



International  
Federation  
of Accountants®

# The Role of the Finance Function in Enterprise Performance Management



The IFAC Professional Accountants in Business Committee (PAIB) supports IFAC and its member organizations and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and not-for-profit sectors. It raises awareness of the value of professional accountants working in business and the public sector focusing on areas of importance in preparing a future ready profession.

Additional performance management resources from IFAC members and others are available on the [IFAC Global Knowledge Gateway](#). IFAC publications are published by, and copyright of, IFAC.

## Why Enterprise Performance Management is Critical to the Future of the Profession

As part of the IFAC PAIB Committee's global dialogue on [Vision for the Finance Professional and the Finance Function](#), the need for finance and accounting professionals to offer a much higher contribution to their organizations is clear. A digital enabled finance function is more efficient and therefore an opportunity for finance teams to become business partners rather than technical support to their organization's challenges.

Driven by changing competitive environments and business models, Enterprise Performance Management (EPM) is evolving rapidly. The essence of finance business partnering is to align strategy and priorities to operational execution and resource allocation, and to provide actionable insights on performance. Broad-based information and analysis is needed to manage risk, execute business strategies and deliver operational excellence. The key question is whether the finance function and its professionals are able to provide what the business needs.



EPM requires an effective contribution beyond reporting on financial performance and financial metrics based on income statement or balance sheet components. The finance function has to enable decisions across the organization, requiring deeper, clearer insight into operations, customers, markets, and the external business environment. To seize the opportunities that EPM and business analytics present requires an operationally grounded and data-driven perspective to decision support.

Our role at the global level is to support professional accountants working in private and public sectors. Consequently, our work to explore how accountants can ensure relevance in this space should help inform professional accountancy organizations on the skills and competencies needed for continued relevance to organizations, capital markets and societies.

A critical first step is for finance leaders to develop a vision and plan to guide the finance function toward long term value creation in a multicapital world.

*Charles Tilley, Chair, IFAC Professional Accountants in Business (PAIB) Committee*

## EPM Involves Driving Actions and Interventions

An effective finance business partner aims to provide actionable insights to management at all levels of the business for better decision-making and value creation over time. EPM represents a range of activities and practices that provide the reference points needed to deliver insights based on financial and non-financial, internal and external, and structured and unstructured data and information. EPM is based on an integrated management approach that links strategy to core processes and activities using relevant measures to report, manage performance and improve understanding of value creation.



For finance professionals to be viewed as business partners requires their contribution to effective EPM beyond traditional financial reporting and financial systems.

Finance professionals have traditionally been involved in various aspects of EPM, but their relevance as strong business partners increasingly will depend on being effective beyond reporting on financial performance by providing useful, forward looking insights covering operations, customers, markets, and competitors.

The demands on EPM are evolving. Organizations want information and insights to help them respond quickly and more confidently to the changing competitive environment and uncertainty, and adapt and execute strategic and operational plans. It is critical that professional accountants in business become effective business partners and value enablers in the EPM space. Improving their involvement in core EPM activities will also help the finance function develop a clearer mandate and position as a business partner to other organizational functions.

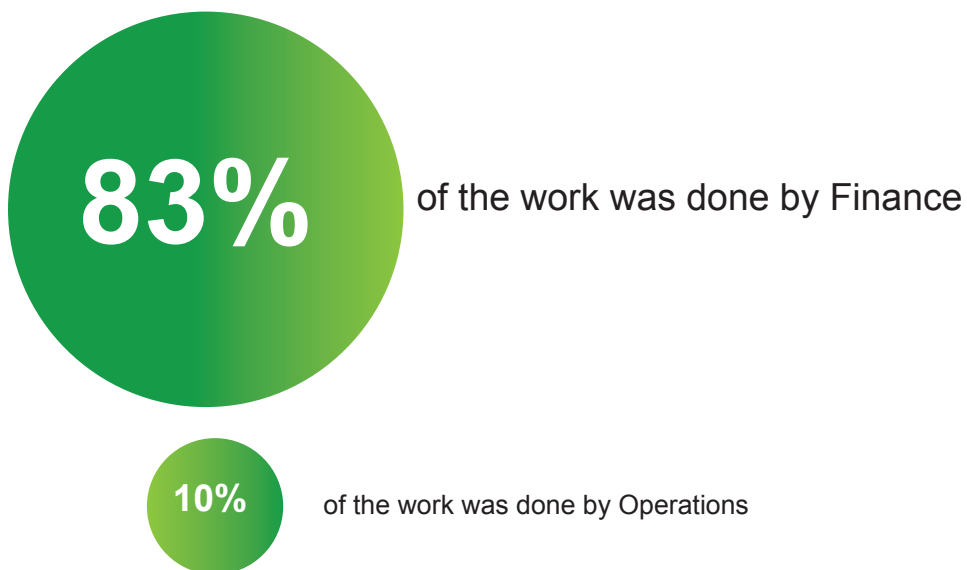
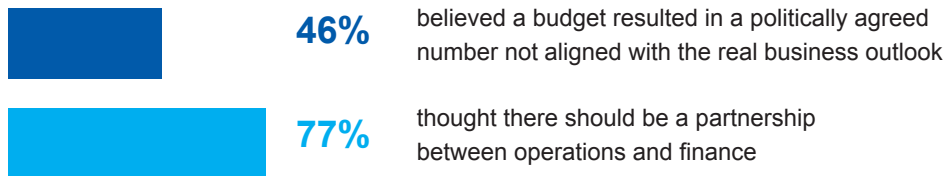
---

## The Current Effectiveness of EPM Activities and Involvement of Finance Highlights Need for Improvement

### Planning, Budgeting, and Forecasting

- [Planning, Budgeting, and Forecasting: An Eye on the Future](#)

Of 900 finance professionals surveyed,



## Integrated Performance Analysis – Operational, Cost, and Profitability

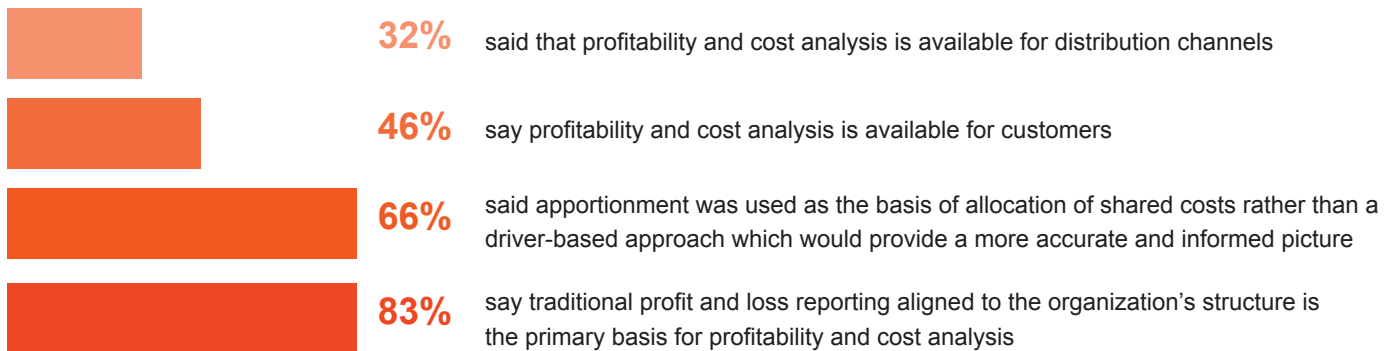
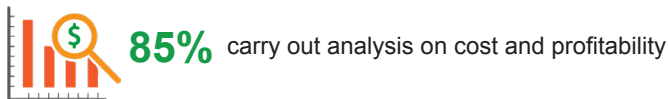
- [Performance Reporting : An Eye on the Facts](#)

Of 1,100 finance professionals surveyed,



- [Profitability and Cost Analysis: An Eye on Value:](#)

Of 1,100 finance professionals surveyed,



A Harvard Business Review (HBR) [survey](#) reported that 72% of executives find their companies' strategies and operations are susceptible to digital disruption by competitors in the next three years

The average company lifespan of an S&P500 company is now under twenty years (Technology killing off corporate America). In response, organizations need to understand their changing environment, challenge their business model and operational assumptions, and continuously evaluate performance and plans. The finance function should play a major role in meeting this challenge.

Four significant changes shape how businesses operate and therefore the expectations on EPM:

- Transformed channels to market
- Erosion of traditional customer bases, and new ones emerging
- Dramatically shifting product and service line profitability
- Falling barriers to entry.

Information and insights need to be provided in the context of a business and operational environment that is continually changing. For example, the fundamental changes to the retail sector with the rise of online channels require business partners to provide insights on changing industry dynamics and customer expectation and demand, impact on revenues, costs and profitability, changes to marketing investments, and supply chains to support new channels. Digital or smart manufacturing provides data and information throughout the product life cycle which in turn transforms sales, marketing, services and the nature of the relationship with customers.

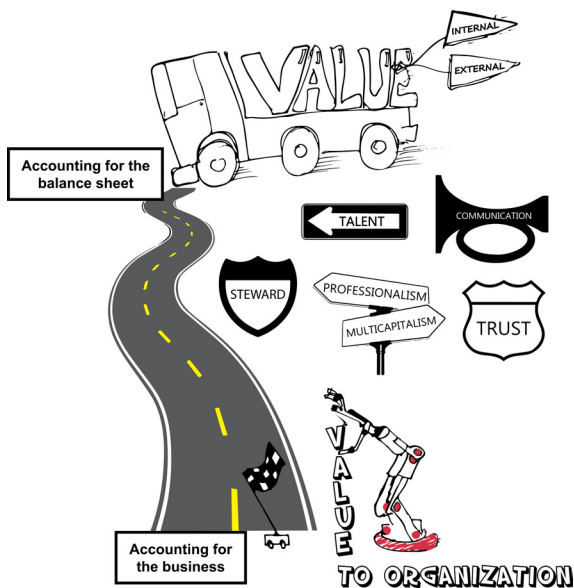
Organizations with superior EPM are more likely to be agile and adaptable, make better decisions more quickly, and focus their time and resources on processes and activities that create value. The opportunity for professional accountants working in business is immense, but it is an opportunity that must be proactively taken by developing the key enablers of effective EPM explored in this briefing.

## The Finance Role as a Business Partner

Two distinct aspects to the business partner role are relevant to EPM. The first is looking "up and out"; up to the CEO, the board of directors; and out to investors and external stakeholders. Professional accountants are traditionally focused on this aspect. The second is looking "around and down" the organization at the finance function's peers and customers/ internal stakeholders from the shop floor to functional and business unit managers.

Traditional financial statements, designed primarily for facilitating transparency and confidence among investors and creditors, are less relevant for internal decision-making among managers because they do not reveal enough information and insight about the underlying business.

All levels of an organization need information to support value creating decisions, from daily issues on operational efficiency and customer service to major strategic shifts of direction. Effective EPM requires moving beyond the processes supporting external financial reporting. EPM requires a deep understanding of both the external environment and the organization's resources and underlying processes to deliver timely, action oriented, and decision relevant insights on economic realities and value drivers. This requires an operationally grounded perspective and causal approach to creating information to support decisions across the organization.



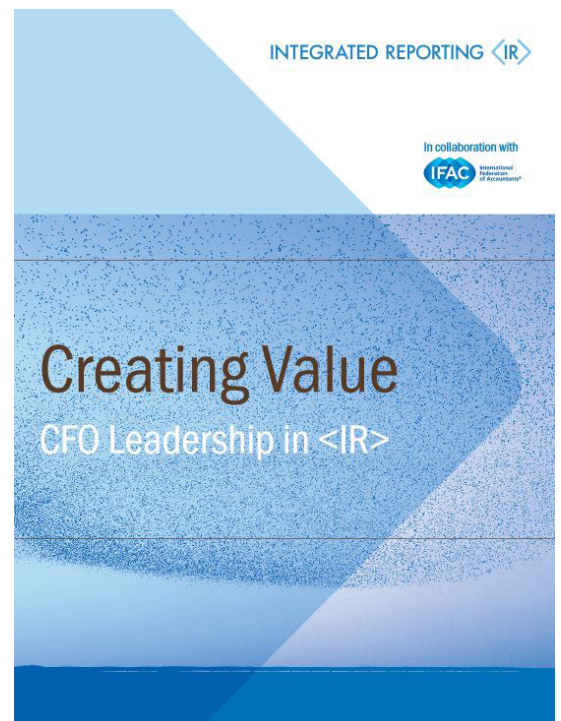


## Integrated Thinking and Reporting

Additionally, [integrated thinking and reporting](#) are creating a demand for a broader, and increasingly non-monetary perspective of enterprise performance through a “capitals” or “resources” perspective.

For many companies, non-financial or intangible assets explain the bulk of how value is created in an organization.

This includes customer relationships, employees and innovation, operations performance (including environmental aspects such as emissions, quality of business processes, cycle-time, intellectual property, brand reputation, and the organization’s supply chain and pipeline). Information on such areas is not captured in accounting-based reporting but needs to be captured in EPM if value creation is going to be effectively tracked across all the capitals and resources that organizations depend upon.



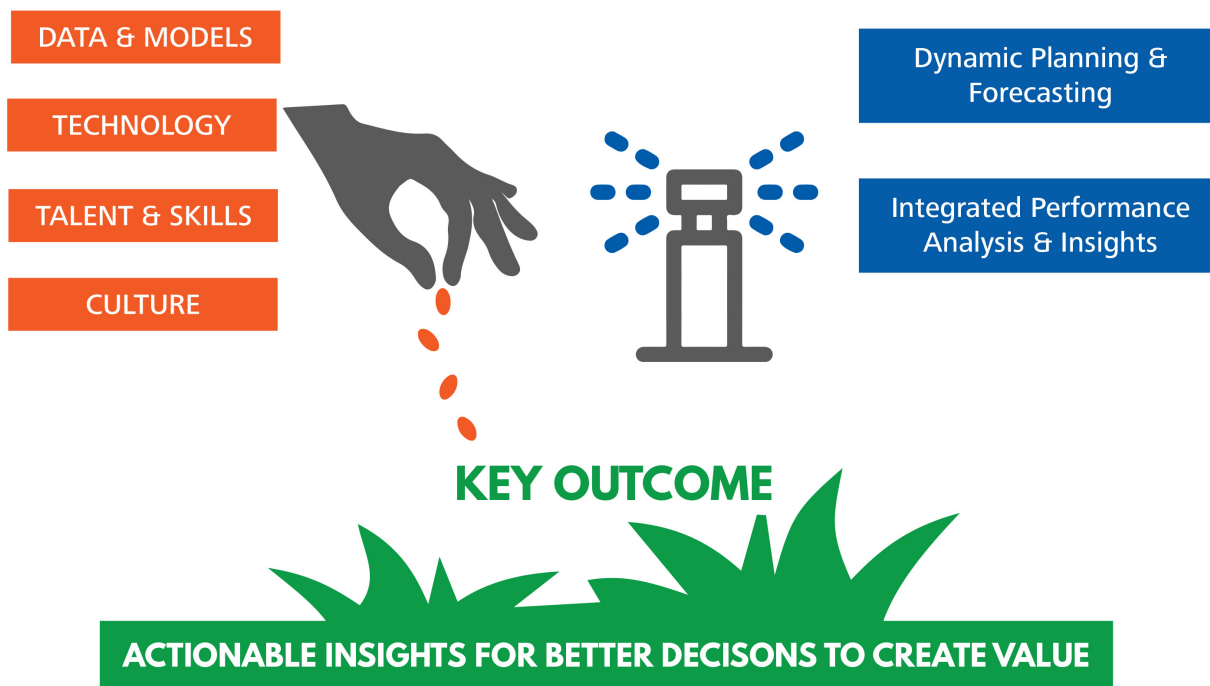
## A Framework for Understanding EPM

### Finance Function Contribution to Enterprise Performance Management (EPM)

Effective EPM enables better decisions by tracking:

- Changes in the business and competitive environment
- Drivers of value
- Strategic and operational performance
- Opportunities and risks in the context of the business model

### KEY EPM ENABLERS >>>>>> CORE EPM ACTIVITIES



The core EPM activities and enablers to support decisions at all levels of the organization are highlighted above. The effectiveness of these activities requires understanding and communicating the key financial and non-financial value drivers and the connectivity between them.

The two core EPM activities that will be familiar to accountants in business and finance functions are:

**Dynamic Planning and Forecasting** – Key finance function activities focused on the future, that involve predictive or prescriptive analytics to identify opportunities and risks, establish goals and targets, control and adjust performance, and provide substantive input on strategies and progress against goals and targets. The uncertainty and speed of change in the business environment requires more and better information, a clear focus on reality, and a highly efficient and real time cycle of planning/evaluation, budgeting, and forecasting. Plans and rolling forecasts provide an important link between performance in the present and future aspirations.

**Integrated Performance Analysis and Insights** – Providing insights on cost, profitability, productivity, and operational performance to understand and respond proactively to current performance. Integrated Performance Analysis requires operational performance be clearly connected to financial results, recognizing that cost and profitability are ultimately the results of decisions about resources and processes. Second, an emphasis on “analysis” rather than “reporting” implies a more open, continuous, participative, and responsive process based on providing timely insights and analysis on economic reality and value drivers.

The ability to carry out these activities effectively and efficiently depends on four key enablers of effective business partnership highlighted below:

### The 4 Key Interconnected Enablers That Underpin EPM



## Enabler 1: Data & Models

Financial and non-financial, Internal and External, Structured and Unstructured.

- Planning, forecasting and understanding the contribution of different activities to performance requires relevant, causal data and analysis on value creation processes and resources in relation to goals and targets. To be effective business partners, finance functions should be seeking to provide actionable information on products, customers, and channels in the context of changes in the business environment. This requires greater connectivity and collaboration between the finance function and other areas such as strategy, sales and marketing, procurement, and operations, as well as greater integration of operational value streams and core business processes such as procure-to-pay, customer to cash, and account to report.
- In terms of decision support, a key challenge for many finance functions is that internal reporting around profit and loss areas is not meeting business needs. Planning and forecasting can be too finance-centric. Finance functions often provide a rudimentary level of cost and revenue information that describes financial performance (and the accuracy of output, product, and service-line costs might be limited where indirect expenses do not relate to outputs i.e., there is no or limited causality). This means fewer insights relating to customers, such as customer profitability or operations, and the business environment.
- A more analytical and predictive approach to planning and decision support focuses on projections requiring more advanced approaches to data and models. To be actionable, data needs to be of adequate quality and reliability, timely, reflect causal relationships, and link clearly to resources, customers, and strategic goals.
- Decision support models help transform data into information that drives actions and outcomes. A modeling approach helps to accurately represent economic reality by reflecting the causal relationships among resources, processes, products, services, customers, channels, markets, and investments that create value now and will continue to create value in the future (see IFAC's [International Good Practice Guide, Evaluating and Improving Costing in Organizations](#) and IMA's [Conceptual Framework of Managerial Costing](#)). The quality of an organization's decisions will ultimately reflect the validity of its models and assumptions. The primary inputs needed are:
  1. An operational model with financial and non-financial information to enhance understanding of cause-and-effect relationships that convert inputs into outputs and deliver desired outcomes. It incorporates all relevant organizational data and systems, operational and financial.

*The requirements of the finance function are developing a relevant data model, securing quality data, organizing data flow and storage, and appropriate data governance over the process.*

2. Information on the competitive environment and trends to enhance the development and analysis of scenarios and future options, to inform planning and risk management.
- The explosion of available data also provides opportunities to greatly improve EPM. Data can be acquired, captured, and analyzed on a previously unimaginable scale. Big data and advanced analytics are terms used to highlight approaches to capture the value of structured data (e.g., personal information) and unstructured data (e.g., photos and videos, qualitative information) whose size and scale is beyond the ability of traditional tools to analyze. Data analytics are being applied to various areas and purposes, such as income generation opportunities (e.g., actions that impact customer lifetime value and enable better customer segmentation), cost-reduction (e.g., actions that enhance operations and productivity), and the planning process with driver based forecasting. Analytics can be applied to manufacturing (e.g., yield, energy, throughput analytics) or product and service design (e.g., product optimization or increasing R&D and innovation productivity).
- Some larger organizations are establishing dedicated data and analytics teams often involving data scientists as well as finance professionals and technology specialists, and treating such units as a profit center with benchmarking and performance incentives. The finance function needs to develop its

relationship with such units and develop how it supports wider data analytics, for example by:

1. Combining the knowledge of finance and the business to help translate analytical insights into commercial impact through planning, budgeting, forecasting and performance management.
2. Measuring the contribution and business impact of analytics and ensuring that it meets the needs of the business for actionable decisions at each level of the organization. Although the finance function might not have the technical knowledge about advanced analytics, it can help to ensure that the outcomes of analytics drive value creating opportunities for the organization.
3. In collaboration with the information technology function, evaluate the investment in technology and tools, such as business intelligence software, in the context of existing approaches to data capture and insights. Better analytics are enabled by better analytical and visualization tools, as well as the underlying integration of different data streams and systems.

1. Ensuring adequate data quality, which is typically cited as the biggest impediment to data analytics. Significant challenges can exist around data, such as poor data reliability, misalignment between data and value drivers, siloed data, and reliably incorporating data from outside the organization. Ensuring data quality is a continuous process – data cannot necessarily be perfect and judgment is needed on data quality to create value.
- Given the value of data to most organizations, data governance is critical in protecting its value. Data governance ensures accountability for different types of data across the organization. Working effectively with the information technology function, and data managers and officers, the finance function also has a key role in overseeing and managing data. The related digital and cyber risk can expose the organization to reputational as well as financial loss. This will involve developing risk management data strategies and programs.

---

## Enabler 2: Technology

- Technology is not a magic bullet to achieve effective EPM, but it is a critical enabler. New technology implementations often fail to deliver on the potential benefits because they are overlaid on existing processes, or they do not address an existing fragmented technology architecture and siloed data ownership. Technology deployment needs to follow process optimization involving elimination, simplification and standardization of processes across the organization. This ensures clear objectives, improves the probability of success, and eliminates unnecessary complexity.
- Improving EPM and data analytics generally requires an investment in technology and tools that need to align to an organization's circumstances. Planning, forecasting and analysis can be vastly improved by linking financial, operating, sales, marketing, logistics, human resource and other critical financial and non-financial business systems, and ensuring data is not managed and controlled in spreadsheets. Fragmented technology and processes also means that many finance functions spend more time reconciling information from different systems than understanding the implications of the data for business decisions.
- To enable improvements in finance capabilities with new tools and technology requires understanding how both the business as a whole and the finance function can drive insight and lower cost. Finance professionals and the finance function need awareness and understanding to be able to analyze and support the most appropriate investments in technology. Great opportunities exist from a cloud-based approach, increased automation and workflow and analytical based tools to identify trends and connections to improve quality and productive capability, while reducing cost. EPM-based technologies help develop predictive and prescriptive capability, forward looking scenario modeling, and increasingly useful and timely rolling forecasts. Other key technologies support data and information visualization through dashboards based on real time data.
- Technology can be expensive, time consuming, and risky to implement. Therefore, the application of technology needs to be part of a comprehensive cross-functional evaluation of the EPM process to ensure the right information and analysis is being delivered to achieve desired outcomes. Finance leaders can benefit from a clear roadmap of technology and solutions that enable the finance function to create efficiencies, as well as help the finance function more effectively drive insights and actions. The business case for technology and solutions in the finance function should align to strategic goals and objectives.

## Enabler 3: Talent & Skills

- Effective EPM is enabled by people as well as technology and data. Finance professionals require a broader range of knowledge, skills and experience to enhance business partnering. A greater diversity in the finance function talent mix can also be beneficial to elevate its contribution.
- EPM business partnering requires a range of technical, analytical, technology and interpersonal skills to facilitate an approach that leads to relevant and integrated performance analysis and helps align and motivate behavior toward strategic and operational goals.
- Developing the skills and knowledge needed may require changes to recruiting and career paths in finance and the wider organization. Finance professionals may find they need to rotate outside the finance function to gain the different experiences necessary to become effective business partners and grow professionally in an organization that values EPM. Employing organizations can also support blended learning approaches including experiential learning, short-term work assignments, and mentoring and coaching.
- The measurement of the finance function and of finance professionals also might need rethinking. To shift measurement toward outcomes and the impact of the finance function on an organization involves performance, incentives and rewards being orientated toward achieving wider organizational goals.



---

## Enabler 4: Finance Function Culture & Mindset

- The culture of both the organization and the finance function needs to be one that values effective EPM, collaboration, adaptability and continuous improvement. The finance leader needs to create an enabling mindset that builds the capacity and confidence of the finance function, while also helping others perceive how the function can play a fuller role in EPM beyond the financial aspects.
- Finance leaders need to foster an enabling mindset and behaviors that reinforce business partnering. Much traditional finance and accounting work focuses on accuracy and adherence to rules and requirements. This is necessary and valuable in some areas. The challenge is to develop cultural flexibility within the finance function based on the task and the needs of internal customers e.g., knowing when to ensure high data quality versus when to opt for speed, flexibility and agility. Finance organizations will also need to develop a greater tolerance for risk taking and uncertainty as they move into business partner roles.
- The finance function operating model and accountabilities need to be aligned to the effective delivery of EPM. Typically a number of key questions arise that need to be addressed and tested, such as whether to embed business partners in business and operational units, determining the best reporting lines for business partners, assessing their performance, and linking their work with that of corporate or business unit strategy teams where they exist.
- Performance incentives of finance staff need to support effective EPM. Incentives based purely on regulatory financial reporting, particularly short term results, can damage collaboration and continuous improvement focused on long term value creation.

---

## The Implications for Professional Accountancy Organizations and Finance Professionals

The challenge for finance is to be able to streamline its activities and processes in order to deliver added value through enterprise performance tools. The rapid development of technology, data and analytics creates both tremendous pressure and expectation, along with opportunity. The opportunity for the profession is to apply its professional business and analytical, process and systems skills and competency to create better insights into the drivers of performance and value creation. Professional accountancy organizations and accounting educational institutions need to seize the opportunity to promote and advance professional accountants in business not just as part of the financial reporting supply chain, but as key contributors to business performance and value creating decisions.

This requires acquiring knowledge and experience in various areas, including:

- An organization's operating environment and business model
- Strategic and operational planning, budgeting and forecasting
- Lean operational management, including quality management principles, continuous process improvement and optimization (all of which can also be applied to finance as well as to operations)
- Finance fundamentals including core processes, systems and technology

- Costing and data modeling that enables a strong relationship between the financial and physical world
- Evaluating investment and project proposals and business cases
- Data governance, management and analytics, including data analytics tools and techniques to identify and interpret insights
- Risk management to provide transparency on the implications of decisions
- Integrated thinking and reporting
- Organizational management including culture, change and behavior.

The effectiveness of the finance professional and function contribution to EPM in a business partner role also requires effective communication and interpersonal skills. This provides the confidence to build relationships across the organization that support effective EPM and respond to tensions that arise as part of the process (see the ICAEW's [Business Performance Management](#) reports for insights and examples of typical tensions arising from managing business performance).

Business partnering requires nurturing and continuous training and reinforcement. Participating in the right conversations, asking the right questions and building relationships are all important in becoming relevant for decision-making in the wider organization.

It is important that finance professionals do not underestimate the need to communicate across functions. Compelling communication and effective business partnering is also reinforced by business and commercial awareness, particularly understanding wider organizational goals and objectives in the context of the business environment. Facilitating connectivity across functional areas and processes, and between strategy and operational execution, requires good understanding of stakeholder expectations as well as operations and the jobs, resources, and processes of front line employees and supervisors.

Exposure Drafts, Consultation Papers, and other IFAC publications are published by, and copyright of, IFAC.

IFAC does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IFAC logo, 'International Federation of Accountants', and 'IFAC' are registered trademarks and service marks of IFAC in the US and other countries.

Copyright © 2018 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, save for where the document is being used for individual, non-commercial use only. Contact [permissions@ifac.org](mailto:permissions@ifac.org).

ISBN: 978-1-60815-392-3

#### FOLLOW US!



[twitter.com/IFAC](https://twitter.com/IFAC)



[facebook.com/InternationalFederationOfAccountants](https://facebook.com/InternationalFederationOfAccountants)



[linkedin.com/company/ifac](https://linkedin.com/company/ifac)

[IFAC Global Knowledge Gateway](#).

For questions or comments about this report, please contact:  
Stathis Gould  
Deputy Director, PAIB and Knowledge Lead  
[stathisgould@ifac.org](mailto:stathisgould@ifac.org)  
T +1 212 471 8725  
[www.ifac.org](http://www.ifac.org)