

Management Accounting and its role in Enterprise Performance Management (EPM)

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Wednesday, 25th July 2018

Presentation agenda



- ❑ Definitions
- ❑ The Enterprise Performance Management cycle
- ❑ Evolution of the Finance Function
- ❑ Management Accounting: Tools and practical applications
- ❑ Management Accounting: Changing roles and recent developments
- ❑ Management Accounting: Effectiveness and obstacles
- ❑ Key take aways

Definitions: Management Accounting (1/2)



- ❑ A profession that involves partnering in management **decision making**, devising planning and **performance management systems**, and providing expertise in financial reporting and control to assist management in the formulation and **implementation of an organization's strategy** (IMA)
- ❑ Analysing information to advise **business strategy** and drive sustainable business success (CIMA)

Definitions: Management Accounting (2/2)



- ❑ The process of identification, measurement accumulation, analysis, preparation, interpretation and communication of financial information used by management to plan, evaluate and control within an organization and to ensure appropriate use of and accountability for its resources (Masomo Msingi ICPAK Paper CA52)

Definitions: Enterprise Performance Management (1/2)



- ❑ A cross functional discipline about the provision of tools and application of skills and capabilities that support informed **decision making** across the enterprise. Areas where organisations need to focus to be most efficient and effective in their decision making:
 - ❑ Integrated Business Planning (IBP)
 - ❑ Performance Reporting
 - ❑ Advanced Analytics
 - ❑ Data and Information Management (KPMG)

Definitions: Enterprise Performance Management (2/2)

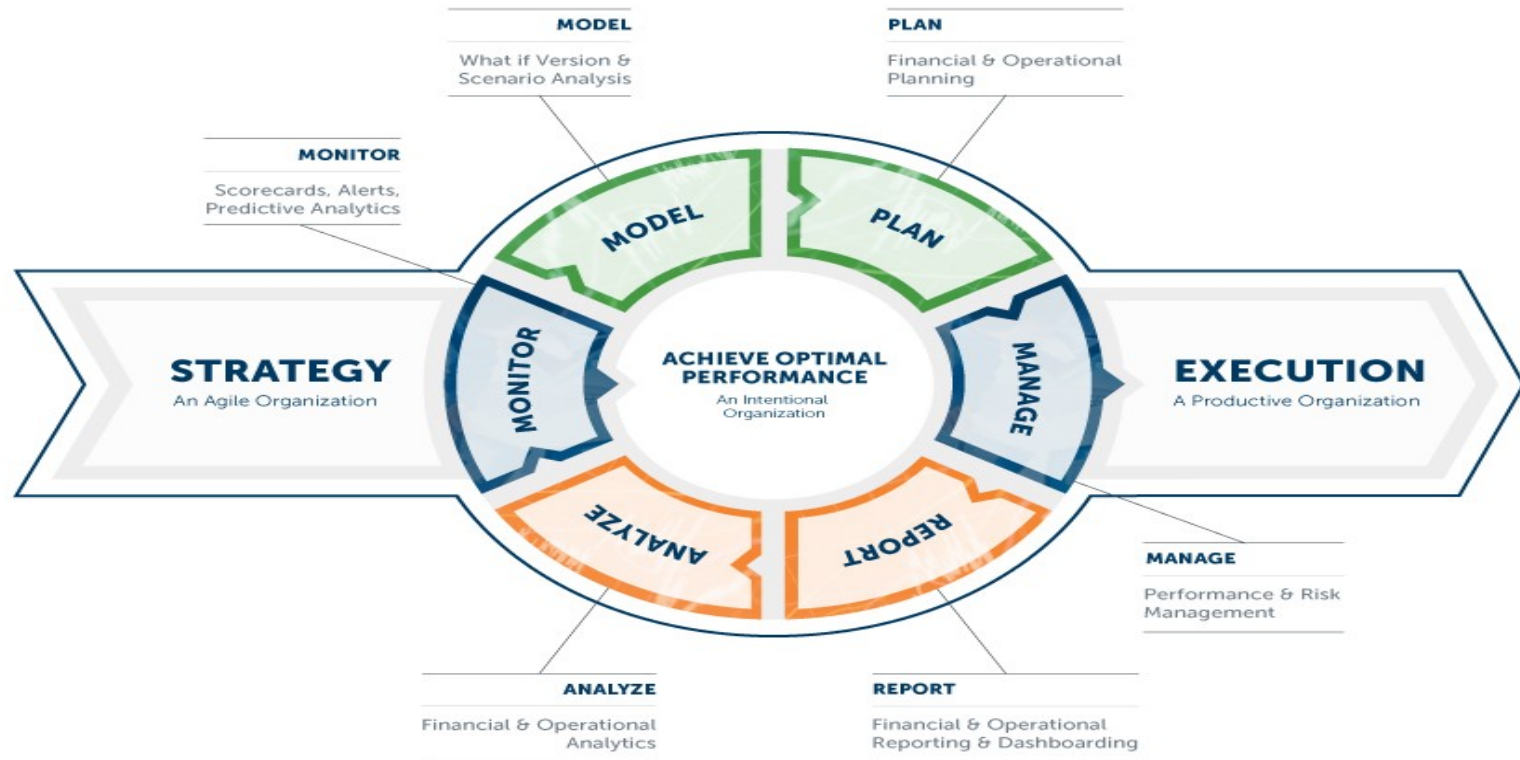


□ The set of management processes that enable an organization to deliver a predictable contribution toward future value creation. Effective enterprise performance management enables an organization to be proactive and intentional about their future market leadership and sustained competitive advantage. It's about executing your [strategy](#). (Peloton Group plc)

The EPM Cycle



Enterprise Performance Management - Business Process



Establishing an EPM system



- ☐ Determine goals of the system
- ☐ Involve key stakeholders from across the organization
- ☐ Work through a careful selection of indicators
- ☐ Determine how data will be collected, managed and used
- ☐ Identify needed changes in organizational processes and staff capacity development efforts
- ☐ Consider starting small

EPM design priorities (1/2)



Design of an EPM is also influenced by an organization's operational priorities.

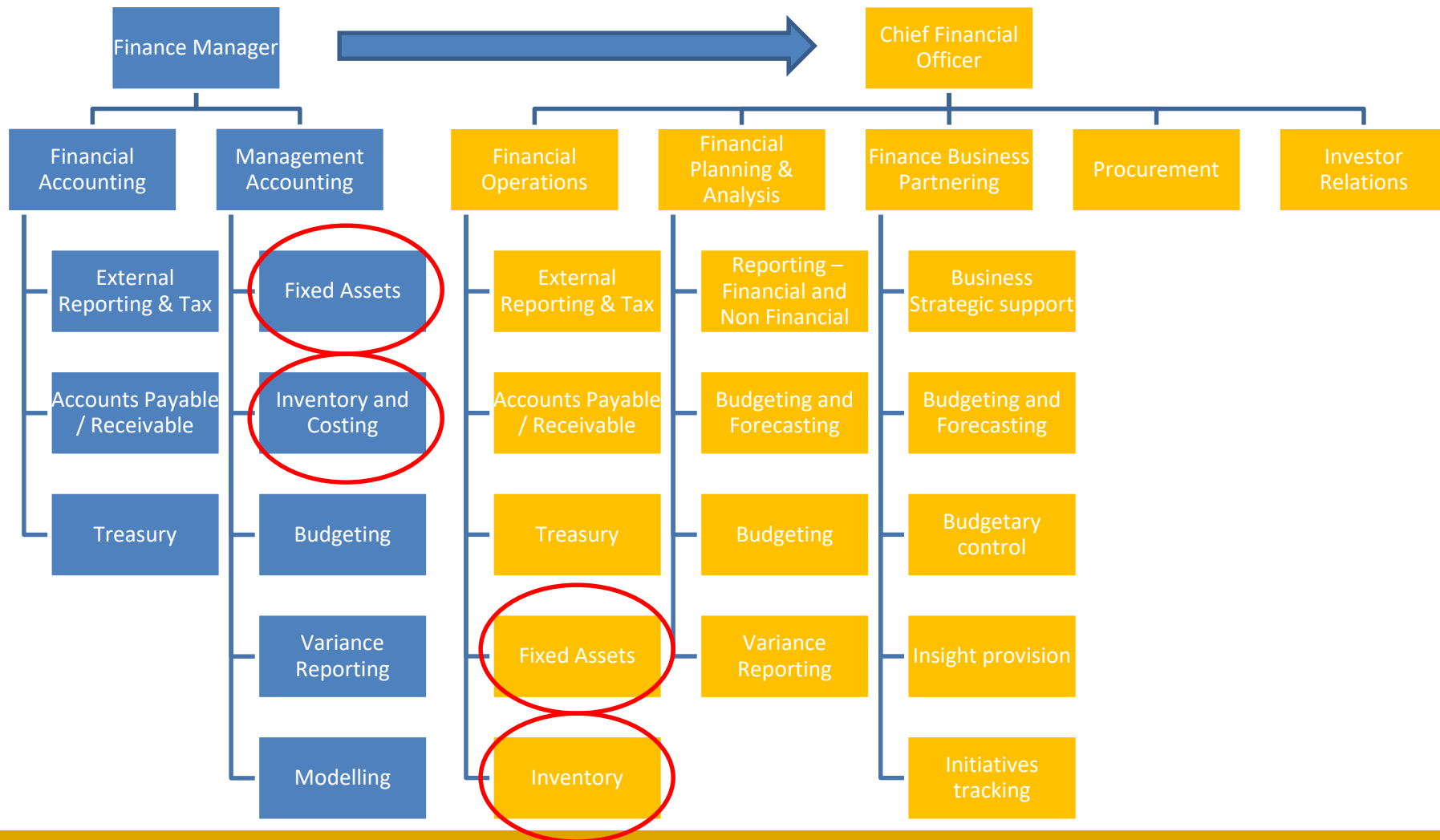
- ☐ Full utilization of resources
- ☐ Driving better strategic decision making
- ☐ Explaining and improving organization performance
- ☐ Delivering operational efficiencies or cost reduction initiatives
- ☐ Challenging key business planning assumptions, opportunities, or cost benefits

EPM design priorities (2/2)



- ❑ Providing insights on customer or channel profitability or pricing strategies
- ❑ Optimizing efficiency through the comparison of “actual” costs to predetermined standards
- ❑ The integration of management accounting with the company’s financial accounts
- ❑ Undertaking competitor analysis or monitoring
- ❑ Control of the organization through the planning and tracking of costs

Evolution of the Finance Function



Examples of Management Accounting tools



- ☐ Operational budgeting
- ☐ Benchmarking
- ☐ Fixed-variable cost analysis
- ☐ Capital budgeting
- ☐ Responsibility accounting
- ☐ Incentive compensation
- ☐ EVA
- ☐ Flexible budgeting
- ☐ Balanced scorecard
- ☐ Value chain analysis
- ☐ Target costing
- ☐ Internal transfer pricing
- ☐ Planning & tracking of costs

Management Accounting

practical applications



- ☐ Financial and Non Financial reporting
- ☐ Segmented reporting
- ☐ Business Cases
- ☐ Pricing decisions
- ☐ Profitability Analysis
- ☐ Post implementation reviews
- ☐ Product costing
- ☐ Challenge the business
- ☐ Commentaries
- ☐ Insights reporting and deep dives
- ☐ Initiatives monitoring
- ☐ HQ Ops review
- ☐ Capital budgeting
- ☐ Rewards structures and payment
- ☐ IFRS vs commercial recons

Changing role of Management Accountants (1/2)



- ❑ The traditional role of the management accountant has been to exercise control, and thus have been largely independent of the operational managers. More recently management accounting has focussed more on business support. Main reasons for the change in role:
 - ❑ Changes in technology
 - ❑ Changes in management structure
 - ❑ Changes in the level of competition
 - ❑ Changes in financial reporting standards

Changing role of Management Accountants (2/2)

In addition, the following have influenced the role of the management accountant:

- ❑ Increasing internationalisation and globalisation
- ❑ Deregulation and privatisation of industries
- ❑ New business processes e.g. just in time, co-creation and prosumers, increasing partnerships
- ❑ A need for more rapid responses
- ❑ The increasing importance of non-financial indicators (ACCA)

Recent Developments in Management Accounting (1/3)

- ❑ Introduction of Big Data: Technological advances allow collection of lots of data, challenge is how to sieve through and provide insights – the “why” in addition to the “what”
- ❑ Demand for Business Partnering: Management accountants are more often asked to look forward, help shaping the corporate future and add value with their business knowledge. Means, the skill set of management accountants has changed. Business understanding, thinking forward, seeing connections and communication become more important.

Recent Developments in Management Accounting (2/3)

- ❑ Requirement of Communication Proficiency: The more forward-looking the less black and white situations occur. Looking backwards and judging figures doesn't require the same amount of communication skills as looking forward, perceiving the future and help shaping it. For management accountants, this means proper communication is an essential skill nowadays.

Recent Developments in Management Accounting (3/3)

- ❑ Handling of Agile Projects: The introduction of agile projects, where the solution is designed in an iterative way, makes it harder for management accountants to judge the progress and financial consequences of a project. (Hotspot Finance). Risk of compromising controls?

Measuring Management Accounting Effectiveness

Maturity profiles are used for this assessment based on certain criteria measured over time such as:

- ☐ Seniority and Influence of the team
- ☐ Understanding of business operations
- ☐ Availability of tools and BI
- ☐ Scope – internal and external, aligned to organizational strategy
- ☐ Reporting framework governed by time deadlines
- ☐ Insight driven decisions
- ☐ Transparency of impact of decisions

Obstacles to effective Management Accounting

- ☐ Difficulty finding candidates with right experience
- ☐ Lack of influence among broader business
- ☐ Data availability and accuracy
- ☐ Demands of traditional finance roles
- ☐ Company culture / silos
- ☐ Time constraints
- ☐ Weak infrastructure or processes, including automation
- ☐ Lack of standardized metrics
- ☐ Increasing complexity of operations and environment

Key Take aways

- ❑ Single source of the truth
- ❑ Upscale technological skills
- ❑ Soft skills like influence, negotiation, presenting, report writing are extremely key
- ❑ Monitor internal and external environments
- ❑ Leading versus lagging indicators
- ❑ Current buzz words are Digitisation and Agility
- ❑ Root Cause Analysis approach to problem solving
- ❑ RAPID decision making processes
- ❑ Regular customer surveys
- ❑ Alignment of rewards to goals and objectives

The End



Tax Accountant



What my friends think I do



What I think I do



What my mom thinks I do



What society thinks I do



What I actually do