



FINANCE &
MANAGEMENT
FACULTY

An initiative from the ICAEW Finance and Management Faculty

FinanceDirection



FINANCE DIRECTION

Boards of businesses around the world play a vital role in wealth creation and economic development. To deliver its strategy, the leadership of any organisation establishes internal structures and allocates staff to best suit the needs of the organisation. Of course, the needs of an organisation will change over time and as the board and senior management try to find more efficient and effective ways of managing the business.



Change impacts a finance function as much as other parts of the organisation. The role of a finance function and its leadership, the finance director, or CFO, should not be taken for granted.

The responsibilities of, and the resources allocated to, a finance function vary between organisations. The scope of activities, including the associated business systems that a finance function is responsible for and the other areas with which it is directly or indirectly involved, may vary substantially from organisation to organisation and across cultures. There is no 'right' model and no one country has necessarily achieved an optimum solution. Finance functions continue to evolve.

One aspect of the evolution of a finance function is the board's expectations of the finance director. As the business and regulatory environment gets ever more complex, boards' responsibilities will increase and their role will become ever more challenging. To rise to these challenges, boards need support.

Challenges for boards

Professionally qualified accountants have a positive reputation for integrity, logical thought and financial aptitude. These attributes engender the confidence of others, be they board members, shareholders or regulators.

This reputation has, in recent years, often led boards and senior management to look to the finance director and the finance function to provide them with more guidance and information on an increasing number of topics, as well as the more traditional, but ever more complex, financial reporting requirements. Will this trend continue?

Information is the lifeblood needed to manage any organisation. In the future, boards and senior management are likely to require more succinct information, produced at a faster rate, with the ability for them to access more detailed information as needed. Another essential requirement is that the information is fit for purpose and produced by processes and systems that are robust.

Whilst this may be assured for financial processes and information, future requirements for internal and external use are increasingly being driven towards information of a non-financial nature. Will it be to the skills of a finance function, to another in-house department or to an outsourced provider that a board will turn to provide them with this information?

The contrasting pressures of regulatory requirements and of risk management on the one hand and cost savings and effective and informed business operations on the other, make the board's need to retain control of complex businesses a difficult task.

Challenges for finance functions

In recent years technology has transformed the way transactions are processed with much now outsourced, often overseas. There has been a demand for the increased involvement of finance people bringing them closer to the frontline of the business, converting data into information as a decision support resource to management in other areas of the business. Will this be the business model for the future and, if so, what challenges will it continue to present to a finance function?

Reflecting these changes in organisational structure and business models, finance directors have had to restructure the finance function to ensure that it is appropriately staffed and balanced to meet the needs and expectations of the organisation.

Working with finite resources, finance functions in some countries are often a delicate balance of specialist people with detailed knowledge of areas including IFRS, tax, treasury and regulation, as well as those business-orientated individuals working with the operations of the organisation in decision support. Will this also be the model for the future?



Boards are responsible for establishing the strategy of the organisation and managing its future. This is a vital area of corporate activity which, at a more detailed level, often involves the traditional areas of budgeting as well as more recently developed activities related to risk management. Finance functions have taken the lead in budgeting matters. Will this be the same in other areas such as risk management?

Information used internally by boards and, in part, for external publication, has traditionally been based on financial information. Increasingly non-financial information is being used for both internal and external reporting purposes. What involvement will a finance function have in the production or review of non-financial information?

As a result of these and other important developments the ICAEW, through its Finance and Management Faculty, is planning to undertake a new thought leadership initiative *FinanceDirection*.

We have identified three initial areas of work:

1. **the finance function;**
2. **managing the future; and**
3. **non-financial measures.**

We will be aligning our thinking to related pressures on boards and looking at matters from a broad perspective in an international context.

The initial issues to be covered in our work programme and that will be developed over the next few years are outlined overleaf.

Role of the ICAEW

Throughout its history the ICAEW has led thinking and practice in its areas of expertise. Today our thought leadership programmes are just one way in which this tradition of working in the public interest is maintained.

As an independent body the ICAEW is able to take an objective view to assist in:

- leading and shaping debate;
- challenging common assumptions; and
- helping to clarify arguments.

We will also continue to build on the experience and expertise offered by the Finance and Management Faculty which provides members in business with up-to-date ideas plus the latest management tools and information, helping them to be an effective part of the management team. The faculty has produced many articles, reports and webcasts, including some on the themes to be further examined in this thought leadership programme. To find this information, please go to www.icaew.com/fmfac and click on the knowledge search link to find relevant technical content.

In addition, *FinanceDirection* will draw on the wider expertise of the ICAEW in, for example, corporate governance, risk management and internal control, financial reporting, audit and assurance, IT, business law and taxation.

Our approach

Central to our approach is our:

- independence;
- willingness to question, promote discussion and consider different perspectives; and
- ability to engage with a wide range of parties.

Equally vital is the need to remain practical. Consequently, we will seek to:

- draw out real-life experience of what works and what does not work; and
- focus on what is really important to business leaders.

Research process

As the ICAEW takes *FinanceDirection* forward, it will:

- host discussions;
- promote dialogue between relevant interested parties including business, regulators and academia;
- publish papers; and
- commission academic research.

Invitation to participate

If you or anyone in your organisation is interested in copies of future reports in the *FinanceDirection* series, please visit the Institute's website at www.icaew.com/financedirection

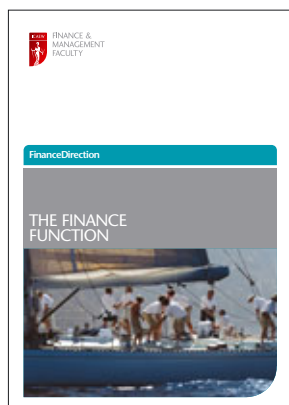
We welcome comments and involvement from all interested parties. Anybody who wishes to participate in helping to move the debate forward is particularly welcome. Please either register via the website or email financedirection@icaew.com

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FinanceDirection

Forthcoming reports



The finance function

Reports in this series will look at the changing role of the finance function. Some of the initial questions to be addressed will include:

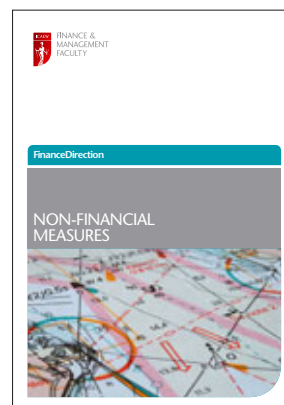
- What, in overall terms, is it that makes some organisations more successful than others? What is the role of a finance function and its leadership in a successful organisation?
- How does the influence of the finance director and a finance function vary from country to country? What are some of the factors that impact this variation? Why might one model work better in some countries and some industry sectors than others?
- What role can the finance function play in balancing the competing demands of compliance requirements with the need to create value?
- What are the forces that will affect the evolution of finance functions over the next 10 years?



Managing the future

Reports in this series will look at budgeting and risk management. Some of the initial questions to be addressed will include:

- In a fast changing business environment how, in terms of time and resources, is the effectiveness of the budgeting and planning processes judged?
- Is there an appropriate balance between the use of budgets as a tool for controlling the business and as a method of management and employee performance incentivisation?
- How does management deal with the challenges of basing targets on objective measures?
- How might boards ensure that business risks are properly identified and optimally managed and reported within the organisation?



Non-financial measures

Reports in this series will look at the production and use of non-financial performance information. Some of the initial questions to be addressed will include:

- What are some of an organisation's non-financial systems that may need to be reviewed by finance professionals to ensure the quality and robustness of the processes needed to produce information used for decision making?
- What are the issues surrounding the publication of the performance indicators that are used to run the business?
- How might a board ensure that performance indicators do not cause dysfunctional behaviour?
- How does management balance the need to focus on outcomes as well as the integrity of the underlying processes?