

Finance Business Partnering

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Document Version

Publisher's PDF, also known as Version of record

Citation for published version (Harvard):

Jones, J & Scapens, B 2020, *Finance Business Partnering: Design principles to orchestrate value*. CIMA Research Executive Summary, vol. 16, 4 edn. <<https://www.cimaglobal.com/Research--Insight/Finance-business-partnering-Design-principles-to-orchestrate-value/>>

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Finance business partnering: Design principles to orchestrate value

With finance business partners being deployed in increasingly uncertain business environments, what does their role entail and how does it create value in the organisation?



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This report is funded through CIMA's research programme that is designed to promote and develop the science of management accountancy as stipulated in our Royal charter. The programme encourages leading academic and practitioner researchers to explore issues and provide fresh topics of interest to CIMA.

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Key conclusions

- ▶ Finance business partners have an important role to play in contributing to value creation in an organisation.
- ▶ With digital technologies reshaping the finance function, particularly the collection and reporting of data, finance business partners who are located within the business are in an ideal position to bring together the different parts of the business and to recognise alternative viewpoints.
- ▶ By doing so, they can generate new knowledge in relatively simple ways, without the need for the large technological investments typically associated with transformation programmes.
- ▶ Four 'design principles', based on those proposed by Quattrone et al. (2016), can provide a systematic approach to enable finance business partners to better engage with the business and support value creation.
- ▶ When these design principles are embedded in the way finance business partners approach decision-making under uncertainty, they can facilitate the conditions under which new knowledge is created and harnessed to orchestrate value.
- ▶ By going beyond the numbers, and using simple visuals to mediate different viewpoints, finance business partners can harness productive tensions in making decisions under uncertainty.
- ▶ By bringing together diverse viewpoints from across the business they can act as 'knowledge orchestrators' who provide strategic oversight and leadership.
- ▶ As such, finance business partners do not suppress uncertainty by looking for answers in the numbers, instead they use it to create new knowledge and to orchestrate value.
- ▶ To go beyond the numbers and embrace other viewpoints, finance business partners need to build trusting relationships with others in the business.
- ▶ They also need to develop their emotional skills and empathy with others in the business to recognise and engage with different viewpoints.
- ▶ If finance business partners do not engage with uncertainty and embrace the diverse views held within the business, but instead continue to look for 'answers' only in the numbers, there is a danger that others (i.e., non-accountants) could become the finance business partners of the future.

Although research for this report was undertaken before the COVID-19 crisis, it studies the challenges due to uncertainty in the modern business environment (pre-COVID-19) and emphasises the importance of engaging positively with uncertainty. More specifically, it recognises that uncertainty is an opportunity to create new knowledge, rather than something to be suppressed or eliminated through accounting numbers. As uncertainty is likely to become even more pronounced post-COVID-19, finance business partners should be in an ideal position to provide strategic oversight and leadership.

Introduction

Finance business partners are being deployed in increasingly uncertain business environments. This research explores what their role entails and how it creates value in the organisation.

Even in the pre-COVID-19 business environment, levels of uncertainty were rising and the finance function was undergoing rapid change, with finance business partners increasingly expected to provide leadership in creating value.

The current COVID-19 crisis and what might follow has increased the importance of engaging positively with uncertainty and showing leadership.

To study how business partners can provide leadership in the creation of value, in this report we explore the four design principles to orchestrate value and thereby help finance business partners to act as 'knowledge orchestrators', as set out in CIMA's 2016 report *Dealing with the Unknown*. (see table 1, page 9)

Based on interviews with FDs, CFOs, business partners and HR directors, this report describes how Toyota Sales and Marketing UK and a small- to medium-sized manufacturer, which we will call Mancunia (to protect its anonymity), systematically apply the four principles to orchestrate value.

The report contrasts them with two other companies, which we called Cornelius and Delta (again to protect their anonymity). Although these two companies adopt the narrative of business partnering, they lack a systematic approach.

By comparing these four cases, we identify barriers to effective business partnering and provide recommendations about how business partners can meet value creation expectations.

Embracing uncertainty: Finance business partnering

In recent years, digital technologies have started to have a significant impact on the shape of the finance function. A CGMA report by Simons (2018) on the changing shape of the finance function describes a shift from the traditional hierarchical pyramid (with significant numbers of personnel at the bottom and progressively smaller numbers as one moves up) to a hexagonal structure (where the significant numbers are in the middle – as illustrated in Figure 1).

The collection and reporting of data at level 4 have been increasingly automated, and while level 3 roles (such as treasury and operational management control) might not be expected to create value per se, they certainly should preserve value. This can be achieved by providing efficient and timely information.

Business partners at level 2 are usually located within the business and are expected to influence and shape how the organisation creates value. Their role is likely to encompass activities with idiosyncratic outputs and processes, such as performance management, investment decision-making, pricing, and new product and portfolio planning. However, as information is invariably incomplete in such contexts, looking for definitive ‘answers’ to organisational challenges in the numbers alone is likely to be counter-productive. Instead, value will be created by engaging with the business through a process of probing and sense-making and by achieving organisational coherence.



Figure 1: The changing shape of the finance function

Source: Simons, P (2018) *“The changing shape of the finance function: creating a vision for the future”*. Research emerging themes, CGMA, 2018

Design principles to orchestrate value

The business partnering role can also provide strategic oversight and leadership by looking across business units to reveal new knowledge, which can be used to orchestrate value. Quattrone et al. (2016) suggested a framework to explain how business partners can provide strategic oversight and leadership at Simons (2018) level 1. To aid understanding we have slightly adapted some of their language.

Using these design principles to 'orchestrate' value

Rather like the conductor of an orchestra, who ensures that all the different instruments play together in harmony, the finance business partner can create value by bringing together the different parts of the business to ensure they work in harmony and thereby generate new knowledge. By using these four design principles, finance business partners can act as 'knowledge orchestrators' and create value through:

- ▶ Ongoing interactions with those closest to risks and opportunities,
- ▶ Embracing uncertainty and recognising different views about how to approach it, and mediating those views,
- ▶ Producing simple visuals to draw people into discussions and demystify uncertainty, and
- ▶ Providing simple coordinating systems that invite scrutiny and recognise different viewpoints.

Table 1: The four design principles

Principle 1

Create opportunities to open up discussions

Uncertainty can never be eliminated. However, removing 'doubt' by taking numbers at face value, and providing the business with what purport to be definitive answers, can suppress necessary (and productive) discussions.

Rather than expecting numbers to reveal answers, according to this principle business partners should embrace uncertainty and stimulate opportunities for open discussion.

Principle 2

Adopt practices to raise, praise and mediate different viewpoints

When opportunities for discussions are created, different viewpoints can emerge and legitimate doubts can be raised. Rather than seeking to remove doubt, according to this principle routines should be created 'to raise and praise doubt'.

In the context of decision-making under uncertainty, raising doubts is a positive, not a negative, behaviour. Furthermore, raising doubts can create productive tensions and generate new knowledge.

Principle 3

Use visuals to facilitate better understanding

In the process of discussing different viewpoints and exploring legitimate doubts, traditional accounting formats (such as Excel spreadsheets) can add to the complexity, whereas simple visuals can demystify issues and help to provide the understanding needed to perceive and positively engage with uncertainty.

According to this principle, simple visuals, rather than detailed accounting numbers, should be used wherever possible to encourage the business to engage with uncertainty.

Principle 4

Simplifying coordinating systems to invite scrutiny and generate new ways of constructing knowledge

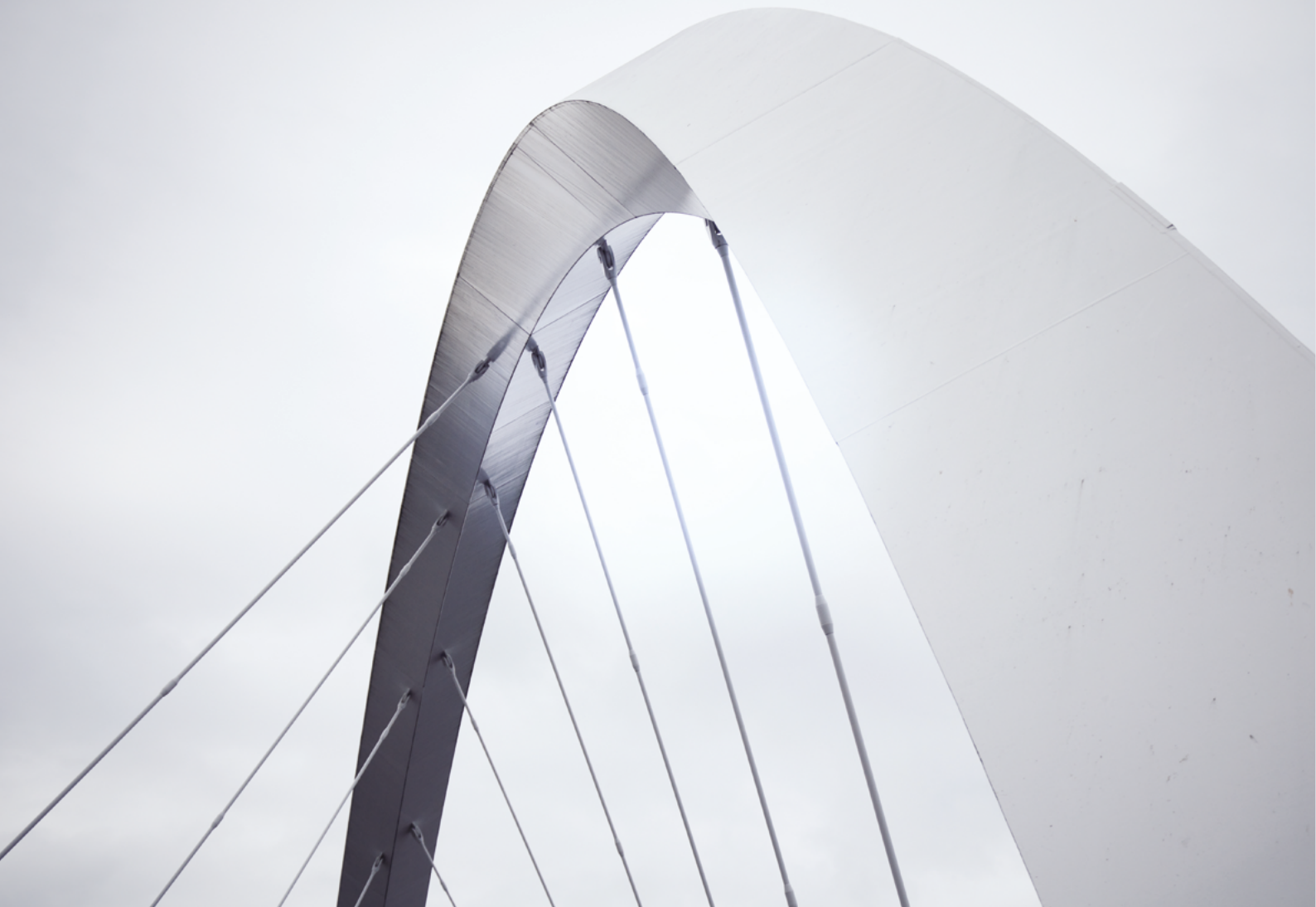
If the reporting system is too complex, it could suggest the 'wrong' idea that it is comprehensive and does not require further scrutiny. By providing information in simple ways, accounting and coordination systems can work in harmony with other business systems to recognise different viewpoints, to open up discussion and to generate new knowledge.

According to this principle, the accounting and coordinating systems should be kept as simple as possible and used to encourage scrutiny, rather than seeking to provide answers.

Objectives

In this report we describe the results of research which was designed to:

- ▶ Study how business partners can use the four design principles to orchestrate value.
- ▶ Identify the skills needed to enable business partners to undertake value-creating roles.



Research methodology

Our research involved identifying and conducting interviews with key individuals at companies with explicit business partnering roles. However, locating companies which fully satisfied our selection criteria (applying all four principles to orchestrate value) was problematic as many adopted the narrative of business partnering, but lacked a systematic approach. We eventually interviewed four companies in detail.

Of these, two had a systematic approach, Toyota Sales and Marketing UK and Mancunia, a UK-based medium-sized company. The two other companies, Cornelius and Delta, had adopted the narrative of business partnering but lacked a systematic approach.

In these four companies, we interviewed the FDs, CFOs, business partners and HR directors to explore how business partners work with uncertainty and to assess whether they appeared to fit our four design principles. Although we did not expect an explicit awareness of the four principles, where they were reflected in the work of the business partners, we classified the company as having a systematic approach to creating value.

To further explore the implications we were drawing from these four cases, we interviewed a partner of a Big Four accountancy firm, a business partner training provider and a CFO of a large media and entertainment company.

Findings and implications for practice

Case study findings

Companies engaging with uncertainty through the four design principles

Toyota Sales and Marketing UK

Toyota Sales and Marketing UK have developed their business partners over time, and as we will show below, they have a systematic approach that encompasses all four principles. Their governance framework supports investment decision-making in pursuing the global company's strategic objectives.

Business context

To be responsive to the market, a sales and marketing function must invest to support the brand. The Chief Financial Officer (CFO) emphasised the importance of investment: "For a sales and marketing company you shouldn't really have a cost base, I know that's a technical term, it should be your investment level. And that investment is in sales expenses, whether it's your media or your TV. It could be your initiatives with launch activities, whatever. But it's also your investment in people, in terms of your general administration costs and salaries".

A culture of collective responsibility is at the heart of this Japanese company, and the finance function has created a governance framework that makes finance business partners responsible for robust investment proposals that respond to market demands and opportunities. "If your turnover is increasing even more or your margin is outpacing costs, then that means you're growing the business organically through active [investment] decisions" (CFO).

This case outlines Toyota Sales and Marketing UK's governance framework for investment decision-making in support of the Toyota brand.

Finance vision and business partnering objectives

- ▶ Finance vision: To efficiently provide accurate and insightful information with robust governance over decisions, and to do business the way people want it to be done.
- ▶ Finance business partnering vision: To be the most trusted business partner at the heart of the company with an engaged and passionate team.

Finance business partnering objectives

- ▶ Create acceptance that finance is part of all the divisions.
- ▶ Engage the business, recognise different viewpoints, challenge established facts.
- ▶ Coordinate knowledge and learning in support of investment proposals.
- ▶ Become a conduit between a commercial view and a financially informed commercial view.
- ▶ Enhance the proposition to the customer.

Principle 1: Create opportunities to open up discussions

"We bring all the team members together since their collective achievements exceed the total achievements of the individuals. Through coordination and collaboration, the contribution of the team is greater than the sum of its members" (The Toyota Way, 2001, Internal document).

Toyota's culture of collective responsibility is reflected in the architecture of business partnering which was put in place by the CFO in 2017 to support the Finance Vision. Each division is assigned a business partner who is embedded within it and responsible to it (on a dotted line basis). As a result, accounting knowledge is embedded continuously; as the silos break down, relationships and trust develop, and people begin to open up.

The business partners are co-located in an open plan office, where informal discussions about investment proposals take place. Referring to this open-plan office, an after-sales business partner commented: 'We're all sitting here. It's constant interaction. It's not just limited to the monthly meetings because if there is a question you just go by and say hello and there is a lot of personal relationship as well'. In this way, where necessary business partners can discuss investment opportunities on an informal basis – for example when the investment spans different divisions. They also meet together formally every month.

Benefits

- ▶ Business partners gain a commercial understanding of the business and the credibility needed to challenge others.
- ▶ There is a shared understanding of each other's contexts.
- ▶ Being part of the team and forming relationships humanises relations.
- ▶ Business partners are now invited to 'off-site' strategy events as they are viewed as an asset to the team.
- ▶ Toyota UK is ranked 27th in the *Sunday Times* 100 best companies to work for, and in terms of staff engagement, the finance and purchasing division has achieved a maximum three stars which the CFO believes is due to teamwork and collective responsibility.

Principle 2: Adopt practices to raise, praise and mediate different viewpoints

Underpinning Toyota's approach to understanding and shaping uncertainties relating to its investment proposals is a process of enquiry which reflects the company's cultural values. Four of these values (see headings in the guidelines below) shape how business partners embrace and mediate different views to ensure that each investment proposal contributes to value creation.

Business partners are expected to embrace these values in their approach to working with uncertainty. The values are broken down into beliefs and business methods that, over the years, "have become a source of competitive strength" (Toyota internal document). Depending on the nature of an investment proposal, these beliefs provide business partners with guidelines to enable them to probe the proposal and to recognise different viewpoints.

Guidelines to probe the business case and raise different viewpoints

Firsthand investigation with stakeholders

- ▶ Variances between goals and the current situation are investigated until root causes are identified by firsthand investigation; repeat 'why' five times.

Spirit of challenge

- ▶ Long-range projection: listen to dealers and customers and commit resources to both.
- ▶ Consideration in decision-making: fact finding; flexibility to accommodate change; concrete proof; exhaustive due diligence.
- ▶ Total optimisation: barriers between functions and organisations are removed.
- ▶ Risk: awareness and contingencies.

Relentless effort for continuous improvement and innovative thinking ('Kaizen' a Japanese total quality management principle)

- ▶ Challenge taboos: ensure a project is daring.
- ▶ Just in time: investment proposals prioritise outcomes with quality and customer service on a timely basis.
- ▶ Countermeasures: factual and timely.

Consensus building

- ▶ In preparation for practical, efficient and smooth implementation of solutions, obstacles and constraints are removed.
- ▶ Think for the entire company: coordinate with other divisions and share goals.
- ▶ Goals: agreed through consensus.

Business partners mediate the productive tensions which arise from the process of probing with the stakeholders both within and across divisions. This helps to identify synergies and joint ways of coordinating marketing campaigns in support of investment proposals.

"If it [the investment proposal] hasn't gone through this cycle [of probing] I won't even look at it. We've certainly achieved consensus; they've spoken to retailers; they've gone to look at competitor offers and different segment share. So, they've gone to establish the facts.

They've then looked at or they begin to think about what we can do to improve it. This is kaizen, to get the continuous improvement, let's get a proposition which is better. Let's achieve consensus in the process." (CFO)

A further cycle of probing and mediation occurs at the executive team level as the CFO, Sales Director, MD and President oversee synergies and further opportunities for value creation across the entire investment portfolio.

Benefits

- ▶ The governance framework ensures that business partners challenge investment proposals, recognise different views, and challenge established facts.
- ▶ Business partners mediate between internal stakeholders (e.g., sales, marketing, after-sales) and external stakeholders (e.g., distributors and advertising agencies) to produce an investment proposal with relevant countermeasures to enhance value to the customer.
- ▶ Business partners also support enquiry at the executive team level, as senior managers look for productive tensions across the investment portfolio to support Toyota Motor Corporation's (Japan) strategic objectives.

Principle 3: Use visuals to facilitate better understanding

“There is an awful lot of visualisation of progress, status, performance, depending on the nature of the division. And these tend to be where a lot of the commercial meetings are held. So, you pick up the status and priorities of that functional division” (CFO).

In each division there is an innovation lab, called an ‘Obeya’ room, where project stakeholders from the division, together with stakeholders from other divisions and even from outside Toyota (e.g., distributors), can engage in discussions to better understand opportunities to grow the business. Whereas Toyota, with its manufacturing origins, tends to promote standardisation, these ‘engagement spaces’ encourage free thinking.

The innovation lab contains write-on walls, together with various whiteboards and flipcharts.

For example, if a proposal requires an investment of more than £100,000, there is a standardised Toyota investment request form that must be completed. This is usually in A3 format and is used throughout the company.

The sections of this form provide an agenda for the business partners to follow in the innovation labs. Together with such basic information as the project title, the form’s number and the initiating division, there are various sections for qualitative details justifying the project. These include the purpose of the investment, the current market situation, the problem the investment is intended to address and alternative cost management ideas. The financial element is limited to the total investment requested and associated expenses. In collecting the information for the investment request form, business partners are expected to follow a ‘Plan Do Check Act’ (PDCA) mantra. Once the proposal is complete, the investment request form must be approved by the purchasing, legal and finance divisions.

This form provides a visual which enables the CFO to see that the business partners have entered into wide-ranging discussions, created a shared understanding of the purpose of the investment (principle 1), probed its assumptions by going to the source (e.g., suppliers and dealers), challenged assumptions and taboos, agreed on solutions for potential problems and produced an implementation plan (principle 2).

Benefits

- ▶ The qualitative information on the investment request form is expressed in a language the business understands. This ensures that other stakeholders in the business and business partners from other divisions can quickly engage with the project.
- ▶ This common business language ensures that stakeholders can engage with uncertainties that could threaten the project’s commercial impact and to address them without necessarily requiring business partner support. Furthermore, it allows business partners to focus on the broader issues, rather than micro-managing the project.
- ▶ The form links the commercial view of the project with a more financially oriented commercial perspective.
- ▶ The process of collecting and discussing the information ensures strong governance of investment decision-making.

Principle 4: Simplify coordinating systems to invite scrutiny and generate new ways of constructing knowledge

Toyota achieves harmony between the investment proposal and the project execution stages by using the investment request form to ensure effective governance over project deliverables.

The innovation labs provide spaces for business partners to work alongside the project owners and to enter into wide-ranging, real-time discussions about improvement opportunities (principle 1), and to probe the execution of the project by raising and mediating different views about possible solutions to potential problems (principle 2).

In doing so, the business partners can use the 'standardised' investment request form (as a visual format) to track progress and to scrutinise further improvement opportunities (principle 3).

In creating a strong governance framework for overseeing projects, over-runs are rare.

Benefits

- ▶ This simple coordination system, which was created by Toyota Motor Corporation (Japan), is fully understood and embraced by everyone as a means of coordinating investment proposals through to project delivery.
- ▶ By using the same system to coordinate investment proposals through to project delivery, Toyota ensures simplicity in its coordination processes.
- ▶ As investments progress from a proposal to execution, there is no duplication with other systems (e.g., Excel, ERP), or risks of knowledge falling between different systems.
- ▶ The coordinating system does not burden divisions with bureaucracy, but instead creates new knowledge which helps them to achieve their objectives.

Mancunia

At Mancunia, the Finance Director (FD) is undertaking the role of a senior finance business partner in important areas such as pricing, product launch and portfolio planning decision-making. He is introducing a new architecture for business partnering and employs two business partners who will have wider responsibilities when the new architecture is fully embedded in the business.

Business context

Mancunia is a family-owned, medium-sized business. It had been very successful, growing in a flat market, but greater attention needed to be given to important areas such as pricing, product launches and portfolio planning. For example, previously, pricing decisions were taken by the FD and Marketing Director, and then Finance typically spent three months communicating each price increase to all the retailers. The FD explained that “for 20 something years, it’s taken three months because of assumptions about carefully managing customers ... [Finance] had to prove that getting it in early wasn’t going to affect any of that [relationship]”.

Furthermore, decisions were made in silos. Innovations produced by the product development team were informed by customer preferences, with little consideration given to the operational cost effects of the product mix. Marketing and sales also pursued opportunities to increase revenue without actively encouraging alternative viewpoints and balancing them against costs to secure revenue.

This case outlines the approach taken by the FD to adapt and apply, in this medium-sized business, the architecture he had created in his previous roles in large businesses, and to roll it out with the help of the two business partners.

Vision for finance and finance business partners

Finance vision: To support the MD and the business through its next growth phase with business-led, financially informed discussions that do not burden managers and directors with unnecessary numbers.

Business partnering vision: To create a business partnering architecture that will engage everyone in the business in discussions about key decisions, and secure for business partners a seat at the business table.

Finance business partnering objectives

- ▶ To create oversight into margins and enable the business to move ahead of market trends.
- ▶ Ensure joined-up decision-making within and across the different parts of the business.
- ▶ Influence commercial and operational decisions.

Principle 1: Create opportunities to open up discussions

Like most family-owned businesses, Mancunia has many long-serving employees who work closely together.

The recently appointed FD has considerable experience of business partnering in large businesses and he is drawing on this experience to design a business partnering architecture which will support decision-making in this £130-140 million turnover business. To signal his vision for a collaborative approach to decision-making and to avoid possible negative 'policing' perceptions of locating accountants within the business, the business partners are called 'analysts'. To reinforce their independence (from finance) the intention is to have them report on a dotted-line basis to business managers. However, before this can be done, the managers across the business have to understand what business partners can do for them. The intention is for them to see that having a business partner is like having an FD for their part of the business.

To challenge the existing silo-based decision-making processes, the FD trialled a more integrated structure of regular meetings with inter-departmental business managers to discuss key opportunities and risks.

Until the new structures are agreed and embedded, business partners are taking the lead from the FD in stepping outside of finance to build good relationships with others in the business and to establish trust. The FD explained the benefits of building these relationships: 'I go to the Board every month, but that's not when the business gets done. I'm constantly having conversations with the different areas of the business, and trying to build those relationships, so it's becoming a business relationship, not necessarily a finance relationship'.

Benefits

- ▶ The FD is able to take a holistic approach in discussions across all departments.
- ▶ Placing business partners alongside business managers establishes good relationships.
- ▶ The new structures, which are being trialled, are facilitating inter-departmental discussions for portfolio planning that consider the best mix of materials and products to maximise value.
- ▶ Coaching the new business partners, via informal discussions across the business, builds trust and facilitates a more systematic approach, which promotes a culture of formal meetings and encourages open discussions.

Principle 2: Adopt practices to raise, praise and mediate different viewpoints

To be able to have meaningful discussions with the Marketing Director about margins on the various lines and portfolio profitability, the FD first had to put cost centres in place. The 'growth culture', which had become embedded in the business, encouraged managers to see a good year as one that is better than the last, but without any formal budgets. Creating cost centres as part of the architecture of business partnering avoided what the FD referred to as 'cost holes' and created better accountability.

He then conducted a product-line cost-volume-profit analysis. But rather than sharing the details of this 'accounting analysis' with the Marketing Director, the FD looked for a better way to enable the Marketing Director to understand what drives costs and profit. He selected two key areas that particularly mattered to the Marketing Director; product launches and portfolio life-cycle planning. He used the information obtained from his cost-volume-profit analysis to ask the Marketing Director, questions, such as:

- ▶ Product launches – What are the launch costs for each product? (These were previously spread over the 24 months post-launch). Can the materials mix planned for new product lines be reconfigured to avoid late project cancellations? What is the impact of launching on profits, losses and cash?

- ▶ Portfolio life-cycle planning – How can the product lifecycle be kept 'fresh' by managing the mix of materials and product characteristics to maximise value? How can existing designs and materials be reconfigured to maximise profit?

Using this approach to probe assumptions, the FD was able to challenge the assumption that profit is created equally across all the product lines. The FD recalled that "he [the Marketing Director] sat there for an hour and a half, and said, this is fantastic, I've never seen anything like this before. I get it now. And, he's been here 22 years".

Instead of silo-based decision-making about product launches, whereby the managers of each division made short-term decisions separately, the integrated approach facilitated by the business partners is intended to enable the various managers to collaborate in 'joined-up' decision-making. The FD explained that multiple issues have to be discussed by the different teams at the same time: "Does new product development believe it's going to be ready? Is the marketing plan going to be ready to support it? And do the product, the marketing and the sales guys agree on the volumes you think you're going to generate" (FD).

Having gained buy-in to this approach, the FD is now coaching the business partners to enable them to facilitate inter-departmental discussions and thereby generate new ideas for product launches.

Benefits

- ▶ Allows managers to better understand their business.
- ▶ Engages cross-functional teams in planning product launches and the portfolio-mix to manage short-term risks and achieve long-term goals.
- ▶ Brings certainty to plans and budgets and provides more clarity in the commercial offerings.
- ▶ Encourages joined-up decision-making about product launches and portfolio planning.

Principle 3: Use visuals to facilitate better understanding

"I try to discuss [product launch and portfolio life-cycle risks and opportunities] in just words, [otherwise] people would get lost, and it would take forever. So, everything that I do now, everything's about the visual" (FD).

The FD spends time preparing high impact visuals to communicate his messages and to facilitate open discussions. An example of a visual resulting from his CVP analysis, which he used in his discussions with the Marketing Director and the Board, is shown in Figure 2.

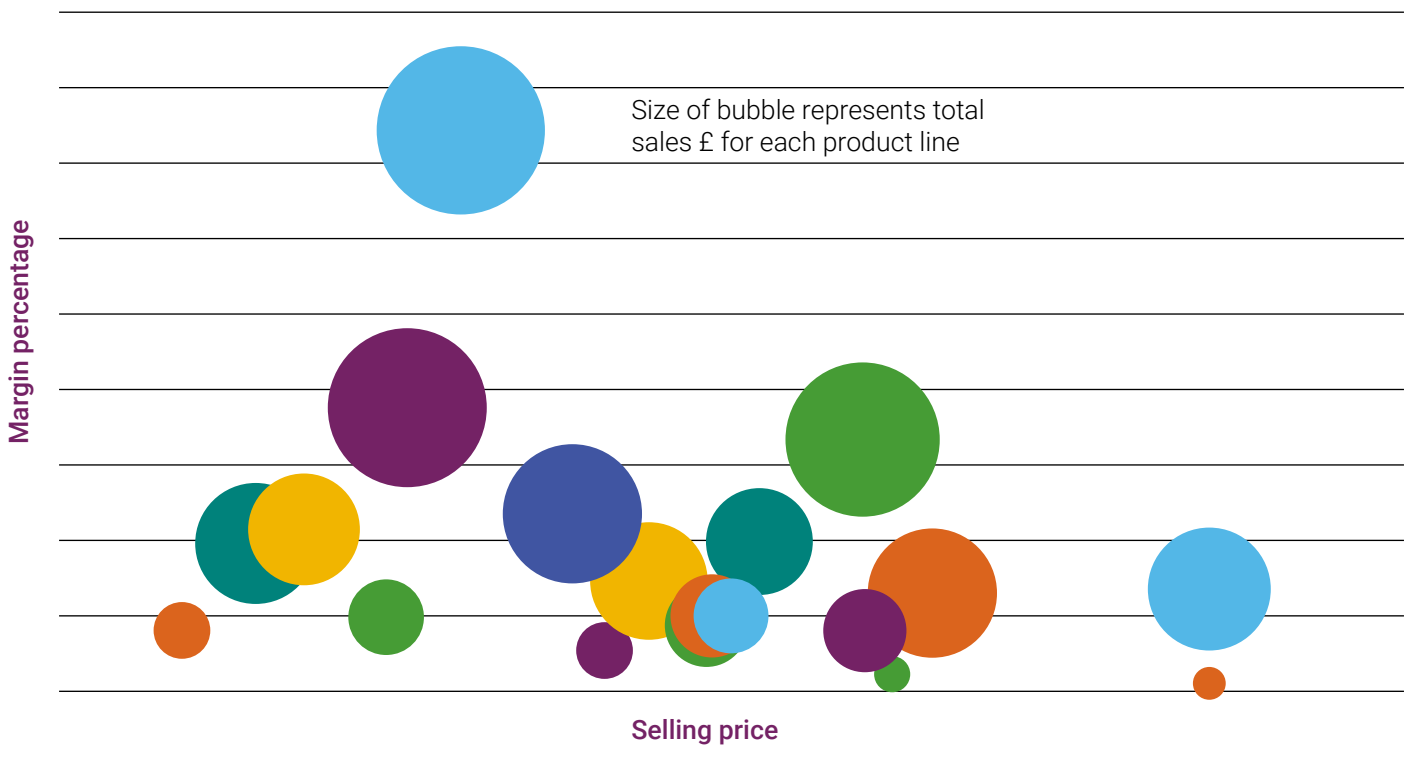


Figure 2: Visual used to engage Marketing Director and the Board in portfolio life-cycle decisions

This visual shows how product mix affects the overall % margin by indicating the products that influence it the most (those with larger bubbles). This allows the leadership team to compare the scale and impact of the individual products on the business' average % margin and thereby facilitates discussions of the key drivers and debates about how to improve the current position, especially when similar products may be performing differently.

As a product progresses through its life cycle, discussions about its scale and margin allow decisions to be taken on whether to 'kill or cure' the product, and which levers to pull – price, cost, renew or withdraw. As the FD explains "We're looking at which parts of the cycle are dying ... which ones we need to bring in? Setting targets, and saying, well we expect these sales; this will be the margin target, which means that's the ASP [average selling price] and that's the costings, etc. And, then getting people to manage towards those." (FD)

Benefits

- ▶ Simplicity of the visual engages non-finance experts.
- ▶ Demystifies margin drivers.
- ▶ Draws stakeholders into business discussions.
- ▶ Influences and challenges established mindsets.
- ▶ Creates more compelling commercial opportunities.

Principle 4: Simplify coordinating systems to invite scrutiny and generate new ways of constructing knowledge

“You want people who’ll go further and further into the business, so that when they’re having these conversations, the business values what they’re saying. So [others will say] this is somebody that I trust, this is somebody that is a talent. And when they speak, it’s worth listening to them, [it’s] not they’re just giving me numbers and reporting every Monday morning. That’s not what you want.” (FD)

Until recently, the Board and the senior management team received only four pages of financial numbers – comprising the income statement, statement of financial position and cash flow statement. Despite this, the company has been very profitable. The challenge for the new FD was to create a coordinating system that would facilitate joined-up decision-making around what the directors and managers cared about, but did not burden them with numbers. The FD began by replacing silo-based decision-making with a more inclusive, cross-functional approach (see principle 1).

To contribute to this approach, business partners have to speak the language the directors and managers understand (principle 2). They cannot focus on the numbers, as they are not used in these discussions. It is the visuals, rather than the numbers, which are used in these discussions to understand the business issues and to generate new knowledge (principle 3). Through this process business partners are increasingly exposed to business issues, and this exposure enables them to build trust and contribute to business decisions.

It is not the accounting reporting system that secures a seat at the table for the finance business partners, but the way the four principles provide a systematic structure and the governance needed to ensure that alternative viewpoints are reflected in business decisions. The FD reinforces the importance of this governance framework: ‘The finance numbers reflect business decisions. You can’t influence business decisions unless you have been involved in the decisions’.

Benefits

- ▶ Business partners are increasingly seen as independent trusted advisers, and directors and managers willingly accept their advice.
- ▶ There is no duplication in spreadsheets, reports or systems across the different functional groups.
- ▶ The coordinating system helps the directors and managers to achieve their objectives, without burdening them with numbers.

Companies not engaging with uncertainty through the four design principles

Cornelius

Cornelius is a long-established UK building materials and construction company with over 10,000 employees and turnover exceeding £2bn. In recent years, it has undergone a period of mergers and acquisitions, and finance is currently undergoing a transformation programme. Principle 1, Create opportunities to open up discussions, is applied to a certain extent. Finance has been re-structured to support its three geographic regions within the UK. The business partners comprise external consultants who are familiar with the business and full-time business partners who have recently been located in each of the three regions. In placing business partners in the regions, the FD wanted to make them more accessible. By decentralising them he expected there to be opportunities to open up informal discussions. Other business partners are assigned to support the Board's long-term priorities, such as upgrading and extending production plants. The business partners' objectives are to reduce risks to the budget and to contribute to discussions that involve the FD, plant directors and the MD, though not necessarily all at the same time.

As the business partners feel much more comfortable working in their traditional way, Principle 2, Adopt practices to raise, praise and mediate different viewpoints, is applied to only a very limited extent and other viewpoints are not recognised. However, they do use a visual to enable the plant directors to identify risks to the investment budget, and rank risks according to their potential severity and the probability of occurrence. They then discuss contingencies, such as capacity constraints. To prepare managers, and also business partners, to deal with uncertainty, HR provides scenario-based training. A visual created by the FD helps business partners and plant directors to rank the investment risks and to agree countermeasures. Principle 3, Use visuals to facilitate better understanding, is therefore adopted to a limited extent. However, they are focused on Finance's objectives rather than the needs of the business.

Principle 4, Simplify coordinating systems to invite scrutiny and generate new ways of constructing knowledge, has not been adopted at all. As the business partners primarily support the plant directors, the visual aids mentioned above are not used below that level. Conventional reporting practices have not been simplified, and the HR director describes the business partners as corporate 'policemen'.

Delta

Delta is one of the UK's major courier and logistics companies with over 4,500 employees and turnover exceeding £1bn. It has recently completed a transformation programme which involved automating transaction-related activities and making operational and commercial managers responsible for their own data analysis – without any input from the finance function. However, financial reporting activities have been relocated from the regions to a financial shared service centre, where the business partners are also located. The business partners typically spend 70% of their time on financial planning and analysis (FP&A) and compliance issues, and the remaining time partnering with the business.

Principle 1 – Create opportunities to open up discussions, is implemented to a certain extent, but only in a crisis when everyone comes together to resolve it. Outside a crisis, there are no routines that bring people together for informal interactions. There is a clear separation of roles between the FD, who partners senior managers on long-term issues, and the 'junior' business partners who focus on achieving short-term objectives, as set out in the strategic plan and costed in the annual budget. However, to foster collaboration and to counter the perception that these junior business partners have a 'policing' role, they have dotted lines of responsibility to business managers, and are referred to as 'performance managers'.

Principle 2 – Adopt practices to raise, praise and mediate different viewpoints, are not applied in this company. There is a belief that since the junior business partners support short-term issues, there is little uncertainty for them to manage. The decisions "they will be making" [note: not collectively with the business] will be shorter-term and therefore some of the uncertainty is lifted. So, they don't have to deal with it quite as much [as me]" (FD). As a result, they do not have to mediate different views.

The FD monitors progress against short-term objectives in his informal discussions with business partners and he spends approximately 20% of his time looking across the company to ensure that decisions are made 'in the best interests of the company'. In doing this, the FD explained that he draws on his interpersonal skills and management 'style', which he expressed in such terms as: making judgement calls, 80/20 thinking, respect, accountability, constructive discussions, trust, and honesty and having no hidden agendas.

As far as we could tell, Principle 3, Use visuals to facilitate better understanding and Principle 4, Simplify coordinating systems to invite scrutiny and generate new ways of constructing knowledge, are not applied at all in this company. By acting as the link between the short-term and long-term, the FD reinforces traditional hierarchies. Investments in IT systems have standardised reports which are expected to provide answers to planning and other problems, and alternative views are not recognised, nor are they used to create productive tensions which can lead to new knowledge. The FD emphasised that 'The one thing they [the business] know is I won't change their productivity target. So, if the pay award is higher, they have to deliver more productivity. If it's lower, the budget doesn't change just because of that uncertainty'.

Comparison of those embracing and not embracing the design principles to orchestrate value

Unlike Toyota and Mancunia, Cornelius and Delta continue to seek answers primarily in the numbers and use their business partners to control (or 'police') the achievement of the budget.

The table below summarises the differences between those embedding, and those not embedding, the four design principles to orchestrate value.

Table 2: Companies embedding and not embedding the design principles

The four design principles to orchestrate value	Toyota and Mancunia Embracing the four design principles to orchestrate value	Cornelius and Delta Not embracing the four design principles to orchestrate value
Principle 1 Create opportunities to open up discussions	<ul style="list-style-type: none"> ▶ Vision statement for business partners ▶ Coaching and relationship building ▶ Embedded with stakeholders to develop relationships ▶ Support short and long-term priorities ▶ Seat at the business table and regular meetings 	<ul style="list-style-type: none"> ▶ A vision statement for finance only ▶ Informal discussions to control the board's priorities ▶ Limited to crisis events ▶ Policing role
Principle 2 Adopt practices to raise, praise and mediate different viewpoints	<ul style="list-style-type: none"> ▶ Allocated on a demand-led basis to build trust ▶ Joined-up decision-making to challenge established facts ▶ Mediation between business units, business partners and executives ▶ Embrace uncertainty 	<ul style="list-style-type: none"> ▶ Allocated on a supply-led basis ▶ Finance knows best ▶ Mediation mainly between finance and the board ▶ Tendency to close down uncertainty
Principle 3 Use visuals to facilitate better understanding	<ul style="list-style-type: none"> ▶ Used to engage non-finance experts in discussions ▶ Created around business needs ▶ Formalised in decision-making ▶ Demystify language of finance 	<ul style="list-style-type: none"> ▶ Present data in lengthy PowerPoint slides and/or spreadsheets ▶ Created from finance data ▶ Reinforce finance language ▶ Ad-hoc deployment in decision-making
Principle 4 Simplify coordinating systems to invite scrutiny and generate new ways of constructing knowledge	<ul style="list-style-type: none"> ▶ Remove the burden of reporting ▶ Systems of engagement to build relationships and ask questions ▶ Coordinating systems work in harmony 	<ul style="list-style-type: none"> ▶ Detailed numbers-driven reports ▶ Systems of oversight for seeking answers in the numbers ▶ Knowledge falls through the cracks between the systems

Implications for practice

Barriers to Effective Business Partnering

Finance own and control the numbers and believe answers can always be found in them

When asked to reflect on whether business partners are meeting expectations, a clear divergence of opinion emerged between the CFO/FD, who created the finance business partner roles in Cornelius and Delta respectively, and the HR directors in those companies. The HR directors thought that the traditional view of the role of finance and a finance mindset had shaped the business partnering roles. For example, the HR Director of Delta pointed out that "... it is a mindset of how you think your role is ... you know, what you believe about the business partner role and how well that's been articulated to you". The HR directors described how a finance mindset can manifest itself in the belief that finance own and control the numbers, and that answers can always be found in those numbers. Consequently, in their opinion, business partners focus on the numbers, rather than engaging with others in the different parts of the business and seeking to understand how they perceive issues and problems.

The consultants and training provider we interviewed noted that it can be easier to control the numbers, than to influence business outcomes. The HR Director of Cornelius agreed, saying: "I think there's a resistance in the sense they [the business partners] are very comfortable operating within their current way". A major challenge in seeking to influence business outcomes is that business partners lack a real understanding of the business and the commercial acumen needed to take a leadership role in business decisions. Sometimes, they even lack interest in the concerns of others in the business and perceive themselves as detached from them, leading to a "functional arrogance in accounting that I don't see in other business partnering functions like Legal or IT" (HR Director of Cornelius).

Locating business partners within the business can even be seen by finance as a way to enable them to control financial objectives and achieve the short-term financial plans approved by the Board. Even when they are physically located closer to others in the business, these business partners still see themselves as part of finance, and not the business. The HR directors of Cornelius and Delta suggested that there needs to be a thorough reappraisal of the role of business partners. The HR Director of Cornelius concluded: "I think Finance needs to agree what a finance business partner looks like, to then convey that vision to the rest of the function".

Lack of empathy to stimulate collaborative conversations

The business partnering training provider we interviewed argued that "Finance has got to get away from the fact that they own the numbers. It's not about owning the numbers, it's about your superior empathy with the numbers, and then empathy with the other business stakeholders". In addition, the HR Directors mentioned the need for emotional skills (which they referred to as EQ – emotional quotient), as well as intellectual skills (IQ). They were particularly critical in this respect, arguing that the business partners in their companies lack the EQ skills which are necessary to understand different viewpoints and to take a leadership role in discussions. However, the business partner training provider believes that "EQ is definitely something that can be learned, as opposed to IQ which you can't do much about really."

A failure to embrace alternative viewpoints can suggest a lack of empathy and this can be exacerbated by an over-reliance on spreadsheets and PowerPoint slides, whereas simple visuals can engage others and demonstrate empathy with the business (principle 3). All the interviewees appeared to recognise the power of visuals, even if they are not currently making great use of them. The HR Director of Delta acknowledged that: "We don't utilise visuals to engage our teams and generate new knowledge; no, but come to think of it, I think we should be".

Recommendations for practice

Elevating the business partnering role

We set out below five recommendations to help business partners demonstrate strategic oversight and to provide leadership in value creation:

1. Rather than seeking a set of rules for value creation, finance business partners should **positively engage with uncertainty** through a process of probing and sense-making to encourage joined-up decision-making. To do so, they should implement the four design principles described in this report. These principles, in themselves, will not create value, as value is created in many different ways in different businesses. For instance, Toyota and Mancunia do this in quite different ways, but nevertheless their approaches align with these four design principles.
2. To engage with uncertainty business partners should be encouraged to **facilitate open discussions** across the business (principle 1) and discouraged from seeking answers primarily in the numbers and, especially, speaking a language others in the business struggle to understand. This requires finance business partners to reflect on how they engage with others, and for there to be a clear vision for finance business partners which challenges established decision-making hierarchies and traditional mindsets. Although some business partners will already have strong emotional skills, training may be required to help them develop trusting relationships and to recognise different viewpoints.
3. As uncertainty cannot be eliminated, business partners should recognise that raising doubts is a positive, not a negative, behaviour in the context of decision-making under uncertainty. Finance does not always know best, so they should **adopt practices to raise, praise and mediate different viewpoints** (principle 2). To stimulate and encourage different viewpoints, finance business partners will need to develop their interpersonal skills and display their empathy with others in the business. This should create a culture of openness in which it is possible to express different viewpoints and challenge established facts, without a fear of retribution, and thereby disrupt taken-for-granted ways of thinking.
4. Finance business partners should avoid over-reliance on 'detailed' accounting reports (for instance, complex spreadsheets) which only provide a view of what is currently recorded in the reports, and can disengage non-finance managers who may have different views about what is happening in the business. Instead business partners should **create simple visuals to help the business explore different viewpoints and to positively engage with uncertainty** (principle 3). Few non-finance experts question the comprehensiveness of accounting data, leaving financial assumptions largely free from scrutiny. Simple visuals can encourage the questioning of existing assumptions, and thereby provide a means to perceive and better understand what is happening in the business and to challenge the status quo and generate new knowledge.
5. Drawing together the above recommendations; by facilitating open discussions (principle 1), which recognise different viewpoints (principle 2), and using simple visuals to engage with uncertainty (principle 3), finance business partners should be able to simplify coordinating systems to invite scrutiny and generate new ways of constructing knowledge (principle 4). These coordinating systems should cut across hierarchical structures, avoid duplicating spreadsheets, reports and accounting systems in the various functional areas and, thereby, harmonise systems across the business.

Conclusions

For many years, finance has been seeking ways of better engaging with the business and supporting value creation. More recently, finance business partners have emerged, and located within the business, have important opportunities to create value.

The current COVID-19 crisis and what might follow, which some people are describing as a 'new normal', will require people who can challenge established business processes and traditional mindsets, and create new knowledge and orchestrate value.

This report describes how four design principles to orchestrate value, set out in Quattrone et al. (2016), can provide a systematic approach to enable finance business partners to better engage with the business and support value creation. It shows that when these design principles are embedded in the way finance business partners approach decision-making under uncertainty, they can facilitate the conditions under which new knowledge is created and harnessed to orchestrate value.

Our research showed that the approaches taken by Toyota and Mancunia embed all four principles and that, while Cornelius and Delta have adopted the narrative of business partnering, they both lack a systematic approach.

By bringing together diverse viewpoints from across the business, finance business partners can act as 'knowledge orchestrators' who provide strategic oversight and leadership. As such, finance business partners do not suppress uncertainty by looking for answers in the numbers but use it to create new knowledge and to orchestrate value.

By going beyond the numbers, and using simple visuals to mediate different viewpoints, finance business partners can harness productive tensions in making decisions under uncertainty.

To do so, finance business partners need to develop their emotional skills and empathy with others in the business in order to recognise and engage with different viewpoints.

However, if finance business partners do not engage with uncertainty and embrace the diverse views held within the business, but instead continue to look for 'answers' only in the numbers, there is a danger that others (i.e., non-accountants) could become the finance business partners of the future. For example, MBAs who have worked in various areas of the business, and/or other businesses, could be candidates to fill these roles.

Their MBA will have given them a sound understanding of the essentials of finance and, through their broad business experience, they will have empathy with others in the business and be able to embrace their viewpoints.

The research for this report was undertaken before the COVID-19 crisis, but it nevertheless recognised the challenges and uncertainty in the modern pre-COVID-19 business environment and emphasised the importance of engaging positively with uncertainty – recognising it as an opportunity rather than something to be suppressed or eliminated through accounting numbers.

In the 'new normal' (post-COVID-19) this is going to be even more important, and finance business partners who are already adopting a systematic approach and using the four principles to orchestrate value are going to be in an ideal position to provide strategic oversight and leadership.

Finance business partners without such an approach will, however, need to:

- ▶ Appreciate that uncertainty can never be eliminated and, instead, seek to stimulate open discussions which will generate new knowledge and create value.
- ▶ Recognise that raising doubts is a positive, not a negative, behaviour, and can be used to explore alternative viewpoints and challenge established facts.
- ▶ Use simple visuals to facilitate better understandings, discuss alternative viewpoints and explore legitimate doubts.
- ▶ Invite scrutiny by simplifying coordinating systems and provide information in ways that work in harmony with other systems, highlight alternative viewpoints, and challenge traditional mindsets.

In so doing, finance business partners will be able to facilitate the conditions under which new knowledge can emerge. However, they may require training and support to develop the necessary emotional skills and empathy with others in the business which are required to recognise diverse viewpoints and build trusting relationships across the business. If they can do this, they will be in an ideal position to orchestrate value.

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Acknowledgements

We would like to acknowledge our thanks to CIMA for funding this research through the CIMA General Charitable Trust. In addition, we are extremely grateful to our key informants in the case companies and to the business partner consultants who provided input to and feedback on the research. We are also grateful to Peter Simons and the CIMA reviewers who provided comments and suggestions on earlier drafts of this reports.

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December 2020
978-1-85971-889-6

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