business leaders and employees to develop and preserve sustainable value. Against this digital backdrop, finance professionals must possess relevant technical skills, a sound understanding of their organisation, and the ability to influence and lead people. Digital management accountants will gain a deeper insight into their organisation and craft and successfully execute their strategies.

Outcomes

Research shows that good information enables good business decisions through analysis, insight, and career acquired instinct. But the Association's research into business decision-making and organisational performance management over the last three years reveals that business decisions are often determined using limited or incomplete data.

If we acknowledge that fact, then we must seek techniques and solutions to enable better decision-making and therefore Principle two, combined with the indicative behaviours outlined, provides an effective tool for enabling better organisation decision-making.

But the insight and decision-making leadership that this principle can bring to a finance function must be supplemented and enhanced by using scenario planning, forecasting and other predictive tools, which will boost the information and evaluation techniques contained in this principle.

This will

- Enable predictive analytics in the business
- Create a more holistic view of the financial outcomes of a business' strategy
- Enable better financial planning and analysis
- Facilitate more confident and informed business model pivoting
- Empower fresh strategy innovation and strategic planning

This higher-level insight and analysis and the consequent better value decisions and business strategy should benefit the resilience and sustainability of the business model, and provide the key stakeholders in the organisation's ecosystem, including the board and its investors, a more comprehensive and informative view of the past, present and future position of the organisation.

Principle three — Analysis generates sustainable value

Objective — The aim of this principle is to turn relevant information from disparate and fragmentary data into a meaningful narrative with recommendations that can be acted upon by the board, investors and stakeholders.

The skills and techniques that management accountants develop by their formal learning process should give them an ability to spot patterns and identify trends in the figures. By connecting this analysis with their understanding and co-piloting of the business model, they should be able to draw out the most relevant information from the increasing proliferation of sources that are available, especially in digital form. They should also provide context to the relevant information.

From Information to Impact

Our research reveals that automation is freeing people up to progress from the basic finance activities. These are at the heart of a finance function, its functional DNA. As more tasks involved with information are automated (assembling data to provide information and turning data into analysis), finance professionals are released to take on activities with real influence and impact.

Take the writing of monthly management information. Software can produce management information at the press of a button, in real time, with customised language that suits your organisation. The software can also draft PowerPoint slide decks to complement your report and influence your audiences.

Such technological change shifts the key skills of the finance professional from 'knowledge' to 'meaning'. They have the opportunity to add value in the areas of management and strategy, not the pure accounting aspects of the basic functions.

Skills required include advising through stakeholder interaction, applying expertise to help with impactful decision-making, and experimenting with strategic choices.

Overall, a good management accountant should aim to apply this to every value-related decision.

Indicative behaviours

- A thorough understanding of the organisation's strategic aims, stakeholder needs, and agreed targets means actions are prioritised by value rather than cost
- Developing scenarios that demonstrate the cause-and-effect relationships between inputs and outcomes. Scenario planning and horizon scanning are key tools that can enable pivoting. Scenarios illustrate the trade-offs between one option and another, so that opportunity costs are factored into decisions.
- Modelling the impact of opportunities and risks and ensuring the effect on strategic outcomes is quantified. The likelihood and impact of a given decision to generate, preserve or destroy value should be known.
- Proportionate and tailored modelling should be used as a basis for key decisions. Some scenario models will be simple and take very little time, while others will need to be sophisticated and consider more complex factors.
- Principle three requires a thorough understanding of the wider macroeconomic environment. It also means understanding the competitive, regulatory and economic landscape of the organisation within its contemporary relevance. The management accountant should use all available resources to stay on top of these topics.
- The management accountant should analyse information along the value generation path, evaluating opportunities and focus on the risks, costs and value-generation potential of opportunities that arise.
- Continuing the build-up of knowledge about the drivers of cost, risks and value is critical.
- If, through this assessment, its value propositions are found inadequate, the management accountant should lead this re-assessment of value generation and creation by asking fundamental questions and using the 'Joining the Dots' approach. The business model should be refined or pivoted (that is, amended at board level to reflect current market conditions and strategic priorities) to recapture its value creation focus.
- Management accounting prioritises actions using robust logic from scenario models, which is used to justify the action being taken with the goal of value creation and continuation.

Outcomes

All key decision-makers should understand how their decisions are likely to affect the value of the organisation, not just in the short term as measured by the share price but also over the longer term. The ways we can increase value can be realised through a better appreciation of existing assets, including intangible assets such as reputation, intellectual, proprietary IT systems and brand awareness.

Intangible assets, which are often overlooked in the value equation of a business, are, in many ways, more important and vulnerable to decay than tangible assets such as property and stock.

Management accountants, as stewards of the business or organisation must adopt, through the embracing of the GMAP, a more holistic appreciation of every asset using evidence-based techniques. In doing so, they can create a much higher understanding and achieve a stewardship role for the organisation or business.

Hence building trust is the final Principle.

Principle four — Stewardship builds trust

Objective — To build the trust, credibility, and legitimacy of the organisation through developing a robust and reliable evidence-based approach to decisions that, if challenged, is supported by an independently regulated professional body.

Principle four — stewardship builds trust — encapsulates and encourages good practice founded on professionalism and ethics. It should be at the forefront of the management accounting mindset.

At the heart of this Principle is a highly professional and dispassionate belief in the long term and value creation aims which are deep-rooted, durable, abiding and stable.

Here the management accountant requires insight and alertness to potential conflicts of interest and not putting personal or short-term commercial considerations before the longer-term interests of the organisation or its stakeholders. It requires management accounting professionals to behave with integrity and objectivity and to constructively challenge any decision that does not align with their professional values.

To achieve this objective, the management accountant builds trust through several core behaviours while working in practice. Over time, the management accountant develops a reputation through these behaviours which commands the respect of peers, provides inspiration, and provides strategic direction to the organisation such that the management accountant is acting as a steward.

These behaviours must be in the mindset of the Management Accountant and here we have concluded that this mindset must similarly be abiding and stable.

Indicative behaviours

- The ambition of the management accountant should be to actively manage relationships and resources so that the financial and nonfinancial assets, reputation and value of the organisation are protected.
- The management accountant should actively manage stakeholder relationships to ensure trust and mitigate the potential impact of external shocks.
- Management accounting professionals are trusted to be ethical, accountable and mindful of the organisation’s values, governance requirements and social responsibilities. This means adhering to the code of ethics.
- Transparency leads to accountability and ultimately reduces the risk of reckless or poor decisions being made. Management accounting professionals are answerable to their stakeholders about the decisions they are involved in taking. This means undertaking to explain how and why a decision was made through appropriate reporting mechanisms.
- Being mindful of conflicting interests improves stakeholder management and is an important consideration when prioritising stakeholder groups. Proactively seeking feedback and being responsive to questions or complaints facilitates scrutiny by those with an interest in the organisation’s performance.
- Management accounting aligns sustainability activities with strategy by linking them to business drivers and the business model. This provides decision-makers with information about sustainability factors so that these are integrated into business planning and reporting.
- Finally, economic, environmental, and social risks should be identified in a systematic way using risk management techniques such as impact/probability profiling.

Outcomes

The outcome of Principle four should be a resilient and thriving business community where corporate governance scandals are rare and trust in business is high.

Good stewardship, as we have outlined here, provides management accountants with the opportunity to inspire good practice throughout an organisation and its people, which can encourage better practices at all levels of decision-making. This could mean that the four principles can be cascaded across and through an organisation, enabling better joined-up decision-making processes.

Thus, the principles can change and improve an organisation's culture to focus on better decision-making and enable a wider and deeper understanding of the value creation purpose of the organisation. We would argue that good management accounting and indeed the adoption of the definition of management accounting as an operational and behavioural value can mean that management accounting at its best can positively alter the culture of an organisation. Our research into culture can be used to assess this impact.

Chapter 2

Management Accounting in the 2020s

Management accountants bring rational, measured discipline and professional objectivity to inform, frame, and guide decision-making and organisational performance in all industries and entities.

Fundamentally, management accounting is about organisational and performance management.

Our approach to organisational management is focused upon:

- Strategy creation
- Strategy delivery
- Value creation

In practice, management accounting is all about bringing these three aspects together to create sustainable and resilient organisations. Combining the very best organisational performance management techniques produces what we would call great management accounting. This is at the heart of organisations to create positive, valuable business and people outcomes that are even better now that data technology makes management accounting more effective.

The four principles of management accounting can positively and significantly boost an organisation's performance. They enable the **management accountant's mindset** to generate insight and connectivity, producing better business leadership and more successful, sustainable companies.

The principles have been researched by engaging the experiences of management accountants working in businesses across the world and they represent best practices.

Ultimately the purpose of this document is to explain our four principles of management accounting and illustrate how these can influence the thinking and decision-making in every management accounting practice around the world, boosting our capacity to create value and produce more resilient businesses.

Why do we need to improve decision-making in business?

Our research over the last five years shows that organisations need to improve their decision-making.

Recent research reports we have published include:

- Finance Transformation: The Human Perspective (2020)
- Agile Finance Unleashed: The key traits of digital finance leaders (2019)
- Re-inventing Finance for a Digital World: The Future of Finance (2019)
- Changing competencies and mindsets: Creating a vision for the future (2018)
- Joining the Dots: Decision-making for a new era (2016)

That is a body of Thought Leadership that collectively concludes:

> 'Business around the world needs finance professionals who are great communicators with agile mindsets enabled with strong technical skills and digital competencies to make better and more 'informed' management decisions that create sustainable tangible and intangible value for a business'.[6]

Tangible and Intangible Value

Tangible value relates to value that can be directly mapped to some form of economic return.

Intangible value is value created or owned by a business that has no physical form.

CIMA's body of knowledge highlights that today's VUCA (volatile, uncertain, complex, and ambiguous) world is disrupting organisational management and decision-making processes, which then affects strategy support and building resilient business models. These processes are further stressed by the challenges of seven global disruptors identified by Deloitte that are now the key drivers of change in today's world.[7]

[6] Martin Farrar, in discussion with the editorial team, 2022. world.html
[7] 'Future of Work in the Banking Sector', Deloitte (2022).

The Seven Global Disruptors

Deloitte has identified seven disruptive forces that leaders should understand and incorporate into their strategy for future growth:

1. Technology has exploded from gadgetry to the internet of things (IoT), enabling entirely different ways of working and the need for all employees and their leaders, to be 'tech fluent'.
2. Data has become a tsunami that can foster growth in organisations that access the power of big data and analytics to unlock customer insights and remain competitive or overwhelm those that fail to do so.
3. An expanding 'cyber-physical world' is emerging that renews focus on efficiency and the automation of manual tasks to control costs and keep pace with competitors.
4. Automation creates new jobs with essential human skills and a focus on higher-level value creation.
5. Technology has changed the meaning of "career," which recognises lengthening life spans resulting in a 60-70-year work life with continuous learning and career shifts.
6. There has been an explosion in contingent work with a distributed talent pool that improves productivity and speed.
7. Diversity and generational change make open dialogue, employee empowerment and inclusion organisational imperatives.[8]

[8] Deloitte, '7 disruptive forces that leaders should incorporate into growth strategies' (Harvard Business Review, 10 April 2019).

Key research findings

Our report 'Joining the Dots: Decision Making for a New Era' recognised that business is now operating in a VUCA world and identified several major flaws in companies' decision-making, which are 'costing them dearly'.

This research paints a compelling picture of decision-making models that are no longer fit for purpose and how to fundamentally improve them. Our key findings demonstrate that many companies are struggling to:

- Overcome bureaucracy and achieve agile decision-making
- Build greater levels of trust and improve collaboration[9]
- Take a long-term view and define the right metrics
- Turn huge volumes of data into strategic insight
- Build the decision-making skills of senior leaders.

CIMA's Future of Finance research project (2017–19), also identified seven global disruptors, and like Deloitte, we recognised and discussed how these were negatively affecting organisational management and decision-making.

CIMA's seven disruptors, as identified in Reinventing finance for a digital world, are outlined in figure 3.

Joining the Dots: Decision-making for a New Era — published 2016

This report examines the dynamics of decision-making and investigates the effectiveness of C-level decision-making practices in large organisations across the globe. The report findings suggest that senior leaders are struggling to make the right decisions in many cases. The large majority find themselves battling against bureaucratic decision-making processes; siloed and short-term thinking; breakdowns in trust and collaboration inside the organisation; and difficulty translating ever-expanding volumes of information into relevant knowledge.

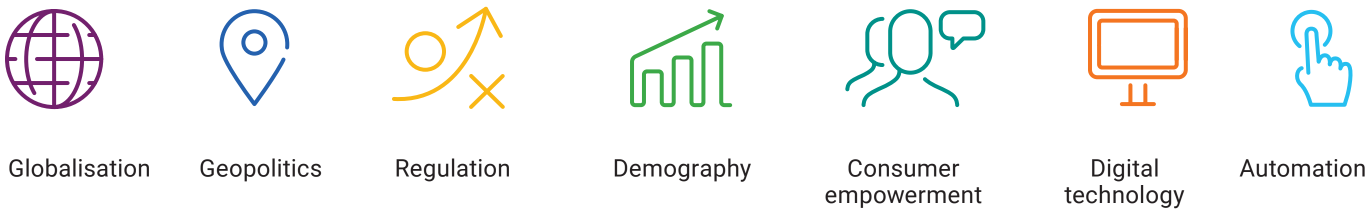
The solutions to many of the decision-making challenges we have identified can be achieved through more integrated thinking — cutting through silos to connect relevant people and information from across the organisation.

Joining the dots in this way enables leaders to see the big picture. The report argues that better decisions can be achieved if a more integrated and principled approach to decision-making is adopted by business leaders, and it contains evidence sets and tools to support this conclusion.

In this report, we also argue that the global business environment can be portrayed as operating in a VUCA world — characterised by volatility, uncertainty, complexity, and ambiguity — that affects the way in which we make strategic decisions. We argue that strategic decision-making is becoming harder and harder because of the influence of the VUCA world, and that the pace of change, particularly regarding the advance of technology, is enhancing the VUCA characteristics of the global business environment.[10]

[9] 'Joining the Dots: Decision Making for a New Era', CIMA (2016).
[10] 'Joining the Dots'.

Figure 3: CIMA's seven disruptors identified in *Reinventing Finance for a Digital World*.

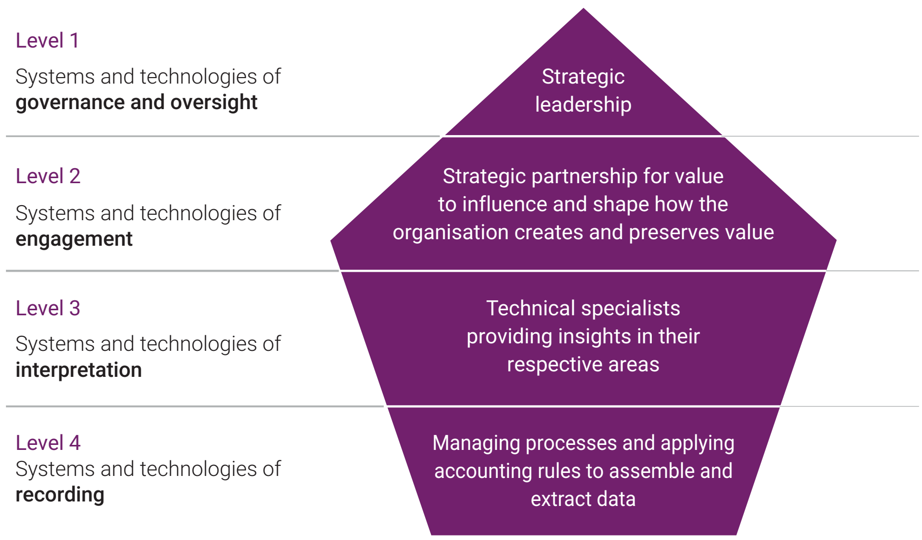


In Re-inventing finance for a digital world, we identify technology as the most influential long-term disruptor upon organisational management and finance today.

Technology is affecting every aspect of the finance function and these impacts are presenting big challenges to management accounting–based decision-making and effective organisational and performance management. The rise of big data is challenging the ability of finance teams to make good decisions. Whilst technology-based solutions such as robotic process automation and data analytics offer management accountants processing solutions to big data, they have created a more complex challenge. How do management accountants determine if 'the machines' are presenting the right information and the right analysis summaries with which to ensure the viability of the business model, strategies, and annual business plans?

Having examined the impacts of new technology on the finance function, we conclude that the volume and velocity of information flows combined with extraordinary economic change, happening at an increasingly fast pace globally, is creating such a complex business environment that organisations must have higher quality and more agile decision-making capabilities. Hence we determined that the shape of the finance function has changed, and there is a new alignment of systems and technologies operating across the new shape and within each of its levels, as shown in figure 4.

Figure 4: The shape of the finance function in the digital world and the application of different systems and technologies.[11]



[11] Farrar, 'Re-inventing finance for a digital world', 7.

The updated CGMA® Professional Qualification syllabus and updated CGMA® Competency Framework (2019 edition) confirm the case for management accountants with a rigorous combination of technical, business, people, leadership, and new digital competencies. Together, these competencies create proficient and confident management accountants and are foundational in enabling good and better decisions. Additionally, evidence from business accumulated in our Future of Finance research argues that the next generation of management accountants needs a more agile mindset and great people skills with which they can provide better strategic analysis, direction and decisions to preserve and co-create value. Indeed, the latest Ocean Tomo Report[12] suggests the trend to intangible value is ever increasing thus ensuring that business partnering is shifting towards **value partnering**.

Value Partnering

Value can be split into tangible and intangible. Since the 1990s, many of the major value drivers for organisations have shifted away from tangibles — such as property, machinery, inventories and plant — to intangibles such as brands, trust, patents, and human resources. Because intangibles are treated differently by accountants, they are often missing from companies' balance sheets. The discipline of value partnering aims to redress this shift.

Further analysis through our Future of Finance research initiative leads us to conclude that practitioners should unite the following three assets:

- Our five competencies
- A new digitally agile and inquisitive (questioning) mindset behaviour
- Our four key guiding principles of good practice.

Digital mindset

Our revised CGMA Competency Framework is based on the idea of a digital mindset. Further details can be found in CGMA Competency Framework: Digital Skills.

By unifying these elements, we can create a set of operational assets that will produce more effective management accounting functions with higher quality and agile organisational management, decision-making and business leadership.

Over the medium-term, if we combine these three assets with continued professional development/education (CPD/CPE) and intellectual curiosity, there will be a marked improvement to performance and organisational management resulting in higher-level outcomes that create more long-term sustainable value.

Therefore, from an evidenced-based position, the four principles should be at the centre of all decision-making by every management accountant. They drive continuous improvement for performance and organisational management at a time when businesses around the world need far higher competencies in both performance and organisational management.

[12] Intangible Asset Market Value Study.

Decision-making with management accounting analysis and insight

So far, we have highlighted that good management accounting practice has three structural elements:

1. The CGMA® Professional Qualification syllabus. A sample of management accounting content used in the educational and assessment process for initial professional development.
2. The CGMA® Competency Framework (2019 edition). How finance professionals are expected to apply accounting and finance skills within the context of the businesses/organisations in which they operate.
3. The GMAP. Supporting organisational best practice.

The combination of these structural elements of management accounting provides management accountants with a comprehensive role within finance functions that is often not recognised by CFOs and CEOs.

This can mean that the higher-level outcomes that management accounting facilitates are not realised, especially in the practice areas of performance and organisational management.

Our body of research shows that probing questions are often not being asked and that the real value of a focused and efficient management accounting function is not realised in businesses around the world today.

In the context of a finance function, we see a division of labour that uniquely places a management accountant at the heart of the business model and its value creation engine.

Financial accountants are recognised for their subject matter expertise in areas such as external reporting, auditing, and tax. Management accountants have an integrated and flexible business mindset which makes them more pragmatic, commercial and action-oriented.

Management accounting engages in the now and the future, taking the current enterprise data and interrogating it to provide analysis and insight to influence and create strategies which support the business, model and manage performance to grow and sustain business.

A management accountant's analytical, performance, and organisational management functions complement the financial accounting system. However, **the magic of management accounting** is creating an engaged function attuned to the business not merely reporting on it.

Crucial components of this role are to:

- Identify the organisation's core competencies to articulate the business model and its drivers and to monitor these using both internal and external lenses.
- Analyse all the vital, decision-relevant information using contemporary data analytical methodologies.
- Steer a business forward and conceive strategy options for the business to grow and survive.
- Use critical thinking to reflect, test, and reconsider initial analyses; to review the legitimacy and origin of the data; and to reconsider the questions asked to produce better and more integrated decisions.
- Communicate a vision, a strategy of the future, and decision-making having analysed the relevant data.
- Create and sustain confidence and trust in management accounting by putting the right performance measures in place and by using and deploying outstanding people skills.

Trust

It is only by having confidence and trust that the management accountant gains a seat at the table. This means trusting that they have the right data (financial and nonfinancial/internal and external). In an increasingly complex and interconnected business environment where value is driven by intangible factors — such as the quality of customer experience, innovation, and brand strength — trust is paramount as one of the foundations of an organisation's reputation and, ultimately, its commercial success.

These are embedded within the four principles (discussed on page 19) of management accounting which need to be activated by every management accountant. In performing this active function in the new digital finance environment, management accountants must apply and refresh these practices using a continuous agile and digital mindset with the people skills of communication, engagement, persuasion, presentation and visualisation.

Data visualisation

Data visualisation is the graphical representation of data. Many tools can help with data visualisation. The graphs you create in Excel are a simple form of data visualisation; you are using tools to visualise data to help make sense of it and communicate its meaning. A few things to remember when you approach data visualisation are as follows:

- Explain the context of the visualisation to the audience. This may be done with a title describing the subject of the graph, legends or annotations.
- Keep it simple. A common pitfall in data visualisation is to create complex visualisations, but complexity does not mean clarity. Think about your own confusion when you see too much information on a visualisation.
- Choose a data visualisation that works well for a data set.

Advancements in data science mean there are now many tools available for data visualisation beyond Excel-based tools.

These tools include Power BI, D3, and other data visualisation software for creating various types of data visualisations. Some of these tools also recommend visualisation techniques suitable for the data set you are working with.

Although there are many tools at your disposal to create data visualisations, you should also have some basic idea about visualisations and their general purpose.[13]

Source: "Data life cycle and visualization" section of *Introduction to Data Analytics for Accounting Professionals* course.

[13] Association of International Certified Professional Accountants, 'Introduction to Data Analytics for Accounting Professionals', Coursera.

People skills

There are certain things that only human beings can do. These are tasks that machines are either not very good at or cannot do at all. These involve providing leadership, empathising, some aspects of creativity, making judgments, and areas relating to ethics and professionalism. To make sure that finance professionals are fully skilled in these areas, we have incorporated them into the CGMA Competency Framework, CGMA Professional Qualification and CPD. We believe this is important because the finance professionals' time is then freed from mundane tasks and can be redeployed to tasks that add real value to organisations.[14]

Management accounting and integrated thinking

In enabling decision-making with analysis and insight, we must recognise that the techniques of a management accountant in the arenas of performance and organisational management enable integrated thinking and that there is a strong alignment between them.

Research assessing the impact of the principles between 2013 and 2016 found that the integrated thinking approach combined with the principles produced better performance and organisational management. Companies that participated in our research demonstrated that they were

- better at leveraging big data,
- better at building trust and collaboration,
- more effective at executing decisions, and
- better performing relative to others in their industry.

This could be called the 'better or integrated journey'. Despite the progress that we recorded towards better organisational and performance management and decision-making, this report recognised that this 'better' journey has been achieved by only a small number of companies.

Joining the Dots' concluded with an extensive remedy for improved decision-making that included

- developing a deep understanding of the organisation's business model,
- creating and sharing relevant data that has insight layered onto it,
- balancing both financial and nonfinancial, internal and external information, and
- building greater trust between finance and the rest of an organisation.[15]

Integrated thinking

Integrated thinking is the active consideration by an organisation of the relationships between its various operating and functional units and the resources and relationships that the organisation uses or affects. Integrated thinking leads to more joined-up decision-making and actions that consider the creation of value over the short, medium, and long term. Embedding integrated thinking into an organisation's activities enables joined-up information to flow more naturally into management reporting, analysis and decision-making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.[16]

14 Farrar, 'Re-inventing finance for a digital world', 30.
15 'Joining the Dots'.
16 'Integrated thinking', 'Joining the Dots.' 8.

‘Joining the Dots’ recognised the relationship between good management accounting practice and integrated thinking and their alignment. It also underlined the fact that although AICPA & CIMA and other professional bodies like the International Integrated Reporting Council (IIRC) and International Federation of Accountants (IFAC) had commenced their journey to improve decision-making in business.

The adoption of GMAP produces

- better decisions,
- better organisational management, and
- more positive and valuable performance outcomes,

This ultimately leads to sustainable value creation and preservation.

This edition of the GMAP, refreshed and reboosted by our research into practice and business since 2013, is a significant next stage in fulfilling our ambition to encourage more integrated thinking by the adoption of management accounting practice in the heart of every organisation.

How the principles are a universal tool for good decision-making

From this strong evidenced-based position, we argue that the management accounting principles must critically influence the decision-making of every management accountant in businesses across the globe. More broadly, the four principles must also be used to positively affect operations and the decision-making behaviours of not only every finance professional working in business but also of the entire business.

The principles need not be strictly applied to finance decisions. They can be used flexibly to create a new business mindset, the principles mindset, to test, inspect and revaluate a decision. Good practice ethos ensures the following:

- The right information has been complied, brought together and analyzed.
- The goal underpinning the analysis is creating trusted decisions, aligned with adding value (both tangible and intangible) to the business model.
- Every analysis includes deeper questions focusing on the future and how much value can be created over what period, using short-, medium-, and long-term scenario planning.
- Across the whole process, good and clear communication and presentation skills (people skills) are used to enable others to follow the management accountant’s practices of insight and analysis, and to understand the efficient and effective implementation of the decisions.

- Every strategic decision and every business recommendation must be tested through the four principles' mindset before it's presented or operationalised,
- **The management accountant's mindset** has been fully applied to make good decisions that are:
  - Trusted by colleagues across the organisation
  - Always focused on ensuring support to the business strategy
  - Developed utilising a digital advantage
  - Made demonstrating critical thinking
  - Underpinned by the best operational performance techniques
  - Aligned with the agreed strategies of the business model
  - Scrutinised by having the right business metrics in place
  - Communicated to all the stakeholders in the business with clarity and confidence
  - Always focused on sustainable value creation and preservation

What is the digital advantage?

New digital technologies such as social media and mobile telecoms, including apps, present new ways for a business to interact with its customers and suppliers. But these technologies are advancing at a tremendous pace, and research from Capgemini argues that in order to capture the real business benefits that new digital technologies present, companies need to have a **digital maturity** which can lead to them creating a significant **digital advantage**. Capgemini found that most large firms are already 'using technologies like social media, mobile, analytics and embedded devices to change their customer engagement, internal operations and even their business models.' They argue that these companies are achieving real business benefits by enabling their business models to possess a digital advantage. See the report: The Digital Advantage: How digital leaders outperform their peers in every industry.

What is critical thinking?

Critical thinking is the ability to think clearly and rationally and in a reflective and unbiased way. Rather than accepting ideas and assumptions at their face value, critical thinkers rigorously question these and apply systemic analysis. Management accounting tools on how to improve thinking are available in Re-inventing finance for a digital world: Strategic thinking supplement tools and techniques.

Sustainable value creation

Tools and techniques on this topic and on how to improve thinking are available in Business Models Concepts — CGMA white paper.

When utilised and applied correctly, the principles can position the management accounting team as trusted and agile finance business partners across every business function. They can also influence a wider mindset evolution.

The principles can be used to show how value is created and enable a wider participation in the co-creation of value across a business, because they provide a framework for understanding good financial decision-making which can be used to raise the level of finance literacy throughout a business.

In this way, the principles can become universal — a tool to be used at every level of significant decision-making in any business.

Management accounting and financial literacy

Financial literacy is a challenge that management accountants face when it comes to making others understand how financial information can be used to create and inform decision-making across an organisation.

Management accountants also find that both strategic and organisational decisions fail because of a lack of financial acumen and critical thinking across the business. Traditionally this failure was rooted in the numeric and financial planning and analysis. Today, this financial acumen problem is compounded by the role that technology now plays in the form of data analytics, blockchains, and robotic process automation. This digital transformation is challenging all aspects of finance and compounding the financial literacy issue.

Thus, we have a dual challenge of increasing the technological literacy of management accountants to embrace digital transformation and ensuring that digital transformation is an integral part of the learning to raise the level of financial literacy more widely.

Through their universality, the principles can enable this learning process and improve financial literacy.

Conclusions

Management accounting is a science and, like any science, it expands, re-creates and evolves, based on research that enables exploration and reflection.

Management accountants bring rational, measured discipline and professional objectivity to inform, frame, and guide decision-making and performance management within organisations.

This second edition of the principles is different.

They reflect a new management accounting body of knowledge that we have researched and accumulated, both through applied and academic research, since 2013.

The principles incorporate the learning that we ourselves have developed and embraced, particularly regarding performance and organisational management, and the Future of Finance research, since the first edition. Hence, we now talk of co-creation, integrated thinking, new mindsets, agility and people skills. This recognises our evidenced-based engagement with industry and the new characteristics that management accountants require today.

Our 'Joining the Dots' research demonstrated that a better and more integrated decision-making framework has a positive impact on sustainable value creation. It started the transformation of the CFO to become the trusted co-pilot of the CEO and the guardian or steward of the company's business model. This second edition reinforces and accelerates that CFO positioning and empowers better decision-making across businesses by facilitating new mindsets built upon a new financial literacy.

Fundamentally in thinking about new and insightful management accounting practice, this edition:

- Encompasses the three structural elements of:
  - The CGMA® Professional Qualification syllabus
  - The CGMA® Competency Framework (2019 edition)
  - The GMAP
- Uses all three structural elements to create better decision-making in business
- Is underpinned by an agile and digital mindset which broadens intellectual and practical approaches to decision-making
- Extracts value from information using enhanced analytical and communications skills to improve decision-making
- Highlights the outstanding people skills needed by every management accountant to create trust
- Enables better performance and organisational management through better communication, analysis and insight
- Encourages a principles mindset as a testing ground for strategic decisions and every business recommendation before it's presented or operationalised

We are so firm in our belief in the value of effective management accounting practices that we have created a Finance Maturity Model Tool, an ESG Competency Framework and the CGMA Competency Implementation Tool so that management accountants can sense check the effectiveness of their management accounting functions. Please see resources at the end of this document.

Chapter 3

How the Global Management Accounting Principles are applied

Successful organisations have effective management accounting functions.

The GMAP (Chapter 1) provide guidance on weaving the organisation's objectives and strategies into the practices of management accounting. The application of the principles is what management accountants are expected to do that affects the professional performance activities (Chapter 4) and management accounting practices (Chapter 5). In other words, it is the people, the finance professionals, who must expertly execute the principles which enable performance and excellence in practice.

Utilising the principles and the CGMA Competency Framework together, management accountants and finance professionals expertly provide

- the link among organisational strategy, operational activity, revenue generation and consumption,
- sustainable value creation and generation,
- value preservation and sustainability,
- within their ethics, integrity and professionalism.

These processes include integrating the four principles which result in

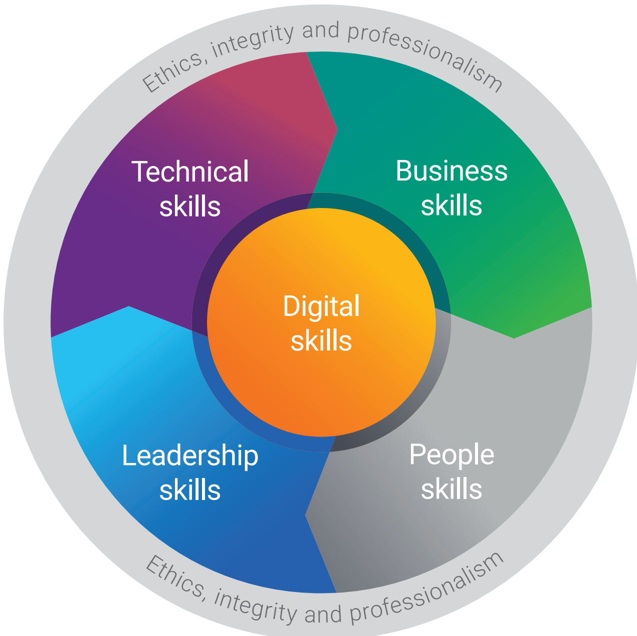
- Establishing and managing internal and external relationships. These are conducted with internal and external stakeholders through collaboration and partnering.
- Influencing positive outcomes and strategic decision-making through predictive, analytical and comprehensive methods.
- Building trust by by communicating financial and nonfinancial information that influences and creates impact for all stakeholders at all levels throughout an organisation.

These principles are applied and managed through a variety of people skills and abilities. Ultimately, it is the right people doing the right thing for the right reasons.

How do management accountants get started?

The main tools used to apply the GMAP include the CGMA Competency Framework and the CGMA Professional Qualification syllabus. The framework (see figure 5) details the capabilities and expectations of finance professionals and highlights the range of skills of management accounting professionals, placing importance on both technical and soft skills. The syllabus provides a guide for educational development to meet the needs of the marketplace. Both tools feature identified levels of competencies.

Figure 5: CGMA Competency Framework



The framework includes the following five areas:

1. Technical
2. Business
3. People
4. Leadership
5. Digital

Each area includes a series of competencies that are defined at four proficiency levels: foundational, intermediate, advanced and expert. Each competency prescribes a series of skill sets to assist professional development.

CGMA Competency Framework Expectation

(a) Apply accounting and finance skills evidenced by financial accounting and reporting (technical).

(b) Ensure these skills are practised in the context of the business as a whole, encompassing strategy, modelling, and micro/macroeconomic analysis (business).

(c) Influence the decisions, actions and behaviours of others (people).

(d) Lead the organisation at different levels through team building, coaching, change management and motivating towards change within (leadership).

(e) Demonstrate a digital mindset.

What do management accountants need to do to be effective?

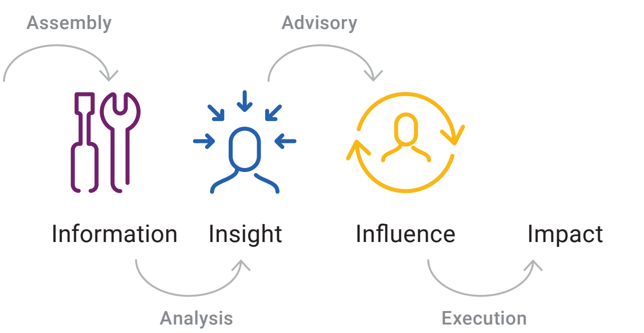
Management accountants contribute to decision-making and implementation of solutions for a team, department, and entity through effective communication. For success, management accounting professionals must recognise, understand and participate in the organisation's customer and interpersonal relationships that create the value for the business to operate successfully. This translates into a big picture view through using a combination of accounting, financial and digital expertise; business understanding; analytical skills; and appropriate business expertise. The value is demonstrated in the ability that management accountants possess to operate in an ever-changing environment.

Figure 6 shows the evolving role of the management accountant in adding value and influence to achieve positive impact. Providing evidence in the form of financial reports, management information, and analysis is the foundational role of accountants in decision-making.

The communication of analysis and insights through the ever-increasing role as adviser and influencer to decision-makers continues to expand. The outcomes of decisions are communicated in compelling ways to facilitate decision implementation. Management accountants then measure progress and manage performance through to the intended outcome.

The role of management accountants continues to broaden in agility as their contribution to the organisation shifts from technical skills to commercial.

Figure 6: The changing role of management accountants.



The CGMA Competency Framework provides a clear link to the GMAP at all skill levels (foundational, intermediate, advanced and expert) within the five knowledge areas (technical, business, people, leadership and digital). These clear skills and knowledge areas provide guidance within each of the 14 practice areas. These skill areas include the broad range from the foundational cursory accounting skills and flow into the leadership and management skills needed to manage the financial records to the risk and strategy management of the entire organisation.

How do management accountants execute these skills?

The principles are applied by people to the management of organisational performance and to the practices of the management accounting function.

Performance is the practical and effective measurement of an entity's strategy set out by their corporate objectives and implemented through their chosen business model. The components of performance management include

1. Strategising
2. Planning
3. Executing
4. Reviewing

The fulfilment of these expectations includes the execution of a variety of soft, intangible skills — at the forefront of these is agility.

CGMA Competency Framework promotes **agility**

Agility promotes effective transformation. These skills brought success and improvements to many organisations through the events of 2020–21. Digital transformation was at the forefront and was reimagined. See our full report on 'Digital transformation reimagined'.

Being agile is simply the ability to move quickly and easily. Disruptions occur hourly, if not daily, in our current environment. Skills to collaborate both upwards and downwards in your entity as well as with internal and external stakeholders all the while with a healthy curiosity to drive decisions in an optimal and value-providing direction are in use concurrently. Ensuring that a common corporate language is used and understood by all is the beginning of agility. Building, changing course, being aware of gaps and deficiencies as well as strengths and centres of excellence create an environment where goals and strategies can be met. The management accountant not only brings the skills needed but promotes and develops these throughout the organisation.

The goal of leaders within any organisation is future value generation for stakeholders. The performance by which the value is generated is exhibited through the business model embraced by each organisation. The business model explains how value is generated, delivered, and preserved. An organisation's business model is its chosen system of inputs, business activities, outputs and outcomes. Management accounting links strategy to the business model, as shown in figure 7.

Figure 7: Management accounting linking strategy to the business model.

Where and how do management accountants use these skills?

The 14 unique practice areas which are common to management accountants and finance professions are where the principles are applied. Expanding upon the behaviours and bridging with the detailed explanations of the practices as they relate to the management accounting function (see Chapter 5), specific practice activities and some behaviours are explained here for reference.

- **Business strategy** — The identification of the possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities, and the implementation and monitoring of the chosen strategy to achieve stated objectives. Predictive analysis, evaluation of external information and continued monitoring and review of scenarios and risks heightens the value provided.

- **External reporting** —Encompasses both financial and nonfinancial performance, including relevant sustainability-related information. The provision of a concise, integrated, and comprehensive view of the organisation's financial and nonfinancial performance, business model, risks and strategy forms the basis for an effective assessment of expected future performance.

- **Cost transformation and management** —Tackles the organisation identity as a whole. It generates a new way of business life, underpinned by self-regulated leadership, where all tiers of staff embrace a mindset that is commercially cost-conscious. In today's business environment, cost transformation and management should also embrace the principles of circular economy thinking:

  1. Designing out waste and pollution
  2. Keeping products and material in use
  3. Regenerating natural systems

The exercise of addressing waste while preserving or enhancing sustainable value generation.

This exercise involves the sustained identification and reduction of waste across the organisation while freeing up resources to invest in customer-focused innovation that will drive future value for stakeholders. The use of technology in the collection, validation and preparation of actionable information for decision-making begins here.

- **Internal control** — A documented framework of policies, systems, processes, and procedures for managing risks to ensure operational effectiveness; ensure accounting and financial reporting integrity; promote accountability; and prevent fraud.
- **Investment appraisal** — The assessment of whether to pursue a particular investment based on alignment with strategy, option prioritisation, affordability and acceptable returns versus unacceptable risks. Long-term ESG sustainability should also be accounted for.
- **Management and budgetary control** — The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other nonfinancial measures.
- **Price, discount, and product decisions** — Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.
- **Project management** — Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective, and quality-controlled manner. Remains alive to changes in the ways of working needed to stay competitive and ensure readiness for business transformation.
- **Corporate governance** — Maintaining control of an organisation. Done well, it can preserve and add value across all areas. This includes the fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance to prevent penalties and other enforcement activity and to promote the reputation of the organisation for good corporate citizenship.
- **Resource management** — The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems, and employees to strategic objectives and the organisation's priorities.
- **Risk management** — The process of identifying, assessing, and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.
- **Strategic tax management** — The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.
- **Treasury and cash management** — The corporate handling of all financial matters, the generation of external and internal funds for business, incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.

- **Internal audit** — The provision of independent assurance that an organisation's risk management, governance, and internal control processes are operating effectively. It is sometimes referred to as the management review of controls. Internal audit is not a practice area that is housed within the management accounting function, but the interaction with the systems of internal controls as tested and evaluated is collaborative.

Conclusion

The management accountant identifies, defines, adds, and maintains value to the entity through the defined skills, practices, and activities with the highest level of integrity. One of the greatest assets of any business or organisation is its people. The excellence in performance and practice is demonstrated through actionable success of the management accountants to maintain, drive and create value.

See *Finance transformation: the human perspective (2020)*.

Chapter 4

Applying the Principles to the management of organisational performance

To achieve sustainable success, organisations must identify and exploit opportunities to generate value for stakeholders and society, while proactively managing costs and risks.

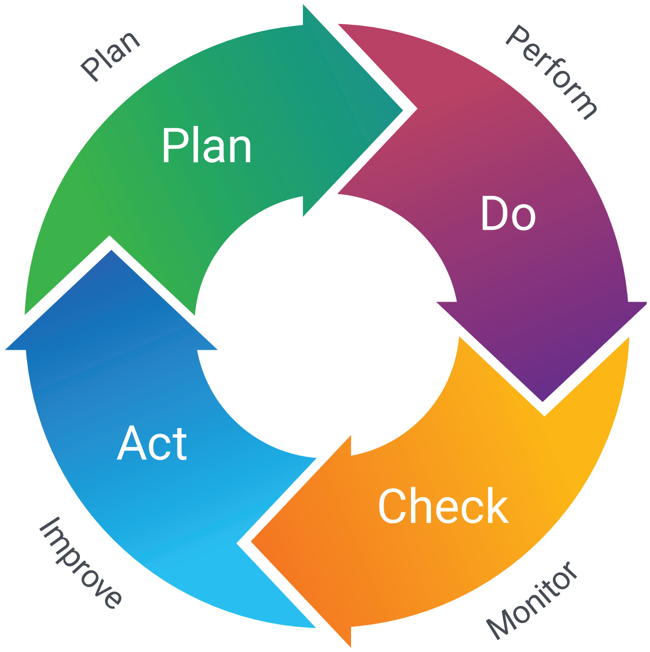
Our research into organisational performance reveals that many organisations use some form of planning, execution, and review process, often based on the Deming Cycle of plan–do–check–act.

The plan–do–check–act (PDCA) cycle (figure 8) is a four-step process for carrying out continuous improvement. Just as a circle has no end, the PDCA cycle should be repeated continuously to drive improvement.

The plan–do–check–act process

1. **Plan:** Recognise an opportunity and plan a change.
2. **Do:** Test the change. Carry out a small-scale study.
3. **Check:** Review the test, analyse the results, and identify what you've learned.
4. **Act:** Take action based on what you learned in the check step. If the change did not work, go through the cycle again with a different plan. If you were successful, incorporate what you learned from the test into wider changes. Use what you learned to plan new improvements, beginning the cycle again.

Figure 8: The plan–do–check–act cycle[17]



We have modified the Deming Cycle to capture how organisations everywhere manage performance — to strategy–plan–execute–review and refine (SPER), to reflect the organisational performance management cycle (figure 9).

[17] Data life cycle and visualization

Figure 9: The strategy–plan–execute–review and refine cycle

The CIMA Strategic Scorecard™ (see 'A tool to support organisational performance') is a helpful tool for executives setting out to develop a competitive strategy.

One of the key strengths of the **CIMA Strategic Scorecard™** is that it encourages conversations about strategy and grounds these conversations in the issues that matter most to success. Although strategies must identify the measures most appropriate for evaluating performance and include a data plan for making the information for these measures available during execution, success in developing, implementing, **reviewing and refining** strategies is a conversation that should be ongoing amongst all of an organisation's leaders, managers and decision-makers.

Plans prescribe the detailed tactics, processes, projects, resources, and relationships (its operating model) needed to make progress towards the achievement of strategic objectives. **The main purpose of a plan is to keep the organisation's operating model effective and competitive.**

An operating model consists of five categories:

1. Processes
2. Information and communications systems
3. Locations and buildings
4. Organisation and people
5. Suppliers and business partners

Plans must include a data plan, spanning the planned period, that ensures that data for agreed measures are trustworthy and available as plans are executed to inform review and refinement decision-making.

Execution is implementation of plans over time. Real-time results are assembled and compared with targets. Management information is made available to decision-makers.

A model for organisational performance

Because businesses usually have strategies and plans, it may make sense to start with reviewing your business's strategic position and strategic options.

Strategy articulates an organisation's competitive situation, the options, or opportunities for creating value (its business model), and the risks associated with these options or opportunities. **The main purpose of strategy is to keep the organisation's business model relevant.**

Strategy states and explains the organisation's purpose, its long-term (or strategic) objectives, and how it expects to achieve them.

At every stage, the management accountant adds value to the organisational performance management process. Table 1 demonstrates how SPER and the GMAP support the management accountant.

Using SPER and the GMAP together

By connecting the lens of SPER into each of the four GMAP, we provide a checklist of questions to enable smart and more connected performance management outcomes.

These questions are based on practitioner feedback and insight and are intended to enable you and your teams to rethink and redesign approaches to produce better performance outcomes for your business.

Table 1. Supporting the management accountant: SPER and the GMAP

	Principle 1 Communication influences and creates impact
Strategy	× Are internal and external stakeholders identified? × Are the connections between their interests and influences and the organisation's purpose clear? × Is it clear how the strategic objectives represent the organisation's purpose? × How do stakeholder groups engage in the strategy conversation? × How are risks to the achievement of strategic objectives communicated with key stakeholders?
Plan	× How is the connectivity of initiatives and processes with strategic objectives communicated? × How are people's jobs aligned to initiatives and processes? × Is there a line of sight between what people and teams do and strategic objectives?
Execute	× Are results communicated according to stakeholder needs? × Are results communicated in terms of their impact on strategic objectives? × Are results accessible?
Review	× Does management information include an assessment of forecast performance? × Does management information include a review of the effectiveness and efficiency of initiatives and processes? × Does management information include the evaluation of alternative options? × Does management information include post-implementation reviews?

Table 1. Supporting the management accountant: SPER and the GMAP

	Principle 2 Information is relevant
Strategy	× Is the external environment considered? (for example, the competitive scene, economic landscape and regulatory and legal frameworks) × Is the strategic position of the organisation identified and quantified? (for example, market share, availability of resources and assessment of competencies) × Are key measures of success agreed? × How does the data plan support performance management? × Are key risks and their mitigations identified?
Plan	× Does the business plan also have a data plan so that initiatives and processes are reliably assessable upon execution? × Is the management information system defined and approved by users of the business?
Execute	× Is the management information system built and ready for decision-support? × Does the organisation have ready access to real-time information about financial and nonfinancial results? × Are early warning indicators in place for quick corrective actions?
Review	× How does management information inform decisions on – execution refinement? – plans? – future strategy?

Table 1. Supporting the management accountant: SPER and the GMAP

	Principle 3 Analysis generates sustainable value
Strategy	× Are strategic options evaluated in the context of the organisation's strategic position and the key risks? × Is the customer-value proposition compelling? × Is the operating model efficient and effective?
Plan	× Are planned options validated though research, simulation, and testing for their impact on required outcomes? × Are options prioritised, planned and resourced based on efficiency and impact on required outcomes? × How do options take account of their associated risks?
Execute	× Are planned options validated though research, simulation, and testing for their impact on required outcomes? × Are options prioritised, planned, and resourced based on efficiency and impact on required outcomes? × How do options take account of their associated risks?
Review	× Are results analysed against modelled scenarios? × Do we use this analysis to continuously improve the business model and operating model? × Is analysis used to improve forecast accuracy?

Table 1. Supporting the management accountant: SPER and the GMAP

	Principle 4 Stewardship builds trust
Strategy	× Are the organisation's values stated and available to all internal and external stakeholders? × Are different stakeholder interests in conflict? × Are environmental and social factors considered during investment appraisal? × Is reputational risk considered during strategic decision-making?
Plan	× Are relevant employees and business partnerships made aware of their accountability for plans? × Are critical thinking and challenge encouraged as plans are being created? × Do those who may be affected by them make plans available on a timely basis for relevant scrutiny? × Is the impact on long-term sustainable value considered when decisions about short-term activity are made?
Execute	× Is behaviour that falls short of expectations immediately challenged? × Does the organisation have a robust internal audit function and is a control environment fostered? × Are the relevant stakeholders made aware of any breaches to standards in a timely manner?
Review	× Do employees proactively seek feedback? × Are audit trails maintained and is documentation made available for scrutiny? × Are individual performance targets pegged to long-run value generation rather than short-term outcomes?

A tool to support organisational performance

Management accountants often use scorecards to monitor the entity's current performance in comparison to their goals. These enable effective management of performance as well as encourage alignment to strategies. A preferred performance tool for many management accountants is outlined below.

A relevant tool: The CIMA Strategic Scorecard™

Although strategy is the overarching control over organisational performance, it needs to be devised against a backdrop of the organisation's situation; the options or opportunities available to it; and the risks associated with these options or opportunities. It also needs to be a key part of the communication culture of the organisation from the board down.

Therefore, it is often logical to review these internal and external factors before attempting to develop or refine strategies. The CIMA Strategic Scorecard™ is a useful tool for managing the strategy development process.

The CIMA Strategic Scorecard™ (figure 10) was developed to help boards of directors successfully oversee the strategy. It's a tool to ensure that consideration is given to the performance and strategy dimension of enterprise governance. The scorecard provides the board with a simple but effective process for focussing on the key strategic issues and, most importantly, asking the right questions. The tool is a demonstration of how business leaders can apply GMAP.

This tool empowers the board to work constructively with management to promote the future success of the organisation. It is a tool that enables senior management teams and other leaders to consider their business strategy and its options and risks on a regular basis. The CIMA Strategic Scorecard™ facilitates opportunities for reimagining strategy and applying the four principles.

The CIMA Strategic Scorecard™ has four quadrants:

- **Strategic position** — The external environment or ecosystem
- **Strategic options** — The future strategic bets that have potential to create value
- **Strategic execution** — Determine necessary activities, projects and measures.
- **Strategic risks** — Review organisational risk processes and identify key risks

Strategic position

Examples of the types of external information which can inform a business' competitive position in its market include:

- Economic situation
- Stakeholder needs
- Competence
- Resources
- Competition
- Externalities (environment, society)
- Regulation

Strategic options

It is important to consider options or opportunities that have the greatest potential for creating stakeholder value.

Strategic execution

This is where business plans are reviewed and refined and assessments made of the effectiveness of plans in achieving strategic objectives.

- Measures and targets
- Tactics, process, activities and project
- Resources
- Feedback loop

Strategic risks

Options or opportunities usually have associated risks. This part of the tool should encourage more holistic risk assessment across the organisation. Some of the topics to consider are:

- Economic
- Competitive
- Environmental
- Social
- Regulatory

The CIMA Strategic Scorecard™ further expands upon the four quadrants:

Strategic position — This focuses on information for the board rather than decision points. It looks at external information that will inform the organisation's decisions and includes the marketplace, competitors, the regulatory environment and so on.

Strategic options — This focuses on the options for future development, which has greatest potential for creating or destroying stakeholder value. In other words, these are the big "strategic bets" and normally only three or four would be under consideration at any one time.

Strategic implementation — This reviews approved projects that are being scoped out or implemented. This can create an opportunity to assess investment and the expected outcomes of a business's portfolio of both existing and future. A scorecard approach can be used here to consider viability and value add of each, and similarly it provides an opportunity to establish a practice of using a balanced scorecard to monitor the progress of these projects. The reporting of whether a post-completion audit has or will be carried out would also be covered here.

Strategic risks — This focuses on whether the organisation has appropriate policies and processes in place and has identified key strategic risks.

Source: "Application" section of the CIMA Strategic Scorecard™

Therefore, the main benefit of the CIMA Strategic Scorecard™ is to provide a structure around which strategy can be discussed on an ongoing basis. It enables the conversation about strategy to be part of regular conversations across an organisation.

The scorecard helps strategy become more dynamic and responsive and it facilitates a repositioning of the strategic discussion both at board level and across the leadership structures of an organisation. It can encourage a fresh approach to measuring success and failure through higher quality information and analysis practices rooted in the development and use of scorecards.

CIMA Strategic Scorecard™ was updated in 2020 to assist members and their businesses build resilience during the initial 12 months of the COVID-19 pandemic.

Data planning in organisational performance

Data planning

A vital element of business plans is data planning. This is the sourcing, assembling, refining, and presenting of all the data needed to evaluate and prioritise options, set targets, predict outcomes, and measure the execution of plans. This is critical to the achievement of Principle two (information is relevant).

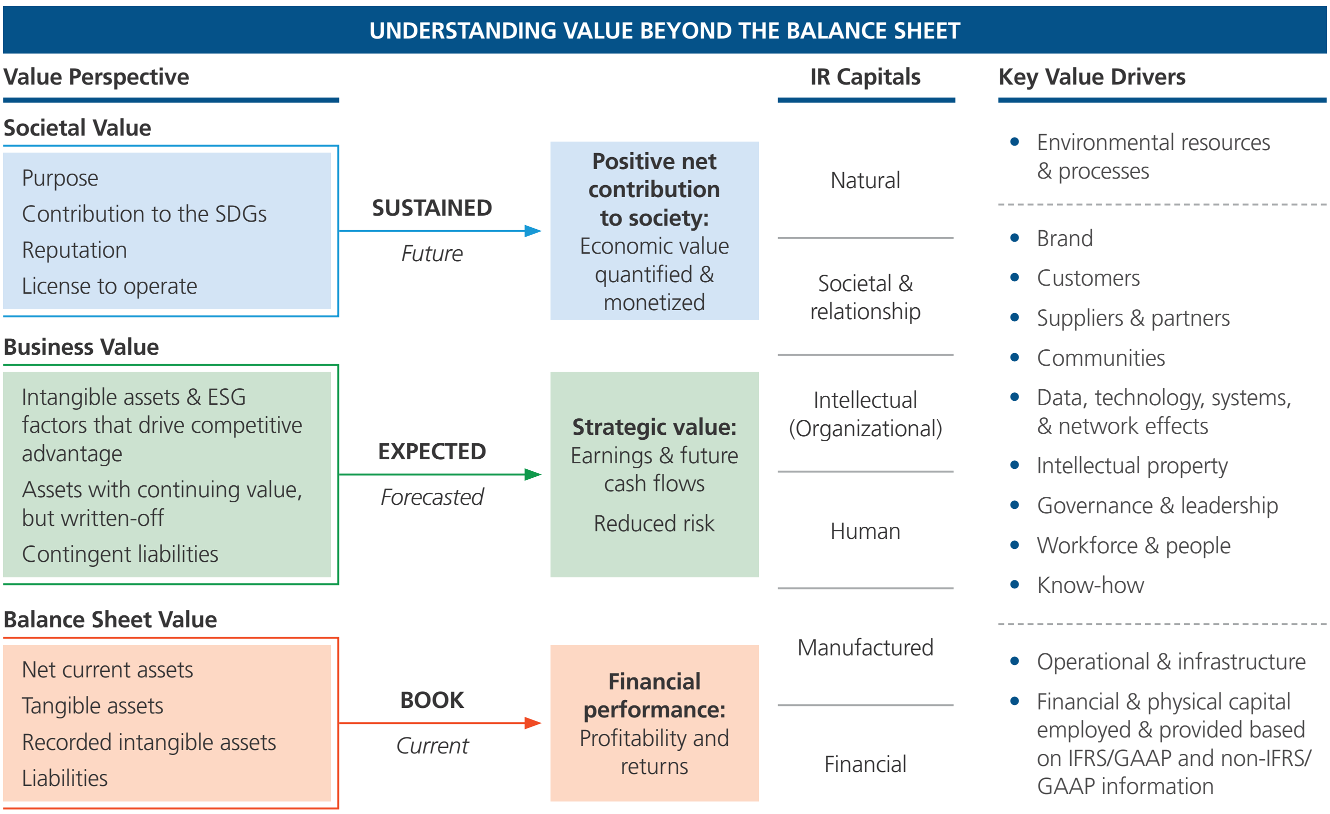
Planning for an organisation's data needs while its strategy and business plans are being created allows organisational performance to be assessed as plans are implemented. Data-driven, real-time decision-making (whether and how to refine, stop or start activity) then becomes possible.

Data plans should cover the entire business and operating models and will invariably include financial, nonfinancial, and hybrid (for example, cost/unit; revenue/unit) data in a structured and controlled environment.

It's more important now than ever before to consider stakeholders beyond shareholders and resources (or capitals) beyond financial in your performance management systems and processes. Nowadays, only about 20% of a business's value is captured on the balance sheet; ignoring the remaining 80% makes no sense.

A useful framework for considering value beyond the balance sheet comes from a report called The CFO and Finance Function Role in Value Creation jointly authored in 2019 by the International Federation of Accountants (IFAC), the International Integrated Reporting Council (IIRC), and the Association of International Certified Professional Accountants. This framework is outlined in figure 11.

Figure 11: Explaining the CFO and finance function roles in value creation[18]



[18] Graphic reprinted from 'The CFO and Finance Function Role in Value Creation', IFAC (2020), 8.

In addition to results data, measures may require forecast, budget, and benchmark data. Too often, organisations measure what they can or what they have measured historically, rather than what will be needed to evaluate the execution of plans (which may be different from past plans).

The primary purpose of the data plan is to provide an approach that is holistic, rethinking what data the business should collect to support the development and sustainability of its business and operating models. In understanding value beyond the balance sheet, there is an opportunity to expand the data horizon to build better value perspectives using this framework.

Using this framework, it is possible to revise the organisation's approach to data to be more holistic. As such, this can enable better ways of identifying the data needed for an organisation's planned input, activity, output, and outcome measures and to ensure that they are readily available and accessible.

Planning for data is important because decision-makers should not lack the relevant data to assess performance. Nor should they be swamped with data that is not trustworthy, too late in arriving, or of questionable relevance to decisions that need to be made.

The data plan should also include detail about the information technology needed to support the cost-effective sourcing, assembling, refining and presentation of data.

What is exhaust data?

Whenever individuals and organisations go online, they leave digital trails of 'breadcrumbs' that companies like Google and Facebook hoover up to increase their understanding of human behaviour. In time, these behavioural nuggets are used by digital companies to change business models and nudge customers towards new products. This by-product, called 'exhaust data', is used by investment organisations to test other companies' strategic reporting robustness. In one example, an investment firm has turned to using the comments left on the Glassdoor employment website — which allows employees, both current and former, to anonymously review their organisations and rate salaries — to assess an organisations' health before investing. Other examples of exhaust data are found on travel comparison site Tripadvisor and customer product reviews on Amazon and other shopping sites. When exhaust data is compared to an organisation's own view of their strategic directions, stakeholders are more informed about the true health of that company and better able to hold them accountable.

Understanding data planning: the key features

Data should be structured to incorporate all elements of the organisation's business model and operating model. Measures and data should have the following features:

- **Explicitly linked to organisational objectives** — Data must be focused on users and accepted by them. As decision-makers, users should be able to explain clearly why specific data is required to measure strategy execution. Conversely, management accountants should investigate resourced activities with unclear, or no, success measures. Efforts should be made, at the planning stage, to understand how activity measures drive value (outcomes), which should be documented in the data plan.
- **Rigorously prepared** — Data must be sourced, cleansed, and assembled, with data presentations agreed to by users early enough to allow performance to be evaluated as planned initiatives are implemented. Trust in the data is crucial.
- **Supports decision-making** — Data comprises the measures defined and accepted by users at the time of planning to enable them to evaluate execution and make decisions.
- **Readily accessible and intelligible to users, and secure** — Users should be able to access the data easily to evaluate performance and future options. It should be presented in ways that make it quick and easy for them to understand. Try to use as few types of presentations as possible across the business. Performance data should generally be available to all decision-makers, but sensitive information must be secured from unauthorised access and distribution.
- **Comprehensive** — The lowest level of granularity must be easily accessible (by the user) from the highest levels of aggregation to support the different levels of activity and review needed.
- **Consistently defined and labelled** — Data labels should be in plain language, without jargon or obscure database field descriptors. Measures must be defined and described consistently across the organisation. A measure dictionary is a useful means for consistent interpretation across the company.
- **Resilient to change and adaptable** — The business model and operating model will inevitably be refined over time informed by management information. Consider how changes could affect
  - the ability to compare results over time, and
  - financial reporting prior year results.
- **Efficient** — There may be occasions when the cost or effort of sourcing, assembling, refining and presenting data for a measure outweighs the benefits. In this case, decision-makers should
  - explicitly agree not to measure execution using data;
  - break down the measure into lower-level measures that, combined, comprise the performance of the high-level measure; or
  - agree a proxy measure or measures (measures that are closely enough related to the ideal measure to derive a performance assessment).

Chapter 5

Application of the practice areas to management accounting

The 14 practice areas of the GMAP reflect a comprehensive framework for application and integration to the finance function.

Understanding the principles

In the world of finance and business we recognise and work with a range of different frameworks which serve different purposes. Frameworks can enable regulatory compliance. For example, the well-known COSO Framework supports and guides risk compliance and management, whilst other frameworks give clarity on reporting mechanisms. There are also frameworks that promote good practice, for example, The RICS Building Survey: Good Practice Notes, and the BCO Guide: Best Practice in the Specification of Offices.

There are now new frameworks, particularly in the sustainability space, that enable greater transparency in tandem with different and new reporting structures and expectations; for example, ESG criteria are for a company's operations that can be used by socially conscious investors to screen potential investments.[20]

The management accountant recognises the VUCA business ecosystem that affects business operations and decision-making. We created the GMAP to guide management accountants in supporting decision-making, contributing to improved performance, and achieving sustainable success.

Good decision-making has never been more important or more difficult, and our research over this last decade has identified the changes to the role and functions of finance and the CFO in organisations. Finance is being forced to expand because of the impacts of the seven global disruptors we identified in 'Re-inventing finance for the digital world'.[21] The finance professional's sphere of activity now includes IT, human resources, cybersecurity and operations.

Our syllabus and competency framework, a complete learning and development ecosystem, are being continuously redesigned to accommodate these changes. This updated version of GMAP revises our good practice framework for decision-making to include the following lenses:

- Intangible value
- Digital skills
- Critical thinking
- Integrated thinking
- ESG
- New forms of financial and nonfinancial reporting
- New forms of performance management

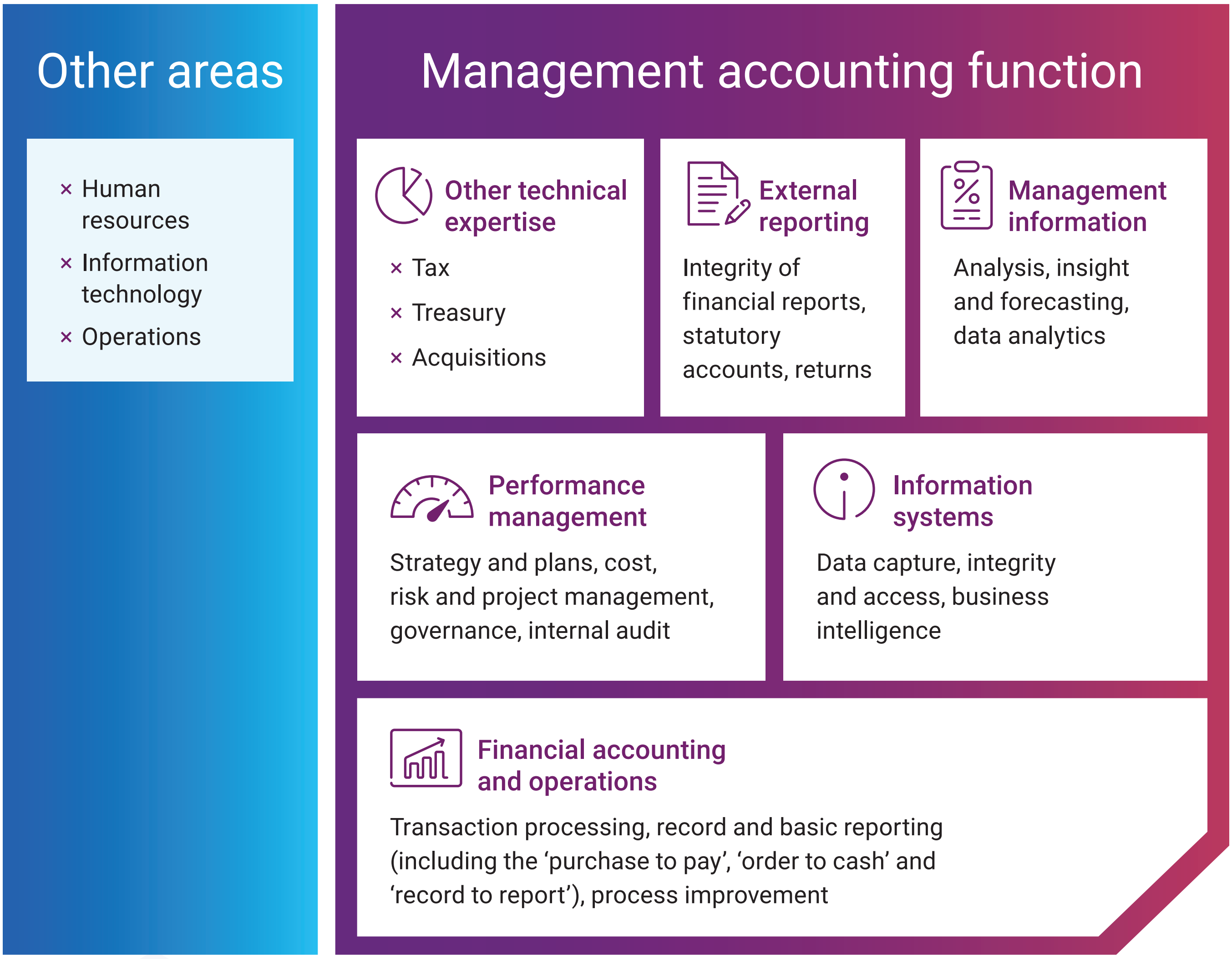
We have seen our profession embrace the concept of business partnering, and we are now seeing not only an increase in value to this partnering, but in essence, the key activities of management accounting at their core remain intact if adaptable in different operational settings based upon evidenced-based assessment and reinvention.

The key activities of a management accounting function under the remit of a CFO are outlined in figure 12.

In this chapter, the principles are applied to the key activities of effective management accounting which are mostly undertaken in the areas set out in figure 12.

[20] Sustainability Frameworks and Standards: Evolution Overview
[21] Martin Farrar, 'Re-inventing finance for a digital world', CGMA (2019).

Figure 12: The key activities of a management accounting function



We have identified the key activities of effective management accounting that are the core practice areas of management accounting. These practice areas encompass most, but not all the finance duties of CFOs, which include optimising the financial performance of a company including its reporting, liquidity, and investment strategies.

The practice areas presented here lie at the heart of the core management accounting function and in table 2 we define each of these practice areas, explain their value to the organisation, and explain the role of management accounting in each.

Our aim is to

- provide a practice informed lens onto each practice area,
- outline the actions and behaviours that management accountants can apply to each to boost sustainable value creation, and
- encourage a re-engagement with sustainable value creation by enabling a fresh good practice management accounting mindset which is underpinned by applying the principles to each practice area individually and collectively.

The inclusion of internal audit remains a practice area as though it is not an independent activity, it remains part of the management accounting discipline. This involves testing of controls that are often designed and implemented by the management accountant. Internal reporting is not separated out as a discrete practice area because it is implicit in the application of the principles to all practices.

How to use each of the practice areas

Beyond table 2, we outline how the principles can be applied to each practice area, providing a check list which can be used in daily practice to facilitate thinking and assessment to allow value enhancing management accounting outcomes in each.

The overall goal of this chapter but particularly this next section is to create a practice areas toolkit which shows how the four principles — communication influences and creates impact; information is relevant; analysis generates sustainable value; and stewardship builds trust — can be applied to guide and support better decision-making, improved performance, and better outcomes in every practice area.

Our overall goal is to combat the challenges of the VUCA world and the disruptors and recognise that quality decision-making has never been more important — or more difficult.

By embracing this practice area tool kit, management accountants can build a more effective management accounting function that develops better-integrated thinking in each, and across all its practice areas, leading to increased long-term sustainable value creation in our current business era.

The 14 core practice areas of the management accountant are defined and the value of each provided to the organisation is in table 2.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
1. Cost transformation and management	The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained **identification** and reduction of waste across the organisation while freeing up resource to invest in customer-focused innovation that will drive future value for stakeholders.	The use of technology in the **collection**, **validation**, and **preparation** of **actionable information** for decision-making begins here. Improved customer satisfaction and increased organisational competitiveness achieved through a lead culture and investment in innovative products and services.	× **Understands** the drivers of cost across the organisation. • **Improvement** of value chain efficiency. • **Develops** cost targets in conjunction with relevant parts of the business.
2. External reporting	The provision of a concise, integrated, and comprehensive view of the organisation's financial and nonfinancial performance, business model, risks and strategy together forms the basis for an effective assessment of expected future performance.	Guides the organisation to engage with a wide stakeholder base and communicates the organisation's strategy, business model and performance.	• **Directs** the organisation towards reporting as a value-creating activity that is driven by integrated thinking. • **Effectively** reports information that is regularly presented to the board of directors in the context of strategic targets. • **Ensures** compliance with regulation and governance.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
3. Business strategy	The identification of possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities. Implementation and monitoring of the chosen strategy to achievement of stated objectives.	**Predictive analysis**, evaluation of **external information** and continued monitoring and review of scenarios and risks heightens the value provided. Organisation's capital requirements are balanced with expectations of owners and other stakeholders. Investment opportunities are thoroughly appraised, robustly implemented and appropriately governed.	× Sources funds efficiently. × Appraises investments. × Designs and implements dividend policy. × Controls working capital. × Optimises capital structure.
4. Internal audit	The provision of independent assurance that an organisation's risk management, governance, and internal control processes are operating effectively. It is sometimes referred to as the management review of controls. Internal audit is not a practice area housed within the management accounting function, but the interaction with the systems of internal controls as tested and evaluated is collaborative.	Provides assurance that key financial and nonfinancial risks — including reputational, environmental, and social risks — are being adequately controlled by the organisation and its long-term value is protected. Internal auditors assist the external auditors with their procedures. It is a systematic approach to evaluating and improving the effectiveness of risk management, control and governance processes.	× **Facilitates** the efficient delivery of assurance by providing cost-benefit analysis for the internal audit and control functions. × **Encourages** continuous appraisal and revalidation of accounting and internal control systems.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
5. Internal control	A documented framework of policies, systems, processes and procedures for managing risks to ensure operational effectiveness, accounting and financial reporting integrity, promote accountability and prevent fraud.	Provides reasonable assurance that tangible and intangible assets are safeguarded and financial and nonfinancial resources are correctly accounted for. Reduces the risk of error and fraud and the likelihood of financial loss, thereby enhancing trust in an organisation's financial stewardship which leads to reliable reporting.	× **Directs** and **enables** sound decision-making and better financial management. × **Manages**, **supervises** and **reports** on the framework of systems, processes and procedures that provide confidence in the safeguarding of resources.
6. Investment appraisal	The assessment of whether to pursue a particular investment based on alignment with strategy, option prioritisation, affordability and acceptable returns versus unacceptable risks.	Prioritises opportunities for funding that generate value for stakeholders and avoids those which are likely to erode value.	× **Performs** relevant calculations and analysis to determine the quantifiable value to the organisation of pursuing a particular investment. × **Understands** various risks that need to be factored into the appraisal. × **Provides** real options to decision-makers about which opportunities should be exploited or avoided.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
7. **Management and budgetary control**	The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects; people; activities; processes; sales volumes and revenues; resource quantities; operating costs and expenses; assets; liabilities; and cash flows, as well as other nonfinancial measures.	**Guides** organisations in the evaluation of performance against targets and provides improvement actions. Provides a means for **accountability** and control to be decentralised, so that performance can be executed in line with the entity's strategies and goals.	× **Monitors** and reports financial and operational performance against planned targets. × **Drives** direction and redirection as needed.
8. **Price, discount, and product decisions**	Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.	Enhances **profitability** of products and services and helps organisations position their products and services within their target market.	× **Analyses** target market to set target price and margin, and therefore target cost. This optimises product, customer and channel profitability/value for money. × **Understands** which cash flows are relevant for inclusion in calculations to determine prices. × **Promotes** business model and where a particular product or service fits within it, aiding market positioning. × **Translates** complex numbers into understandable recommendations to facilitate decisions about the allocation of funds to specific products and services.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
9. Project management	Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.	**Provides** controls over projects to increase the chance of benefits from projects being realised and risks minimised. Constantly staying alive to needs of business transformation.	× **Provides financial scrutiny** to project plans, budgets, and spending. × **Ensures** projects are adequately resourced and that their purpose fits with the organisation's strategic priorities. × **Communicates project** processes to get effective buy-in from relevant stakeholders.
10. Corporate governance	Maintaining control of an organisation. Done well, it can preserve and add value across all areas. The objective is to ensure the stewardship and control of the company by preventing penalties and other enforcement activity and promotion of the reputation of the organisation for good corporate citizenship. This includes the fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.	Provides knowledge and direction to preserve value and mitigate losses through avoiding the direct and indirect costs of enforcement activity.	× **Monitors** the regulatory landscape to understand current and future developments and their potential impact on the organisation. × **Calculates** and **assesses** the costs of compliance and noncompliance. × **Ensures** that the organisation approaches compliance within both the letter and spirit of the law.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
11. Resource management	The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.	Helps organisations to manage transformational or continuous improvements to products and processes efficiently and effectively.	× **Considers** resource availability. × **Produces resource maps** that highlight requirements, returns and options. × **Understands** the **opportunity costs** and comparative **advantage** impacts of differing resource allocations.
12. Risk management	The process of identifying, assessing, and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.	Identifies and manages risks to assist the organisation in addressing uncertainty by increasing the probability of success and reducing the probability of failure in executing its strategy and meeting stakeholder expectations.	× **Identifies** the risks and advises on appropriate responses that are relevant and proportional to the size of risk, the organisation and its environment × **Provides** continued monitoring and revision of risks. × **Embeds** risk management within their thinking and considers it alongside planning and performance. × **Supports** nonfinance colleagues to assess the probability and impact of all organisational risks and to determine appropriate responses.

Table 2: 14 core practice areas of the management accountant

Practice area	Definition	Value	Skills of management accountant
13. Strategic tax management	The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.	The organisation is aware of and understands the implications of relevant tax legislation in the jurisdictions in which it operates.	× **Advises** on transfer pricing policy. × **Provides** impact analysis of tax issues on mergers and acquisitions. × **Calculates** the tax implications on capital investment decisions.
14. Treasury and cash management	The corporate handling of all financial matters, the generation of external and internal funds for business, incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.	The organisation has sufficient cash to meet its obligations and fund prioritised opportunities. Provides risk management of the organisation's exposures to currency fluctuations.	× **Provides** information from the balance sheet and cash flow statements as required by treasury colleagues. × **Produces** accurate cash flow forecasts. × **Manages** financial risk.

Global Management Accounting Principles: Improving decisions and building successful organisations

Practice area 1: Cost transformation and management

Definition

The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained identification and reduction of waste across the organisation while freeing up resources to invest in customer-focused innovation that will drive future value for stakeholders.

Communication influences and creates impact

- Cost targets are discussed and developed in conjunction with colleagues and business partnerships to gain buy-in. They are refined over time.
- Plans for execution of approaches are agreed upon with relevant employees and business partnerships.
- Cost plans are broken down into components appropriate to the various stakeholders and functions.
- Reports are produced on how well cost management approaches are rolled out across the organisation.
- The drivers of costs are analysed and discussed with relevant employees and business partnerships so that those drivers can be effectively managed in future.
- Awareness of the impact of waste and sustainability issues on cost is raised amongst key stakeholders across the business.
- Value-adding components of the business model and their interdependencies are agreed upon.

Information is relevant

- Cost drivers are documented to aid consistent interpretation across the business model and are compared over time.
- Costs are compared with equivalent costs from relevant organisations.
- Asset utilisation is compared over time and with best-in-class benchmarks.
- Costs from previous years at aggregate, departmental/functional, and product level are known and compared.
- Cost structures are documented and presented to enable decision-makers to drill down from top-level results down to cost drivers.
- Logical, comprehensive, and accessible product and customer profitability data is reported.
- Hierarchical product structure from customer segment to bills of material is made accessible to decision-makers.
- New costing methodologies and systems for products and channels that have both digital and nondigital features are documented.

Analysis generates sustainable value

- Relevant data models are used, and value generation processes are refined to estimate the impact of processes on outcomes.
- Cost drivers of digital products are analysed.
- Appropriate costing techniques are applied to digital channels and digital products.
- The business and operating models are challenged and assessed for cost-effectiveness and risks to future competitiveness.

- Impacts of market forces (competitive action, consumer preferences, etc.) are analysed.
- Performance measures for drivers of costs are developed or refined across the components of the business model. The impact of cost drivers on key results is calculated to understand value generation and preservation.
- Cost avoidance is prioritised over cost reduction.
- Through interpretation of the value drivers across the business model and value chain, approaches are designed to improve cost outcomes.
- Rational but stretching cost targets are developed to drive incremental cost-efficiency.
- Value chain efficiency is compared over time.
- Cost transformation processes are regularly reviewed so that activities continue to be relevant to stakeholder needs.
- New product design and development is customer-driven.

Stewardship builds trust

- Employee incentives are designed that drive alignment of behaviours with organisational objectives and projected future needs.
- Compliance is always maintained with internal policies and procedures and as required, other relevant legal and regulatory obligations.
- Opportunity costs are calculated, and recommended approaches are developed based on net value to the organisation.
- Ongoing capital and revenue expenditure are effectively managed.
- Horizon is scanned for unknown but knowable cost risks.
- Effective strategies for transforming and managing costs are developed.
- Cost systems and processes are trusted by decision-makers.
- Mitigations to the risks of achieving cost transformation goals are developed.

- Resources needed for implementation of cost transformation and management plans are identified and secured.
- Digital costing systems are continuously improved.
- Advice on the digital transformation of the organisation as a way of managing and transforming costs is provided.
- Supply chain environmental sustainability information is managed.

Practice area 2: External reporting

Definition

The provision of a concise, integrated, and comprehensive view of the organisation's financial and nonfinancial performance, business model, risks and strategy together forms the basis for an effective assessment of expected future performance.

(The principles of reporting, including sustainability reporting, are now agreed upon internationally and under the IFRS Foundation should be applied globally going forward.)

Communication influences and creates impact

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

Information is relevant

- The organisation's external reporting meets the needs of investors and other stakeholders. It contains clearly communicated information on governance, the business model, strategy and performance and supports effective company stewardship.
- The organisation's external reports contain trends over a suitable time frame (past, present and future).
- The information is relevant and faithfully represents what it purports to represent. The information is comparable, verifiable, timely and understandable.
- External reporting demonstrates how the organisation creates value for itself and others. Business decision-making needs to incorporate a broad range of financial and nonfinancial factors and operates over multiple timeframes. External reporting should recognise that the value it reports is both multi-capital and multidimensional.

Analysis generates sustainable value

- External reporting is viewed by the organisation as more than a required and mandatory function. An organisational attitude is prevalent which views reports as a service that provides value-generating information, driven by integrated thinking and meeting and exceeding stakeholders' expectations.
- External reporting is compliant with the appropriate accounting standards and regulations required for the organisation. This includes regulatory/statutory reporting, tax returns and other required submissions.
- In addition to the reporting of financial performance, the organisation considers and reports its impact on the wider economy, society and the environment.

Stewardship builds trust

- Awareness of regulatory and compliance reporting best practice is maintained and actively practised in the organisation.
- The organisation seeks appropriate levels of assurance both internally and externally to ensure completeness, accuracy and integrity of the information reported.
- External reports are prepared to comply with all relevant regulations, accounting standards and governance codes in the reporting jurisdiction.
- External reports are viewed by the organisation as an opportunity to communicate effectively with relevant stakeholders rather than merely a compliance exercise.

Practice area 3: Business strategy

Definition

The identification of the possible strategies capable of maximising an entity's net present value; the allocation of scarce capital resources among the competing opportunities; and the implementation and monitoring of the chosen strategy so as to achieve stated objectives.

Communication influences and creates impact

- For commercial organisations: Past, present and forecast performance is regularly communicated openly and comprehensively to markets. This aims to secure the trust of regulators and the trust and loyalty of existing and potential investors, lenders, suppliers, customers and employees.
- For governments and not-for-profit organisations: Open and regular communication with their stakeholders (including legislative bodies, taxpayers, grant providers, donors, beneficiaries, regulators and society) helps to ensure that organisations continue to provide relevant and valued public services with value for money considerations at the heart of decision-making.

Information is relevant

× Organisations — whether commercial, governmental or not-for-profit — face three key decisions, the first two of which relate to all organisations, regardless of their size or sector:

1. **Investment** — What projects should be undertaken by the organisation?
2. **Finance** — How should the necessary funds be raised?
3. **Dividends** — How much cash should be allocated each year to be paid as a return to shareholders and how much should be retained to meet the cash needs of the business?

- Commercial organisations compete for capital at the lowest possible cost in increasingly globalised and volatile capital markets. Managers run commercial entities to ensure their organisations are in a strong position to attract the debt and equity capital they need for the sustainable generation of shareholder wealth. In competitive markets (and often across multiple countries), managers have a good understanding of information relating to:
  - Sector shareholder return characteristics
  - Shareholder relations
  - Sources of finance
  - Creditworthiness
  - Gearing/financial leverage
  - Debt covenants
- Commercial, government, and not-for-profit managers have a good understanding of information relating to:
  - Macroeconomic indicators, such as inflation, productivity, GDP, interest rates, exchange rates.
  - Government policy on employment, regional investment encouragement, inflation, tax, exchange controls, competition, trade, market entry.
  - Sociopolitical factors such as demographic changes that may affect the cost or delivery of services (for example, healthcare) and changes in political models in countries or regions that may affect the security or stability of assets, existing or future market opportunities, or resources deployed.

Analysis generates sustainable value

- For commercial entities, the impact of decisions on shareholder value is modelled and understood. They are assessed with measures such as:
  - Earnings, or earnings per share (EPS)
  - Share price appreciation
  - Free cash flow
  - Market share
  - Customer satisfaction
  - Return on assets (ROA)
- Governments aim to optimise the use of their resources in meeting their strategic objectives, whilst ensuring value for money. Not-for-profit entities operate to deliver benefits for a defined group or groups of people. The benefits they provide are constrained by the funding available (for example, through government spending allocation, charitable donations, grants, recycling of assets, limited commercial activity in markets outside of government).
  - This makes it a fundamental objective to deliver benefits that meet the needs of the user, to the standards required and at the lowest possible cost. Value for money (VFM) is therefore vital. A key challenge is determining what value represents, for example, how best to allocate resources based on the value of saving a life is a question public health providers and charities could face. Absolute measures of VFM are problematic, but there are ways of gauging this, including:
- Customer satisfaction trends
- Cost per satisfied customer trends
- Cost per benefit trends
- Benchmarking, if used carefully, can be a useful way of gauging VFM. However, benchmarks can be difficult to achieve in some public sector entities. This is particularly true where the entity has a monopoly or where the objectives of the entity are not comparable to those held by other entities.

Stewardship builds trust

- Governance structures and processes meet the needs of stakeholders.
- Business strategy is transparent to stakeholders.
- Strategy implementation and control processes and procedures are effective (see Practice area 5: Internal control).
- Business partnering applying business strategy to create value.

- Post-completion audits are carried out and findings are shared with individuals responsible for governance.
- Lessons are learned and recommendations acted upon.

Practice area 4: Internal audit

Definition

The provision of independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

It is sometimes referred to as the management review of controls. Internal audit is not a practice area housed within the management accounting function, but the interaction with the systems of internal controls as tested and evaluated is collaborative.

Communication influences and creates impact

- Open communication with the audit committee and management is maintained through regular meetings at which important risks are highlighted to focus discussions on issues that matter. It is an active and effective reporting line.
- Formal plans of all internal audit work are regularly reviewed by the audit committee.
- Results of the efficiency and effectiveness of the internal control system are reported to relevant stakeholders (audit committee and/or management) in a timely manner post audit completion.
- Recommendations are made to the audit committee for improving policies, processes and procedures in terms of both efficiency and effective performance.
- Team members discuss and agree on what a 'reasonable' audit result would be and what result should require further investigation.
- Quality cost information is also relayed, including the costs of prevention, appraisal costs, internal failure (downtime) costs and external failure costs (for example, customers, banks, external auditors).

Information is relevant

- The organisation has a risk and control framework that is available to all relevant employees and committee members.
- The objectives of audits are agreed with relevant stakeholders and documented.
- Audit plans are produced and reviewed annually and made available to team members.
- Audit reports identify potential opportunities for improvement and clearly highlight all material issues and instances of nonconformity.
- Legal and regulatory obligations relating to internal audits are understood, made available to employees and regularly checked to make sure they remain current.
- Controls policies are available to all relevant employees and a strong control culture of adhering to limits is promoted by management.
- The organisation's anti-fraud programmes are supported by internal audit employees who make their information available as required.

Analysis generates sustainable value

- The organisation's ability to cope with significant disruption is regularly monitored.
- Any changes to the organisation's political, economic, social, technological, ethical, or legal (PESTEL) factors are measured for their impact on risks in case they require an internal audit.
- The regulatory compliance programme is evaluated regularly with advice from legal counsel.
- Information about incidents of control failure (for example, material errors or fraud) is given to appropriate employees for correction and/or lessons learned.
- The internal auditors provide benefits in excess of what they cost. These are assessed by their efficiency (for example, the cost per internal audit day, the cost per audit report, the number of audit reports produced) and their effectiveness (evidenced by improvements in internal control).

- Audits that highlight problems with existing systems trigger tightening of controls and increased monitoring.
- Appropriate testing approaches are considered and selected, such as compliance testing (the testing of controls); substantive testing (the testing of balances or transactions); and analytical review (the examination of ratios, trends and changes in balances).
- Analytical reviews are performed that compare financial and nonfinancial information, to examine the interrelationships of data.
- Unexpected variations are always further investigated.

Stewardship builds trust

- To protect the independence of the internal audit, the head of the function has direct access to the audit committee. Internal auditors carry out their work free from interference.
- The audit committee is made up of only non-executive directors of whom at least one is a qualified accountant. It meets at least three times per year.
- The audit committee is responsible for approving the appointment and termination of the head of internal audit or outsourced internal auditor.
- Those who are responsible for designing controls are not responsible for testing them. Internal auditors do not provide assurance for operations for which they have previously had management responsibility.
- Internal audits follow the standards of the relevant regulatory body, for example, International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA).

Practice area 5: Internal control

Definition

A documented framework of policies, systems, processes, and procedures for managing risks to ensure operational effectiveness, accounting and financial reporting integrity, promote accountability and prevent fraud.

Communication influences and creates impact

Direct, concise, frequent, and regular communication with internal and external parties affecting the functions of internal controls in relevant matters involves:

- Control policies and procedures are published and shared with and acknowledged by all relevant employees.
- Outcomes of control system reviews and testing are shared appropriately throughout the organisation and with stakeholders to enable better decision-making and effective action.
- Control failures are reported in a timely and appropriate manner including investigations, correction/mitigation and lessons learned.
- The frequency of monitoring and reporting is matched to the speed of the activities and processes that are most at risk.
- Information is relevant
- Management uses recognised frameworks to help design and implement a system of internal controls. Information is processed and documented considering:
- Nature, extent and impact of risks upon the organisation.
- Organisational capacity and appetite for those risks.
- Alignment with organisation strategy, mission and objectives.
- Results of tests on relevance and effectiveness of control policies, processes and procedures.

- Plans, budgets, forecasts and trends of organisational activities.
- Quantity and quality of resources to accomplish organisational objectives.
- Delegation and approval limits for employees at appropriate responsibility levels and demonstrating accountability.
- Audit trails of relevant financial and nonfinancial transactions and disclosures. (Nonfinancial examples include customer acquisition, service and satisfaction metrics, employee recruitment, retention and engagement metrics, and other productivity and performance measures).

Analysis generates sustainable value

- Activities that ensure all levels (entity, division, operating unit, function) are functioning within the chosen framework include:
  - Planning, resource allocation, and reporting activities are aligned to generate value for the organisation and generate understanding in the assignment of priorities and risks.
  - Controls are regularly reviewed and revised to align to the business model and strategic plan of the entity.
  - Risks (operational, financial, geopolitical, emerging) are identified and evaluated, and responses are determined based upon the level of impact.
- The effective functioning and reasonableness of controls is the responsibility of the board of directors and may be shared with other executive board–level committees.
- Management's responsibilities are to ensure that the controls are operating as designed and with effectiveness. Assignment of financial controls resides with appropriate levels of employees.
- Regularly monitoring and testing of internal controls should ascertain their relevance and effectiveness.

Stewardship builds trust

The organisation demonstrates its commitment to ethical values through:

- Appropriate control policies, processes, and procedures are areas through which risk is identified, developed, implemented, mitigated and monitored. These include:
  - Inputs (availability, quality, security and costs)
  - Activities that convert inputs into outputs (criticality, flow, and efficiency)
  - Outputs (quantity, quality, preservation, effectiveness, revenue and value)
  - Outcomes (impact, sustainability, continuity)
- Assurance to stakeholders through
  - Compliance with legal and statutory requirements.
  - Implementation of best practices/industry standards.
- Demonstrated independence by the board of directors and appropriate reporting lines.

Practice area 6: Investment appraisal

Definition

The assessment of whether to pursue a particular investment based on alignment with strategy, option prioritisation, affordability and acceptable returns versus unacceptable risks.

Communication influences and creates impact

- Real options, including a 'do nothing' option, are considered and provided as alternatives to other investment decisions and their commensurate risks are discussed.
- The results of investment appraisal calculations are presented to decision-makers in a simple and transparent format before the investment decision.
- This takes place during the life cycle of the asset and post-investment.

- Recommendations about the prioritisation of investments that are mutually exclusive, and/or are subject to single-period capital rationing, are made and explained.
- The approach and basis of the inclusion/rejection of information included in undertaking the appraisal are explained and understood.

Information is relevant

- Investment appraisals are based on analysis that generates sustainable value and on information which
  - is internal and external
  - is financial and nonfinancial (including environmental and social issues)
  - trends over a suitable time frame (past, present and future)
  - captures the drivers of value (or revenue) and cost.
- Investment appraisals are based on cash flow information, which is relevant, accurate, reliable, consistent, complete and timely. Bias is considered and any necessary adjustments are made.
  - For example, if revenue projections are considered ambitious, they are reduced in the appraisal rather than adjusting the discount factor.
- Appropriate appraisal measures are considered and selected, including net present value, internal rate of return, payback period and return on investment.
- The alternative of using existing resources and assets is considered. For example, should a decision to invest in a new asset be made when elsewhere in the organisation the same or similar asset is underutilised?
- The technical, commercial, financial, and operational feasibility of the proposal is calculated and analysed.
- Alternatives to traditional processes are considered when evaluating innovation projects. These might include stage-gate processes, ring-fenced budgets and portfolio management strategies.

- When the output of an appraisal of a potential investment is to be used for financial reporting purposes, reference is made to the use of discount factors and net present values in International Financial Reporting Standards or local GAAP requirements.

Analysis generates sustainable value

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

Stewardship builds trust

- Sustainability of resources is discussed with managers to facilitate decisions about whole-life costing and investment appraisal.
- Due consideration is given to nonfinancial information, to inform a holistic cost-benefit analysis of investment decisions. For example, particularly in a not-for-profit or public sector setting, potential benefits and impacts on society at large may mean a negative net present value investment decision turns positive.
- Post-investment audits are carried out and assessments made of the actual benefits realised compared with projected values.

Practice area 7: Management and budgetary control

Definition

The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects; people; activities; processes; sales volumes and revenues; resource quantities; operating costs and expenses; assets; liabilities; and cash flows, as well as other nonfinancial measures.

Communication influences and creates impact

- Consensus building leads to budgets that are understood and accepted by relevant budget owners and other stakeholders.
- Budgets and budgeting processes:
  - Help to convert strategy into operational action.
  - Drive understanding of resource allocation, in alignment with strategic priorities.
  - Are transparent and consultative.
- Employees understand good budgeting practice and the need to commit investment funds to key strategic priorities.
- Cause and effect between activities and targeted outcomes are communicated in a clear and accessible manner to help people understand how their activities contribute to organisational success.
- Measures and targets for activities are cascaded to all levels in the organisation to help people understand how their individual and collaborative successes contribute to wider organisational success.
- Individuals and teams are engaged with the planning of activity, the agreement of measures, and the setting of targets to foster accountability.

Information is relevant

- Key strategic priorities are known, communicated and understood across the organisation.
- Measures are transparent and relevant to stakeholder expectations.
- Budgets are produced in conjunction with business owners/functional managers.
- Horizon scanning tracks performance trends for inputs, outputs, and outcomes.
- Benchmarking fosters continuous improvement.
- Analysis generates sustainable value
- Drivers of outcomes are understood and managed in the context of the business model.
- Performance across the value chain is controlled through relevant measures and targets.
- Data projections of volumes, prices and cost structures are performed to analyse the risks of associated activities and targets across a range of scenarios.
- The inclusion of value driver measures and targets are discussed and agreed with managers.

Stewardship builds trust

- Codependencies between the organisation's value chain and the needs and contributions of stakeholders are recognised. Plans to optimise the value chain take account of these dependencies.
- Business managers are expected to provide supporting evidence to projections, and to articulate the assumptions on which these projections are made.

Practice area 8:
Price, discount, and product decisions

Definition

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

Communication influences and creates impact

- Cost and pricing management are addressed at the early stages of product development
- Pricing tools for supporting customer-facing staff's negotiations and pricing decisions are developed and maintained.
- A portfolio mix analysis is used to inform decisions and optimise margins.
- Clear pricing policies, processes, and structures to inform pricing decisions are developed and maintained.
- Information is relevant
- Product and pricing strategies are aligned to market segments.
- KPIs are developed to evaluate the performance of products with significant digital content/features.
- Market research is commissioned to factor customer sentiment and substitute product availability into pricing decisions.
- Pricing decisions are supported with sensitivity analysis.
- Customer preference analysis is produced to support product and variant pricing decision-making.
- Clear product cost structures and logic to inform cost, price and margin decision-making is presented.

Analysis generates sustainable value

- The organisation's product or service mix is analysed to show the value of sales, expressed in relation to market growth and market share held.
- Customer, channel, and product profitability is regularly analysed.

- The trade-off between the price a customer pays and the benefit they perceive to gain from a product is known and the customer value of the product understood.
- Multiproduct break-even analysis, including profit/ volume, contribution/sales ratio and margin of safety, are performed where relevant and measurable.
- Alternative pricing strategies, and their financial consequences, are considered and tested through financial modelling — for example, the effects of market skimming, premium pricing, penetration pricing, loss leaders, product/service bundling and product differentiation to appeal to different market segments.
- The risks of product or service repositioning are known and the impacts modelled so that trade-offs between different customer segments are understood.
- New product/service introductions are viewed as an opportunity to review prices.
- Plans to introduce replacement products include strategies to mothball existing products and services.
- Changes to the customers' perceived value of a product or service are always accompanied by a pricing review.
- Changes to product or service features have the effect of both retaining existing customers and attracting new ones.
- Sensitivity analysis of cost-, volume- and profit-based decisions is performed and results are modelled.
- Multiple limitations on product/service demand and other production constraints are understood for their impact on revenue and profit.
- Bottlenecks/areas of underperformance are identified and improvements made.
- The structure, behaviour, and drivers of costs and prices of digital products and digital channels are analysed.
- The competitive forces on product pricing are analysed.
- New product and service business cases are developed.
- Product variant and family life cycle strategies are developed and maintained.
- Environmental sustainability factor impacts on pricing are modelled.
- Supply chain risks and production constraints are factored into product pricing decision-making

Stewardship builds trust

- Financial performance at different phases of the product lifecycle is analysed.
- Unethical pricing practices, like price gouging and collusion with competitors, are highlighted and actively discouraged.
- Incentives that discourage mis-selling are designed.
- Internal controls to prevent unethical or illegal pricing practices are designed, implemented and maintained.
- Calculation and evaluation of the lifetime value of a customer are regularly undertaken.

Practice area 9: Project management

Definition

Application of project management techniques and methodologies in order to take an active role in driving Business and Finance Transformation in order to ensure that the right resources, knowledge and technologies are deployed in a timely and cost-effective manner to ensure the investment produces the appropriate returns and that the expected outcomes are delivered as planned.

Communication influences and creates impact

- Formal and informal communication processes facilitate buy-in from relevant stakeholders.
- Regular project updates are provided to all team members and appropriate senior managers. They include detail about progress to date, explanations of variance to plans and projected completion dates.

- The organisation employs relevant project management tools that help control the project, communicate roles and responsibilities, and enable two-way communication.

Information is relevant

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

Analysis generates sustainable value

- Sensitivity analysis controls variables effectively and keeps the project on track.
- A project risk register and exception reporting process is maintained.
- Processes are established for addressing unexpected deviations from plans. These may include a reporting structure that rates the effect of the issue upon the overall project.

Stewardship builds trust

- Project controls provide assurance that deviations from plans are highlighted early and rapid responses deployed to mitigate risks.
- Post-project reviews are carried out which include
  - the positive and negative benefits of the project process, and
  - logs of the lessons learned.
- Post-project reviews are referenced ahead of commencing new projects.

Practice area 10: Corporate governance

Definition

Maintaining control of an organization. Done well, it can preserve and add value across all areas.

The objective is to ensure the stewardship and control of the company by preventing penalties and other enforcement activity and promotion of the reputation of the organisation for good corporate citizenship. This includes the fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.

Communication influences and creates impact

- Through proactive stakeholder management processes, the organisation aims to develop good relationships with regulators and government that allow consideration of how external regulation may affect future value and build wider public trust in the business.
- Compliance with regulations is introduced, sustained, and improved through regular employee training and education. This is supported by cultural changes enacted and communicated by senior management.
- The results of compliance assessments are considered, reviewed and accepted or rejected by the governing bodies of the organisation.

- Buy-in to new approaches to corporate governance is achieved through the demonstration of value resulting from the reduction of time and effort in dealing with regulators and external auditors.
- Company decisions are consistent with both the letter and spirit of the law/regulation, as well as with the objectives, analysis and risk assessment of the organisation.
- Lessons are proactively learned from instances of noncompliance and are documented to improve culture and performance and prevent a recurrence of a compliance breach.
- All required returns and documentation are filed accurately and in a timely manner. Information is relevant, and a digital-first approach is taken.

Information is relevant

- The regulatory and legislative landscape is monitored to understand current and emerging developments and their potential impact on value within the organisation.
- Compliance aspirations and minimum quality targets/thresholds are set and communicated.
- The organisation maintains and documents legislative and regulatory requirements for all markets it operates in. These include penalties for noncompliance and compliance deadlines.
- Gaps between the self-assessment results and minimum compliance thresholds/targets are highlighted. Mitigation activities are undertaken to close the gaps. These efforts further define milestones, timelines and responsibilities.

Analysis generates sustainable value

- New regulatory requirements are considered ahead of time as opportunities to improve business performance.
- Resources are focused on addressing business improvements, not simply on obligatory compliance.
- The costs and benefits of compliance are calculated, quantified and understood by the leadership team.
- The value of compliance-related investments, such as new control systems, are analysed for overall benefits. These may include environmental benefits.

Stewardship builds trust

- The organisation is transparent about its compliance strengths and weaknesses regarding regulatory and other public reporting requirements.
- Processes are implemented and strategically updated to provide assurance to stakeholders that regulatory compliance is complete.
- The results of compliance assessments that are undertaken on a cyclical basis regarding (anticipated) regulatory requirements are documented. Assessments involve the review of controls over core processes, governance systems and organisational infrastructure.
- Consideration is given to resources, social impact, ethics, and the organisation's code of conduct, and the organisation maintains its licence to operate from the public at large. Consideration is also given to the wider economic growth and prosperity as spelt out in UN Sustainable Development Goal 8.
- New standards are embraced, and the organisation seeks to be a leader in the interpretation, implementation and reporting of regulatory compliance.

Practice area 11: Resource management

Definition

The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.

Communication influences and creates impact

- Evidence-based recommendations enable managers to prevent high-yielding projects or activities from being starved of resources.
- Employees understand and buy into resourcing decisions. Allocations are clearly explained so that investors and employees understand what is happening, the rationale for it and the time frame for expected results as a consequence of the reallocation.
- There is two-way transparency between employees and managers about idle resource/slack across products and processes.
- There is a clear connection between resource allocation and plans, budgets and forecasts.

Information is relevant

- External growth and market potential data are considered and used as a basis to create hypothetical resource allocations. This helps prevent the problems of cognitive bias that arise when next year's allocations are based on the prior year without critical evaluation.
- Individual senior managers/investment committee members cast formal votes in favour of or against allocation decisions. These votes are revisited as part of the review process.
- High-performing personnel are known to senior management. Remuneration, job descriptions, and titles are standardised to facilitate the movement of talent to priority areas regardless of geographic location.
- Technical, commercial, financial, and operational feasibility of proposed allocations is provided.
- Reports are produced that include capital spending, senior management time, marketing expenditure, R&D funds, and top talent/high performing personnel. These highlight resourcing requirements, returns, and options so that the opportunity costs of shifting allocations are visible. They also show whether leadership time is sufficiently focused on strategic objectives.

Analysis generates sustainable value

- Resource allocation is clearly aligned to the business model (inputs, activities, outputs and outcomes).
- There is an understanding of the opportunity cost and comparative advantage impacts of differing resource allocations.
- Resource allocation is not locked down immediately after strategy is set. There is a period of reflection before resource allocation is finalised to give the organisation time to adapt to the resourcing of strategic priorities.
- Execution planning stages are built in between the conclusion of strategy setting and resource allocation finalisation to give the organisation time to reflect any strategic shifts in the resourcing of those priorities.
- Reallocations are analysed by comparing the percentage of resources given to a particular area in the current year with previous years. This will track the extent to which the organisation reallocates key resources.
- The impact of resource utilisation on outcomes is analysed and understood.

Stewardship builds trust

- The need for sustainable consumption of resources is understood and resource allocation planned accordingly. Usage is measured against planned targets and analysis and insight provided in reports.
- Resource allocation for high-risk or unknown investments is staged. Milestone targets are set, and additional resources are released only when intermediate targets are reached.
- Although some investors may react negatively to plans/reallocations that hit near-term earnings, short-term views are balanced against long-term value generation.
- Past investment decisions are reviewed via an investment post-mortem. New investment decisions are considered only when presented alongside a robust business case.

Practice area 12: Risk management

Definition

The process of identifying, assessing, and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.

Communication influences and creates impact

- The risk culture and framework are communicated to and understood by all employees and business partnerships.
- An appropriate risk-aware culture is fostered through regular training and communication of policies and processes.
- Effective risk conversations are facilitated at all levels with information that supports the risk management process from identification, assessment and response through to review and learning from experience.
- Resilience is built through the creation of a culture and environment where risk information flows freely throughout the organisation up to directors to prevent the 'risk blindness' that affects many boards.
- Risk information is used to support the organisation's rapid response capability to prevent an incident escalating into a crisis.
- Employees have a high awareness of reputational risk and its implications for the organisation's activities and information flows.
- External risk reports enable stakeholders to assess the quality and effectiveness of the organisation's risk management framework. This is through a fair, balanced, and understandable description of the organisation's principal risks and its risk management and internal control systems.

Information is relevant

- Information is gathered and documented and includes:
  - The risk management culture, risk appetite and tolerances, policies and framework, including costs, proposed benefits and key risk indicators (KRIs).
  - The external risk environment and key drivers of potential risks/opportunities — for example, changes to the organisation's political, economic, social, technological, environmental and legal conditions (PESTEL analysis).
  - A schedule of risks that have been identified as material to the organisation. These should be categorised according to an appropriate risk classification scheme that makes it possible to identify new risks and any material gaps in coverage. Such risk categories will typically include strategic, tactical, operational, and reputational risks. They should be considered within the context of the organisation's business model, including key external relationships such as major supply chain partners as well as behavioural risks.
  - In a digital world, a major threat is cyber risk. How are data and operating systems protected from unauthorized access and manipulation? How are breaches identified, analysed, remedied and reported?
- An assessment and evaluation of these risks, using a combination of quantitative and qualitative approaches. This will typically include estimates of probability and impact.
  - Proposed risk responses (avoidance, transfer, mitigation, and tolerance) for each material risk are identified.
  - Exposure to risk both before and after the application of controls (gross and net risk) are identified.

- Details of risk events and outcomes (including near misses and stress tests) together with corrective action taken to address control weaknesses are reported.
- Internal audit reports are delivered.
- Scenarios that indicate how risks interact and combine are developed.
- Warning signs and red flags are identified.
- Externally sourced risk information on reputation such as sentiment ratings, feedback on external websites and social media discussions is collected.

Analysis generates sustainable value

- Risks and opportunities are analysed in relation to the organisation's framework for creating value (the business model) within the context of the external environment.
- Long term value is created by balancing risk and reward.
- The risk management framework is fully aligned with the strategic objectives of the organisation and the performance management system.
- Potential risks and opportunities are assessed and articulated in terms of value at risk/opportunity, improving decisions and building successful organisations.
- Planned risk responses are evaluated in terms of their impact on value created.
- The potential impact of performance management incentives on the organisation's risk profile is understood and articulated.
- Interrelationships between risks are identified, understood, and mapped to understand the impact and probability of multiple, connected events.

Stewardship builds trust

- A risk framework that is consistent with the organisation's strategy, business model, ethical values, and culture is embedded throughout the organisation. It is communicated to all employees and business partnerships.
- Risk management is embedded in the management accounting function and is integrated with the performance management system.

- The board of directors is supported in its risk governance responsibilities through the provision of high-quality information on the organisation's principal risks and risk management system. This is together with other relevant information on the external environment and key warning signs, such as excessive complexity or a weak challenge culture.
- The organisation provides confidence to stakeholders that its risks are being managed well through insightful reporting on its principal risks and uncertainties (the 'what') and its risk management and control systems (the 'how'). These include corrective actions taken to address deficiencies and weaknesses.

Practice area 13: Strategic tax management

Definition

The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.

Communication influences and creates impact

- Tax liabilities and profit and loss impact are reported in management information and business plans. Tax strategy is a board of directors' level issue from a reputational perspective.
- There is transparency in reporting the organisation's tax position in the annual accounts.
- The organisation engages in constructive dialogue with the international community about reviews of global tax rules.
- The organisation and its tax advisers communicate regularly and constructively with tax authorities.
- Relationships with the tax authorities are transparent and aim to be constructive and trusting
  - all relevant information is promptly provided, and
  - disputes are resolved judiciously in a timely fashion.

Information is relevant

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

Analysis generates sustainable value

- Tax is considered strategically and planned for well in advance of its due date.
- The regulatory and legislative landscape is monitored; trends are spotted and their potential impact on the organisation quantified to future-proof the organisation against potential policy changes.
- The tax implications of strategic decisions relating to mergers and acquisitions, disposals and capital gains are understood.
- Local tax legislation is interpreted in a way that is consistent with driving long-run stakeholder value.

- Tax incentives and exemptions that are available in the jurisdictions in which the organisation operates are known and utilised appropriately.
- Analysis of the group's deferred tax assets and liabilities is regularly performed.

Stewardship builds trust

- The organisation builds trust by reporting its economic contribution and by being transparent about the types and amounts of tax it has paid to relevant stakeholders.
- The organisation engages only in tax planning that is aligned with its core business activities.
- Tax management should aim to avoid any situation or result that could damage corporate reputation.
- All tax liabilities are paid promptly and in full.
- Tax reconciliations are performed regularly.
- If required, the organisation employs external tax advisers.

Practice area 14: Treasury and cash management

Definition

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

Communication influences and creates impact

- Active cash management and good cash visibility allow the organisation to reassure bankers, investors, suppliers and rating agencies that liquidity risk is being managed.
- Uncommitted facilities, facilities that are up for renewal, and forecast breaches of covenants are discussed with auditors, advisers and lenders.
- The importance of bank relationship management is understood, and bank account structures and performance are regularly reviewed.
- Clear line of sight enables potential cash flow gaps to be identified, allowing decision-makers to act quickly to reduce their impact by negotiating new terms with suppliers, collecting overdue invoices or seeking additional sources of funds from lenders or other capital providers.
- Assessments about the optimal use of hedging techniques, in the context of mitigating the risk of currency and interest rate fluctuations, are performed regularly to inform risk management.

Information is relevant

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

- Treasury transactions are traceable between treasury systems and enterprise resource planning (ERP).
- Treasury data quality, accessibility, interoperability, and compliance to standards is maintained.
- Sources of treasury data, information, and digital content are analysed and compared.

Analysis generates sustainable value

- Cash flow forecasts are used to drive efficient capital structuring, investment activity, and liquidity management.
- Accuracy of input from providers regarding cash flow projections are tested.
- Credit management processes for controlling and collecting payments are followed.
- Value chain partners are credit checked and their payment terms managed.
- The highest levels of automation available are applied to cash forecasting.
- Cash flow buffers are determined through the evaluation of cash versus debtor-investor positions.
- The organisation's exposure to fluctuations in exchange and interest rates is calculated and proactively managed.
- Exchange gains/losses, arising both from transactions in foreign currencies and translation of overseas subsidiary results in foreign currencies, are determined and modelled for impact.
- The funding of potential pension deficits and other long-term liabilities are incorporated into both short- and long-term cash flow forecasts.

Stewardship builds trust

- The resilience of the value chain and/or business model is stress-tested for potential changes to macroeconomic conditions and against liquidity and other risks.
- A regular review is undertaken to determine if the organisation has adequate financial resources in place to continue in existence for the foreseeable future.
- When fair value legislative regulation requires the organisation to post a profit/loss at year-end that is not accurate, the risks are recognised and appropriately managed.
- The reliability and efficiency of treasury systems are maintained.
- New systems to automate and improve treasury processes, using emerging digital technology to best effect, is recommended.
- Appropriate digital technologies for the operation of the treasury function are selected.

Glossary

Term	Explanation
AICPA	American Institute of Certified Public Accountants
Business model	The International Integrated Reporting Council (IIRC) defines the business model as, 'the organisations' chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long-term'.[9]
Business partnering	The combining of accounting discipline with business understanding to contribute insights to decision-making and to influence the improvement of performance management.
Business strategy	The identification of the possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives.
CGMA	The Chartered Global Management Accountant. The most widely held management accounting designation in the world. It was created in 2012 by the AICPA and CIMA to elevate the profession of management accounting globally.
CIMA	Chartered Institute of Management Accountants
Corporate governance	Maintaining control of an organization. Done well, it can preserve and add value across all areas.
Cost drivers	Any factors that cause a change in the cost of an activity, such as the number of client calls answered, hours spent on servicing an account, or the number of sales personnel in a department.

[9] IIRC

Term	Explanation
Cost transformation and management	The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in customer-focused innovation that will drive future value for stakeholders.
Data plans	The sourcing, assembling, refining and presenting of all the data that is needed to evaluate and prioritise the execution of plans.
Ethics	The application of ethical values to business behaviour. Business ethics is relevant both to the conduct of individuals and to the conduct of the organisation. It applies to all aspects of business conduct, from board room strategies and how companies treat their employees and suppliers to sales techniques and accounting practices.
Execution	Implementation of plans over time.
External reporting	The provision of a concise, integrated and comprehensive view of the organisation's financial and nonfinancial performance, business model, risks and strategy together forms the basis for an effective assessment of expected future performance.

Term	Explanation
Global Management Accounting Principles (GMAP)	The fundamental values, qualities, norms, and features that represent management accounting. There are four principles: communication influences and creates impact; information is relevant; analysis generates sustainable value; and stewardship builds trust.
Integrated thinking	The active consideration by an organisation of the relationship between its various operating and functional units and the capitals that the organisation uses or affects.
Internal audit	The provision of independent assurance that an organisation's risk management, governance, and internal control processes are operating effectively. It is sometimes referred to as the management review of controls.
Internal control	A documented framework of policies, systems, processes, and procedures for managing risks to ensure operational effectiveness, accounting and financial reporting integrity, promote accountability and prevent fraud.
Investment appraisal	The assessment of whether to pursue a particular investment based on alignment with strategy, option prioritisation, affordability and acceptable returns versus unacceptable risks
Management accounting	The sourcing, analysis, communication and use of decision-relevant financial and nonfinancial information to generate and preserve value for organisations.
Management and budgetary control	The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other nonfinancial measures.

Term	Explanation
Plan	A description of how the organisation intends to achieve its strategic objectives.
Practice area	Key activity undertaken by or with significant contribution from the management accounting function.
Price, discount and product decisions	Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.
Project management	Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.
Regulatory adherence and compliance	The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax, and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship
Resource management	The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems, and employees to strategic objectives and the organisation's priorities.

Term	Explanation
Reviewing and refining	Assessment and reporting on past and forecast performance. Refining plans and strategies.
Risk management	The process of identifying, assessing, and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.
Scenario analysis	Generating insight from the results of different simulations to understand the effect on value of undertaking a particular opportunity and its associated risks.
Stewardship	The active management of relationships and resources so that the financial and nonfinancial assets, reputation and value of the organisation are protected.
Strategic tax management	The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.
Strategy	The organisation's purpose is stated, its value proposition to customers and principal stakeholders is explained, and core objectives defined together with their measures and targets.
Sustainability	The achievement of long-term economic performance while minimising environmental impacts and generating positive value for society.
Sustainable business	The management and coordination of environmental, social, and financial demands and concerns ensure responsible, ethical and ongoing success.
Treasury and cash management	The corporate handling of all financial matters, the generation of external and internal funds for business, incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.

Resources

CIMA's CGMA® Professional Qualification Syllabus (2019 edition)

Agile Finance Unleashed: The key traits of digital finance leaders (2019)

Big Data: From Insight to impact (2013)

CGMA® Competency Framework (2019 edition)

CGMA Digital Mindset Pack (2019-20)

Changing competencies and mindsets (2018)

CIMA Strategic Scorecard™

Closing the skills gap-data analytics

Data Analysis Needs to Improve

Finance transformation: the human perspective (2020)

Joining the Dots: Decision Making for a New Era (2016)

New ways of working — Managing the open workforce (2014)

Re-inventing finance for a digital w(2019)

Use integrated management information to make better decisions

About the Association

The Association of International Certified Professional Accountants® (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs® (AICPA®) and The Chartered Institute of Management Accountants® (CIMA®) to power trust, opportunity and prosperity for people, businesses and economies worldwide. It represents 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMA® designation holders and accounting and finance professionals globally.

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GMAP

GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES

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