

TEN TRANSFORMERS



POWER OF TRANSPARENCY



FINANCIAL EXPERTISE ACROSS THE BUSINESS



SUCCESS FACTORS FOR SUSTAINABLE BUSINESSES

TRANSFORMATIVE DRIVERS

Businesses must learn to live with total transparency where anything they do or write may end up being made public. With digital technology changing social attitudes and new legislation opening up corporations' inner workings to public scrutiny, manipulating public perceptions of a company is becoming difficult, if not impossible. The challenge is to use transparency to corporate advantage and capitalise on living in a world where truth will win out.

Smart companies involve their financial people beyond the finance function unit to leverage the power of finance in creating value for the business in a complex global economy and in ensuring that business decisions are grounded in financial reality.

Cost leadership, innovation and a repeatable business model that a company can apply to new products and markets over and over again are among the factors that will decide which companies succeed and which don't. Culture and leadership are important, too, with those weighing long-term and short-term considerations equally proving more capable of building sustainable businesses than those eager for short-term gains.

WHAT CGMAs BRING

Management accountants understand the power and value of information not just to run the company but also to report to external stakeholders. By focusing on providing high-quality financial and nonfinancial information, they ensure that what is revealed to the outside world is integrated and consistent with the intelligence used to run the company.

Management accountants can be trusted to provide an objective view of performance and strategic alternatives, thereby guiding critical business decisions and driving strong performance. They are uniquely placed to provide the relevant management information the board needs to understand how the business model works and to marshal nonfinancial data on environmental impacts and other factors key to integrated reporting.

Management accountants understand how the different parts of the business need to come together to make money and create value. They add value by supporting and driving the right decisions in all areas of the organisation to achieve sustainable success for the business by helping their colleagues to understand key value drivers, costs, risks and opportunities.

RISK MITIGATION CONSIDERATIONS

Transparency is closely related to ethics. Accountants in business serve numerous stakeholders and need to understand their responsibilities to all of these stakeholders. This is where professional ethics training and the CIMA and AICPA codes of ethics will help guide efforts. In addition to ethics, management must understand the power and reach of social media. Policies and processes for managing this medium are critical. Ultimately, transparency starts with attitude, and the tone from the top is very important.

The strengths of finance and operations professionals are complementary. Moving finance professionals into business partnering roles will create value for the organisation. Management should look for these opportunities. Start with specific projects. Over time, the partnering will happen naturally.

A culture that develops its people and welcomes creative thinking will have an edge. Having strong management and leadership training programmes will help. Learning never stops, and companies that encourage ongoing learning and development will have people that can drive business success. Developing a strategic mind-set among management and an understanding of sustainable business concepts will pay dividends for years to come.



HIDDEN VALUE

The power of the financial markets is forcing many mainstream businesses into damaging short-termism. The prevailing culture of financialisation places little or no value on many of the factors that make companies great, including a clear mission, expert processes and know-how, or a motivated workforce.

Management accountants have an understanding and experience of business that goes beyond the financials. They focus on the organisation's future prospects as well as past performance and use a wide range of information in addition to financial information to measure, manage and report performance.

Strategic planning should be an ongoing process. Introducing concepts from CGMA resources on strategy and planning, specifically planning for the intermediate and long term should be an integral part of the process. In addition, planning for disruptive challenges and opportunities should be part of the foundation of building the plan.



ASCENT OF ASIA

Economic power is shifting fast, with countries such as China and India moving up the value chain more into high technology. The war for talent has become far more intense in Asia than in the US or Europe. China is able to make big foreign acquisitions globally, but rises in wage rates are starting to erode its competitive edge in manufacturing, and some observers predict that Western companies will start to repatriate jobs. Luxury global brands are finding markets in the East. Meanwhile, there is a scramble to find supply chains that do not involve China.

All businesses, regardless of location, strive for long-term sustainable success. To achieve this, they need a resilient business model and the ability to deal effectively with the risks and opportunities of a changing environment. The management accountant is the highly skilled finance professional who meets the needs of business by enabling the right strategic and operational decisions to be made, appropriately funded and effectively implemented.

Studying the company's supply chain, manufacturing and customer footprints should be part of strategic and risk management processes. In addition to identifying risks, the process will identify future opportunities for the business. How will shifting global economic power affect the current business model and future plans? In a rapidly changing, interconnected world, risk management planning should include threats presented by shifting global economic power.



CREDIT CRUNCH/ ECONOMIC INSTABILITY

The sovereign debt crisis has sparked massive uncertainty in the West, threatening a recession, and is having a dramatic impact for the world economy as a whole. It has exposed a lack of global political leadership in the euro zone and Washington, raising fears of "a lost decade" for the developed world's economies. Real incomes are falling in much of the developed world, making selling into consumer markets tough. In countries with high state spending, the public sector is also bearing the brunt of the cuts, forcing countries to reassess their social welfare models.

Management accountants bring a strategic perspective; they are trained in scanning changes in the external environment and understanding the risk and opportunities that these will create for the organisation's business model. Management accountants also bring invaluable skills to other sectors, including the public sector, particularly in the areas of performance management and cost control. They can provide invaluable support to policymakers in maximising value for money from tax revenues.

Uncertainty in the world economy has increased the risk premium in certain regions. This should be considered in future investment analyses. The concepts of scenario planning are important in this environment. Integrating volatility and uncertainty into the planning process will help businesses respond more rapidly to unexpected events. Strengthening the balance sheet and developing an open, close working partnership with capital providers will help companies respond to adverse changes in economic conditions and take advantage of new opportunities as they arise.

TRANSFORMATIVE DRIVERS

WHAT CGMAs BRING

RISK MITIGATION CONSIDERATIONS



ACCOUNTING CHANGES



REGULATION



CLOUD COMPUTING

TRANSFORMATIVE DRIVERS

With much of the world requiring or allowing the use of IFRS by listed companies, the US entered 2012 undecided, though a vote by the Securities and Exchange Commission is expected before year's end and the US and international standard-setters continue to hash out converged rules for key areas such as leasing and revenue recognition. Mexico will require adoption of international standards for all listed entities starting in 2012. Japan is set to make a decision regarding its mandatory use of IFRS in 2012. Meanwhile, India missed its deadline for IFRS implementation in 2011 and has yet to set a new one.

The fallout from the financial crisis has increased calls for tougher regulation. Both the European Commission and the US Public Company Accounting Oversight Board are scrutinising potential changes to audit policies – such as mandatory rotation of audit firms – that could affect listed companies. Responding to calls from the G20 finance ministers, the EU is also looking for means to improve the corporate governance framework for European companies. The US's Dodd-Frank Wall Street Reform and Consumer Protection Act spawned a host of regulatory issues for businesses. Meanwhile, the IRS has continued forward on the required disclosure of uncertain tax positions.

The ability to access applications, data, servers and storage capacity over the internet promises to continue transforming how business is done. Cloud computing options are allowing small businesses to enter new markets and compete with much bigger players. Companies of all sizes can serve clients and hire staff worldwide without having to travel or open local offices. Look for the cloud to grow bigger in 2012, as analyst firm Gartner says Oracle, IBM and SAP all have major cloud initiatives that will debut during the next two years. In addition, security will remain the top cloud concern.

WHAT CGMAs BRING

Management accountants are trained to monitor, oversee and report on all performance, including financial performance. They are therefore conversant with compliance requirements for financial reporting and are subject to high professional and ethical standards. In so doing, they support the board in fulfilling its compliance requirements for reporting.

Management accountants are qualified to have an understanding of business well beyond financial accounting. They balance both a compliance and strategic perspective, so that while they ensure that their business complies with appropriate regulation at minimum cost, they will also be looking to identify any possible strategic opportunities that may arise. They provide the right information to the board to ensure that regulatory requirements are understood and met effectively.

Management accountants have the training to analyse the potential impact of major innovations such as cloud computing, and to support the business in making strategic decisions in relation to managing the associated risks and opportunities. Management accountants are trained to transform data into meaningful insights that will create value for the business. As cloud computing renders all organisations information-intensive at low cost, this skill is more relevant than ever to ensure that business does not drown in data.

RISK MITIGATION CONSIDERATIONS

Boards should make sure management is focused on upcoming changes, including completion of major accounting convergence projects and possible moves to IFRS. Teams should be assembled to follow the progress of these projects and the status of decisions and should assess how the changes would affect financial statements and the resources necessary for implementation.

This is also a board-level issue. How will regulatory changes affect the company? Who is in charge of assuring that changes are implemented? Is tax reform on the horizon? The finance organisation should be front and centre in managing these issues, and the board of directors should assure that management is responding adequately to the changing regulatory environment.

Cloud computing and other developing technologies such as mobile apps have the potential to reduce costs and increase productivity, but they also come with new security issues. Mobile apps have the potential to transform how management receives information. Taking advantage of opportunities presented by new technology requires strong project management leadership and skills.

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DISRUPTIVE TECHNOLOGIES

Traditional business models are under renewed assault from disruptive technologies such as 3D printing, biotechnology and tablet computers. Upstart companies can more easily break into existing markets. The traditional “customer-pays” revenue model is also being eroded, with information becoming ubiquitous and free.

For a quick roundup of technology trends likely to shape business in 2012, including data analytics, cloud computing, mobile devices, tablet computers and security risks, go to cgmamagazine.org.

Management accountants understand how the business as a whole needs to come together to create a resilient and profitable business model. Their core cost accounting skills are well suited to analysing new revenue models such as “freemium” (a free basic service with paid-for advanced options) that are fast gaining ground.

It begins with understanding risks and opportunities inherent in disruptive technologies. How could disruptive technologies affect your business model? Responding to disruptive technologies should be a core element of a company’s strategic planning process. In addition, management should understand that planning for disruptive technologies is an important component of building a sustainable business.

CGMA RESOURCES

Your professional knowledge is a critical asset. Manage it well. From in-depth reports to practical tools, sharpen your edge with CGMA Resources.

THOUGHT LEADERSHIP REPORTS

- CEO Insights – Navigating Through Today’s Challenges
- The Inside Track – Partnering for Value
- Thirsty Planet: Business Responses to Water Scarcity
- Strategic Performance Management in the Public Sector
- Fraud Risk Management: A Guide to Good Practice
- Governing for Performance: New Directions in Corporate Governance
- Improving Decision Making in Organisations: Unlocking Business Intelligence
- From Ledgers to Leadership
- Tackling the Challenges of Family Businesses

TOOLS

- How to Evaluate Capital and Other Long-Term Investments
- How to Evaluate Enterprise Risk Management Maturity: Tool and Case Study
- How to Turn Data into Decisions
- How to Communicate Risks Using a Heat Map
- Two Tools for Valuing a Business
- Three Approaches to Valuing Intangible Assets
- Action Plan for CFO Role in Sustainability Performance Management
- How to Make a Business Case for Web 2.0
- How to assess the impact of climate change on your organisation

CGMA PROFESSIONAL DEVELOPMENT

To lead, you must be a few steps ahead. Improve your business acumen and keep your approach up to the minute with CGMA courses and publications.

PUBLICATIONS

- Smart Risk Management: A Guide to Identifying and Calibrating Business Risks
- Case Studies on Enterprise Risk Management Implementation
- Beyond Facts and Figures: Integrating Social and Political Risk Into Management Decision Making
- The Traits of Today’s CFO: A Handbook for Excelling in an Evolving Role

ONLINE COURSES

- Process Excellence
- Lean Six Sigma
- Budgeting for the New Age
- Strategy in Action
- Activity Based Costing Made Easy
- Strategic Performance Measures
- Commercial Skills for Finance Professionals
- Financial Forecasting: Prerequisites and the Basic Model
- Forecasting and Planning the Capital Structure
- Forecasting the Balance Sheet & Income Statement
- Issues in Forecasting: Sustainable Growth, Forecasting Sales, and Short-term Cash Needs