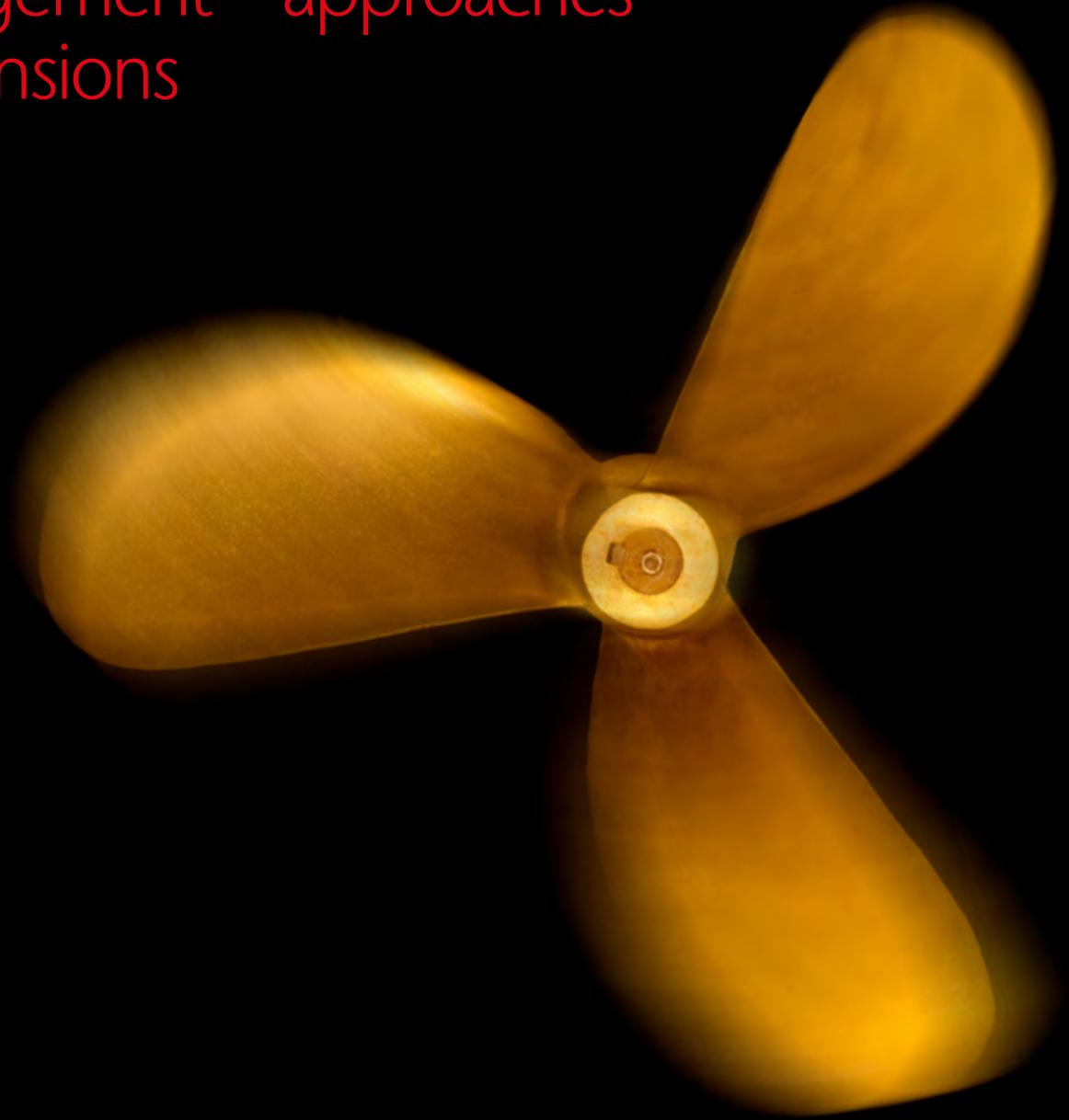




FINANCE &
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Business Performance Management – approaches and tensions



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ICAEW's Finance and Management Faculty is a leading authority on financial management, the finance function and the role of the CFO. It provides its members with up-to-date business ideas, the latest management tools, unbiased and independent information and helps them to become an effective part of the management team. Membership is open to finance professionals with an interest in financial management. icaew.com/fmfac.

Business Performance Management – approaches and tensions forms part of the Finance and Management Faculty's Finance Direction thought leadership programme. It builds on ideas explored in an earlier report *The finance function: a framework for analysis* (2011). The references contained in this earlier report may also be of interest to the reader.

More practical ICAEW guidance on business performance management is available on our website icaew.com/bpm.

The principal author of this report is Dr Philip Smith, see page 25 for his biographical information.

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Introduction

**Business performance management:
no one size fits all**

Effective business performance management (BPM) is central to the success of all organisations. On the face of it, it sounds simple. Determine and implement the organisation's strategy, measure how well it has met those objectives, and then adapt its performance accordingly. However, speak to any accountant in business and it becomes clear that in practice things are never so easy. Inevitably the conversation will include experiences such as those of fragmented IT systems, inaccurate data and information being ignored by decision makers.

With these challenges in mind this report provides you with an opportunity to stand back and examine your own approach to performance management. Firstly, we set out the component parts of BPM in a framework against which you can map your current processes. However, in practice, it is where this framework interacts with real world tensions that an organisation needs to focus its energy (see figure 1), and so secondly, we consider where such problems commonly occur and help provide a focus for any improvements you may need to make.

This report is the first phase of our ongoing BPM project. In phase two we will also provide case studies and some suggestions on how to address common problems.

While recognising the primacy of business operations, we have written this report from the perspective of financial managers, our specific audience, and so have largely focused on the information perspective of BPM. However, we believe it is critical for everyone working in the area of BPM to keep in mind that financial information is simply the outcome of operational actions and should not be viewed in isolation.

**While there is no one size fits all approach,
a framework can be a useful tool**

Each organisation and its operating environment are unique. However, following our research, we believe that it is still possible to identify component parts of BPM which are commonly accepted. We have used these elements to construct a framework.

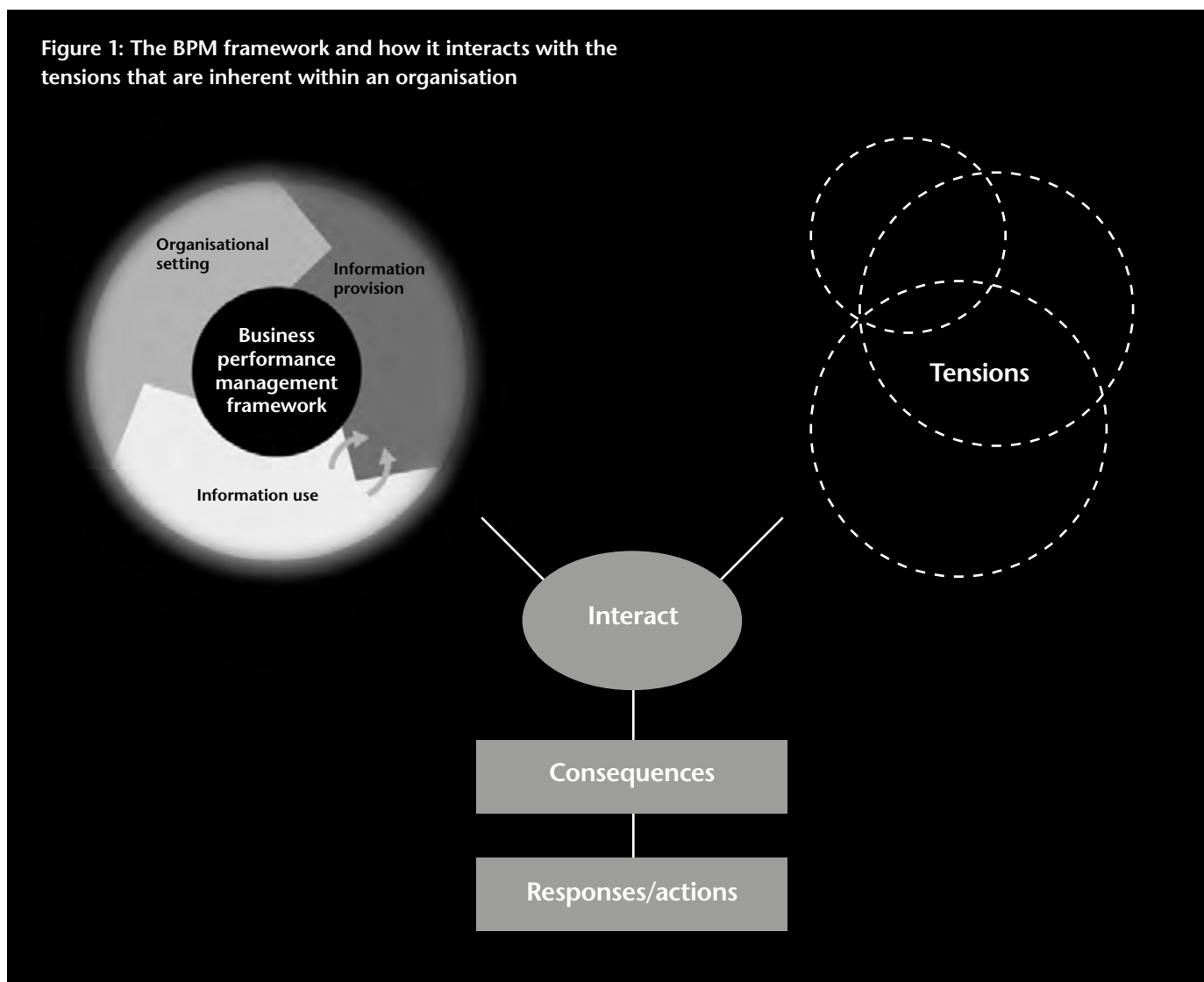
We are not claiming to have created a revolutionary new approach to BPM, but have rather pulled together what is happening in practice and combined it with leading academic thought. As one of our members recently told us, 'CFOs are caught in the headlights. They know they have a problem, but don't know how to react. A model can be a revelation as they can't see the wood for the trees.' We hope that the framework will help you to:

- clarify your thinking on BPM;
- map your current approach to BPM against our framework, and in doing so identify areas of concern; and
- explain BPM to others in your organisation.

**While no approach is perfect, decisions have
got to be made**

While the BPM in all organisations will inevitably have weaknesses, decisions need to be made based on 'the best information available on Monday morning'. The aim of this report is to help you identify areas of focus, so that performance management within your organisation can continuously improve while you also deliver the day job.

Figure 1: The BPM framework and how it interacts with the tensions that are inherent within an organisation



BPM – definition

BPM refers to the approach an organisation takes to define, assess and improve the delivery of its business goals.

This is our working definition, but we would be interested to hear your thoughts on it.

Feedback request

At this stage, we are looking for feedback on the framework and tensions, with the intention of providing further resources at a later stage. Is this how BPM operates in your organisation? Are these tensions ones that you commonly face? Please contact emma.riddell@icaew.com with your thoughts, or comment via our LinkedIn.com group.

Our plans for further work are detailed in section 3.

Methodology

The core of the BPM framework was drawn from research by Ferreira and Otley (2009).¹ Their proposals were then synthesised with existing Finance and Management Faculty knowledge and research, together with insights from senior finance professionals working in business.

The tensions work builds on initial research discussed in the faculty publication, *The finance function: a framework for analysis*.² This was then expanded through a series of interviews with senior finance professionals, and through input from ICAEW members responding to a request to highlight the issues that they typically encounter.

¹ Ferreira, A and Otley, D (2009), 'The design and use of performance management systems: An extended framework for analysis,' London, *Management Accounting Research*, Vol 20, pp263–282.

² ICAEW, 2011, *The finance function: a framework for analysis*, London.

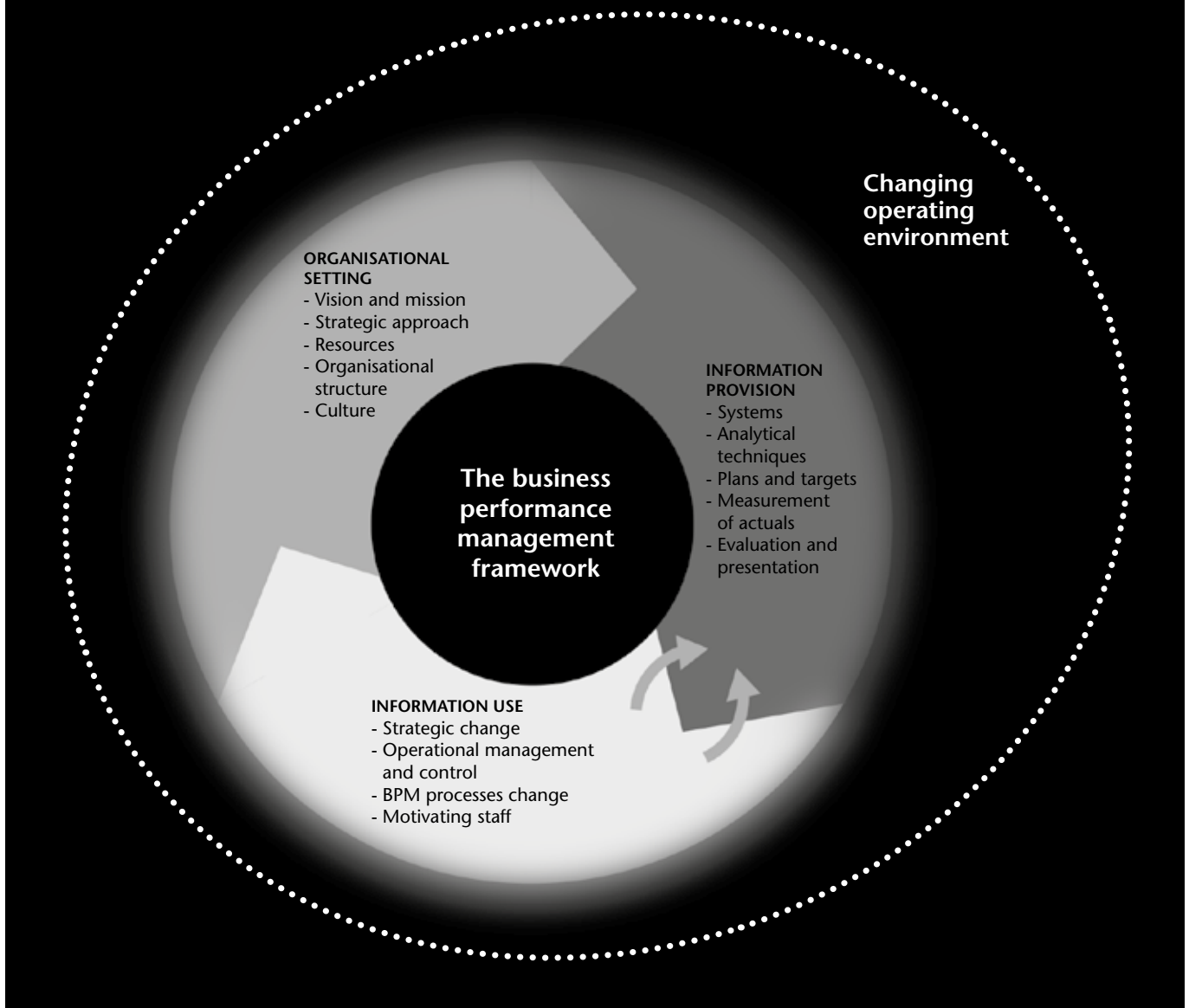
1. The BPM framework

The framework comprises: organisational setting, information production and information use

The BPM framework (Figure 2) is a generic framework that summarises the widely recognised elements of performance management. It is made up of three components: organisational setting, information production and information use, which are examined below. The framework can be seen in its simplest form as mirroring the Deming Cycle: Plan – Do – Check - Act³. All of these components, and their subcomponents, are interdependent, so the framework has to be viewed as a whole. Changes in one area will affect the others.

Figure 2: The BPM framework

Each of the three components of the framework feeds into the subsequent component and there is also a feedback loop between information use and information provision. This is a continuous, iterative process moving through time. The framework is also exposed to a constantly changing operating environment.



³Hunter, J (2015) *The History and Evolution of the PDSA Cycle*, Detroit, The W. Edwards Deming Institute Blog.

1.1 Organisational setting

The purpose of BPM is to enable an organisation to deliver its goals as effectively as possible. This is achieved by employing the available resources, including its people, to develop and implement a strategy that will be delivered through its structure.

We have termed this aspect of BPM organisational setting and broken it down into five sub-components:

- vision and mission;
- strategic approach;
- resources;
- organisational structure; and
- culture.

These sub-components provide the drive forcing behind, and the context of, an organisation's BPM. We discuss each of them below and also consider their connection to the delivery of BPM via information production and information use.

(a) Vision and mission

Explicit or not, the vision and mission will drive the direction of BPM

Performance management begins with purposes and objectives, which are covered by the concepts of mission and vision. The mission can be defined as the, 'overriding purpose of the organisation in line with the values or expectations of stakeholders.'⁴ The vision can be defined as setting out, 'the desired future state: the aspiration of the organisation.'⁴ Visions and missions are not always stated explicitly, but can develop emergently. However, explicit or not, the vision and mission will drive the direction of BPM. Any inconsistencies and inadequacies within the vision and mission will flow through to impact on business performance.

(b) Strategic approach

While the vision and mission define what the organisation is aiming to achieve, the strategic approach defines how this will be done

The strategic approach may be determined by a formal strategic planning process, or through a flexible approach responding to environmental uncertainties. Once again, the strategic approach may not be identified explicitly, but may arise emergently.

As part of this, either formally or implicitly, **key success factors (KSFs)** will be identified which are assessed as, 'those activities, attributes, competencies, and capabilities that are seen as critical pre-requisites for the success of an organisation in its industry at a certain point of time.'⁵ Following on from this are the **key performance measures**, these are, 'The financial or non-financial measures (metrics) used at different levels in organizations to evaluate success in achieving their objectives, KSFs, strategies and plans.'⁶ How these measures are set, assessed and used is central to the operation of BPM, and is covered in the next two sections of the framework: information provision and information use.

(c) Resources

BPM is achieved by employing the available resources

The development and implementation of BPM requires financial and human capital resources (including management capability and leadership). IT systems are of particular interest given their central role and their continuous evolution. The level of resources available, and decisions about how they are deployed, will have a major impact on how BPM operates.

⁴ Johnson G, Scholes K, and Whittington, R (2005) *Exploring Corporate Strategy: Text and Cases*, 7th ed. Prentice-Hall Financial Times. Exeter, Pearson Education Limited, p13.

⁵ Ferreira, A and Otley, D (2009), 'The design and use of performance management systems: An extended framework for analysis', Exeter, Management Accounting Research, Vol 20, p268.

⁶ As above, p271.

(d) Organisational structure

Aspects of organisational structure include reporting lines, job descriptions and the degree of centralisation

The structure of an organisation will not only impact upon how it carries out its core operations, but also on its performance management processes. Structure will influence matters such as: information production, its flow, ownership and responsibilities, and the nature of associated control systems.

(e) Culture

Organisational culture can help deliver goals, but is difficult to define

Culture is a slippery term that is hard to pin down. It is sometimes defined as the ethos of the organisation. It can be visualised as 'a net, which is woven around deep basic assumptions, beliefs, understanding, sense making and values shared by the people of an organisation,'⁷ supported by common ways of working and rituals.⁸

This term is further complicated by the fact that organisations may comprise of a mosaic of realities rather than a single uniform culture, and by the fact that culture is always in flux. 'It is a living, evolving, self-organising reality that can be shaped and reshaped but not in an absolute or even predictable way.'⁸

For our purposes, in terms of BPM, culture is a constructed reality that can prove beneficial in delivering an organisation's goals. However, in common with the organisation's structure and the level of available resources, it can also be a potential obstacle to achieving them.

Once the strategic approach has been determined this will inform the information provision component of the framework. For example, operational plans will be produced to deliver key success factors, and targets will be set for key performance measures.

1.2 Information provision

Information is the currency of BPM and includes both future projections and actual outcomes

Examples of BPM information include: tailored financial and non-financial reports, analyses and KPIs. We have identified five components of information provision.

The first two components – systems and analytical techniques – cover how information is collected.

The next three components – plans and targets, measurement of actuals, and evaluation and presentation – cover the type of information that is produced and how it is evaluated.

(a) Systems

How systems are structured will be central to how information is produced, evaluated and used

Information systems are used by organisations to produce, collect, record, aggregate and analyse both projected future information and past performance information. They are the, 'essential enabling mechanism to any performance management system,' and, 'the binding agent that keeps the whole system together.'⁹ How they are structured will be central to how information is produced, evaluated and used.

Systems are often built up on a modular basis, and may be off the shelf or tailored. Examples include:

- Organisation-wide ERP systems such as SAP and Oracle.
- A mix of systems including industry specific operating systems for data collection, packages, such as Sage, for accounting; and standard applications such as Excel (with all its recognised pros and cons) and Word for reporting.
- Bespoke systems developed to meet a particular organisational specification.

⁷ Järvenpää, M (2007), 'Making business partners: a case study on how management accounting culture was changed.' London, Routledge. *The European Accounting Review*, Vol 16, No 1, pp99-142.

⁸ Morgan, G (2006), *Images of an Organisation*, 2nd ed. Thousand Oaks, CA, Sage Publications, Inc, p122-143.

⁹ Ferreira, A and Otley, D (2009), *The design and use of performance management systems: An extended framework for analysis*, London, *Management Accounting Research*, Vol 20 p273.

(b) Analytical techniques

The choice of how information is analysed will influence how it is interpreted and used

Analytical techniques refer to the methods used to aggregate and analyse performance information. They can be automatic or manual. Systems collect the information and analysis is carried out at the chosen level of aggregation. The analysis can be financial, such as activity based costing, or operational, such as with six sigma. Alternatively, it can be a combination of both, such as with the balanced scorecard. The unit of analysis can range from very narrow (eg, sub-department /product) to very wide (eg, the organisation).

The choice of how information is analysed will have a major impact on how it is interpreted and used, and consequently on the performance outcomes of an organisation. Analytical techniques are often embedded in an organisation's systems eg, cost allocation or production planning processes, and so become seen as the 'normal' way of working.

(c) Operational plans and targets

Determining what gets done and what success will look like

Operational planning involves the use of information projections and analyses to plan future actions. Its purpose is to deliver the strategic approach. Planning can be specific or integrated. Specific plans focus on individual areas such as production, marketing or human and capital resource deployment. Integrated plans take an organisation-wide or business unit perspective, such as with cash planning, scenario planning and turnaround initiatives. Planning determines what actually gets done: what services and goods will be produced, who needs to be recruited or laid off, what the staff rota is etc. It may be done informally, particularly in smaller or entrepreneurial organisations but that does not detract from its central importance.

Planning includes both operational and financial measures, with the link being that financial plans are the financial consequences of operational plans. The time horizons that are most appropriate for each measure can be chosen eg, day, week, month, quarter, year, 10 years.

Trend analysis and forecasting are key parts of the process, and relate to both the external operating environment and organisational performance. External factors such as market forecasts, competitor performance and labour supply conditions inform the planning process. They will often be broad-brush, rolling assessments rather than formal forecasts.

Targets quantify the intended (or aspirational) outcomes of the planning process. They can also include benchmarks from external organisations. Once again, targets can be either non-financial or financial. Non-financial measures can cover any aspect of organisational performance, including market share, quality outcomes and staff satisfaction. In the financial dimension the annual budget often provides a central focus for attention. However, often there will be further financial targets relating to specific areas, such as working capital. As with operational planning, the time horizons covered by the target will be user defined.

(d) Measurement – of actuals

Capturing and measuring appropriate actuals is at the heart of BPM

Performance measurement is the process of quantifying actual outcomes. More precisely it has been defined as, 'the process of quantifying past action, where measurement is the process of quantification and past action determines current performance.'¹⁰ Data is collected by systems and aggregated into performance information using the chosen analytical technique.

Again, performance can be measured in non-financial or financial terms. With non-financial metrics the unit of the measurement will match the outcomes being measured, such as hours, quality criteria or type of goods and services. In contrast, financial information provides a single unified unit of measurement. Examples include daily or weekly flash reports, traditional monthly accounts, cash flow reports or costing analyses. In many cases performance reports will include a combination of both financial and operational information, for example, when using a balanced scorecard.

(e) Evaluation and presentation

Performance information needs to be understood and acted upon to be of use

Performance evaluation is the process of assessing actual performance against projections, or against benchmarks, prior year performance, analyst expectations etc. These comparisons allow us to re-assess our view of the world when it becomes clear that the reality doesn't conform to our plans. The aim is to identify what factors have affected performance and how. Options to address underperformance, or further exploit over performance, can then be considered.

Rather than relying on simple underperformance=good, overperformance=bad evaluations the use of judgement, based on management's knowledge of the business and its drivers, is critical. This will include consideration of the impact of external factors, such as changes in the market and competitive environment, and internal factors such as effectiveness of management and the production processes.

Performance information is of no practical value unless it is understood and acted upon. Indeed, many finance professionals say that it is the discussion that performance numbers provoke, rather than the numbers themselves, that is important. Communication and how the information is presented are therefore critical.

1.3 Information use

Performance information is only valuable when it is used to achieve an organisational purpose. Just being interesting doesn't count. This part of the framework covers the use of feedback and feedforward information to achieve strategic intent. However, it is not the information itself that provides direction, but rather how it is interpreted and acted upon by management. The use of professional judgement within the specific context of the organisation is key.

We identify four types of use (see figure 2):

- strategic change;
- operational management and control,
- BPM process change; and
- motivating staff.

(a) Strategic change

Strategic change can be large-scale or incremental

The evaluation of performance information may lead the organisation's stakeholders to judge that its original strategic objectives are no longer appropriate. This may lead to a reassessment of the strategic approach. Alternatively, in some cases, a new strategy may emerge in a more incremental manner through ongoing changes to operations.

¹⁰ Neely, A.D. (1998) "Measuring Business Performance: Why, What, How", London, Economist Books, p5.

(b) Operational management and control

Management and control can inform both remedial actions and continuous improvement

If performance information indicates that the strategy is sound but plans and targets are not being met then management can make changes to operational activities. These changes can include the following actions.

- Remedial action, where it is assessed that shortfalls are due to a failure of execution (eg, staff changes, closer supervision, or perhaps in some circumstances more empowerment and looser controls).
- Changes to inadequate operational processes (eg, rearranging work flows, changing production planning).
- Product or service changes.
- Marketing and pricing adjustments, if it is assessed that there is a market or demand problem.
- Purchasing changes (eg, reviewing make or buy decisions).
- Restructuring, if it is assessed that fundamental changes are required (eg, implementing a comprehensive profit improvement plan).

Often this process is iterative, as the impact of changes are subsequently evaluated and acted upon. Also, operational management and control can inform continuous improvement, even when plans and targets are being met.

(c) BPM process change

Information outputs may trigger a change to your BPM approach itself

If management determines that the performance information being produced is not fit to support decision making, or could be improved in some other way, then the organisation's approach to BPM may need to be reviewed itself.

(d) Motivating staff

Staff motivation is key to successful performance management

Organisational success depends upon people implementing the plans and carrying out the operational activities that have been designed to achieve the strategy. It is important that people understand what they are required to deliver and are motivated to work in a way that will help achieve this. This is critical role of BPM. Although of course there will always be examples of where breaking the rules, or doing something unplanned, will result in success!

If performance information indicates that targets are not being met then the role of staff motivation needs to be considered. Hard changes to staff appraisals or reward schemes may be appropriate, as well as softer (but not necessarily easier) changes concerning communication, staff morale and attitude.

2. The inherent tensions

2.1 Introduction

Tensions can occur throughout the performance management framework

Tensions are conflicting forces within an organisation's BPM, such as differing stakeholder requirements, or the trade-off between quick versus more reliable data. Tensions can occur anywhere in the performance management framework and wherever they occur they can have a knock on effect throughout the rest of the approach. Under their influence the idealised framework is distorted (see figure 3) and the performance of the organisation may be negatively affected. The impact of tensions is not always as simple as X versus Y, for example, in the area of information use, there may need to be a trade-off between speed versus simplicity versus cost. Also, the same tension may have a very different impact in two separate organisations.

Tensions can be seen as opposing forces acting continuously. At a single point in time one will gain in strength while another will weaken and the direction of the travel for the organisation is set. However, circumstances may change and the equilibrium will shift; the once weaker force will strengthen and the direction of travel will adjust.

Alternatively you can use a medical analogy, viewing the tensions as genetically determined illnesses. They are always present deep within the make-up of the organisation but frequently remain dormant and cause no ill effects. That is until some unpredictable factor triggers a change, such as a shift in the external environment or a change in operational practices, which causes the faulty gene to be activated. The impact of this microscopic change can affect the health of the entire organisation.

Tensions can be mapped to the framework, but also act across it

BPM tensions principally relate to specific parts of the framework. However, multiple tensions also interact (see figure 3). For example, confusion over multiple sources of performance data (an information tension) being exploited by individuals in order to manipulate results and so achieve personal goals (a people tension).

The challenge for management is how to respond to the impact of the tensions

The challenge for management is how to respond to the impact of the tensions. Our view is that the best response is to gain a greater understanding of commonly occurring tensions and how they can affect organisations. This understanding can then allow management to develop responses that prevent certain tensions from being triggered in the first place, mitigate the negative impact of tensions that are at play and to make more informed choices about trade-offs.

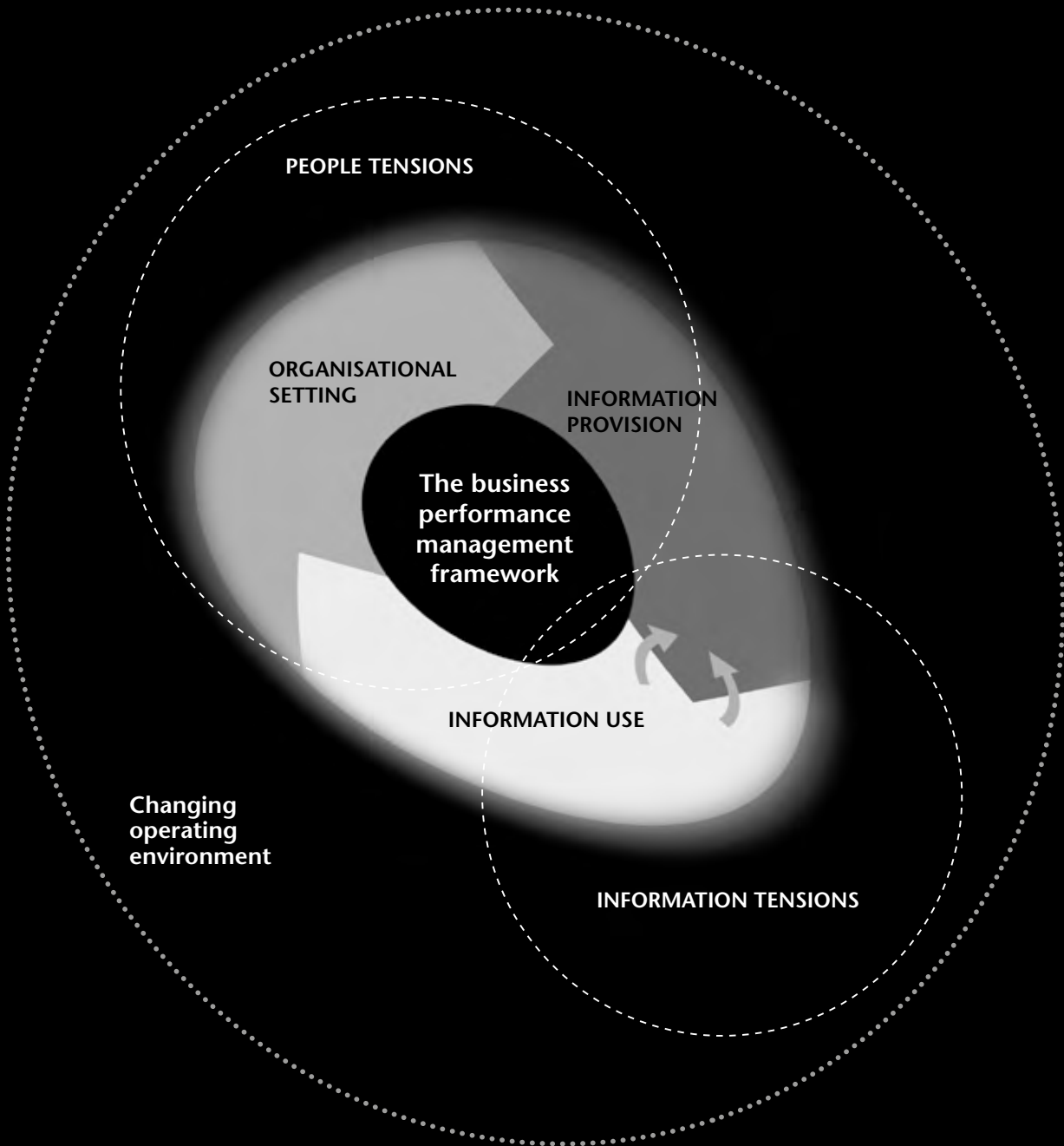
In the following section of the report, we will run through the tensions in the order in which they occur in the framework. We have broken them down into:

- organisational – setting tensions; and
- information – provision tensions.

These are summarised in table 1 – page 12, and table 2 – page 15.

Figure 3: BPM framework – the impact of tensions.

The idealised BPM framework being distorted under the influence of both information tensions (such as confusion over multiple sources of performance data) and people tensions (such as individuals manipulating results to achieve personal targets).



2.2 Organisational setting tensions

These five overarching tensions exert their influence within the organisational setting (table 1). This impact then flows through to other components of the framework.

Table 1 – Organisational setting tensions

Organisational setting – inherent tensions
• Uncertain world versus assumptions of predictability
• Multiple stakeholder interests
• Operational versus financial perspectives
• Short versus long term perspectives
• Staff capabilities and interests

(a) Uncertain world versus assumptions of predictability

There is a tension between the uncertain operating environment and the desire for a predictable future

Organisations are open systems, feeding off and living within the overall operating environment. BPM is about achieving future performance goals through interacting with this environment. However, this world is uncertain and unpredictable. This leads to a potential mismatch at the heart of BPM between the assumption of a materially predictable future, on which many BPM practices are based (for example, strategy development, budgeting and product development programmes) and the unpredictable reality. BPM is based on the assumptions that are most likely at the time when strategies are designed and budgets are produced. Examples of this tension in practice could include the impact of an unexpected reduction in local government funding for a care business or a sudden deterioration in the geological site conditions at a mine.

Unpredictability may be masked in the short term, as for periods of time the operating environment can appear stable. However, over time, and in an unforeseeable manner, instability will occur.

(b) Multiple stakeholder interests versus a need for focused strategic intent

Trying to achieve multiple goals, particularly conflicting ones, is a challenge

All organisations have a range of stakeholders with different interests, such as shareholders, staff, funders, regulators, customers and suppliers. These stakeholders are likely to have a variety of opinions on both the organisational goals and the approaches needed to achieve them.

The central purpose of BPM, however, is to achieve the organisation's strategic intent, and this requires a clear focus. One interviewee expressed how difficult it had been to define the organisation's vision, '**particularly given the conflicting demands of stakeholders such as shareholders versus corporate social responsibility versus staff versus suppliers.**' Trying to achieve multiple goals, particularly conflicting ones, can be a challenge; in certain circumstances it may even prove impossible.

This tension is further complicated by two additional factors. Firstly, not all members of a particular stakeholder group will hold the same view. Secondly, the changing operating environment will lead to the influence of stakeholders shifting over time. Regulators may exert more influence following a financial crisis; financiers when new funding is being sought. Indeed, the significance of this tension and the degree of stakeholder misalignment may lie dormant until triggered by a change of circumstance, such as a rapid decline in profits.

(c) Operational versus financial perspectives

Financial information should not be viewed in isolation

The lenses through which stakeholders view the organisation will have a significant effect on how success is judged. The nature of the information used to assess performance is one such lens. Information, the currency of BPM, has multiple dimensions, including operational and financial. Operational measures (often classified as non-financial) reflect the actions an organisation takes, such as producing goods and serving customers. Financial outcomes are the monetary consequences of operational actions.

While financial information has the benefit of providing a single, unified measure of performance, it is not good at conveying success factors that are difficult to quantify, for example, customer or staff satisfaction and quality levels. Unsurprisingly, debates over how to measure success were raised by our interviewees. **'There is conflict across the organisation over how performance should be measured. Should it be in terms of cost, inventory levels, service or quality? This is complicated because inventory cost and service levels often impact each other inversely.'**

Another weakness of financial measures (although not restricted to this type of measure) is that they can only provide a partial representation of operational reality. They are often based on historic valuations that may not reflect the current market, for example, inventory may be inaccurately valued or become obsolete. Other instances where quantification is tricky, include the spend on marketing relative to the value it is assumed to have generated, and how the full value of contracts in the pipeline may not come to fruition.

Those with a financial focus (eg, funders and some finance functions) often view BPM as principally finance based, whereas those with an operational focus (eg, production, customer services and logistics) will often prefer non-finance based measures. A particular challenge arises when financial management information is treated as a hard fact in itself and is viewed in isolation from its underlying operational cause.

The finance professionals we spoke to often had strong opinions on the balance of measures, ranging from those who promoted operational metrics as the most critical within their organisations, to those who found the audience of their reports were probably unadvisedly only interested in financial measures.

(d) Short versus long term perspectives

The period over which success is viewed will differ across organisations

Another lens through which performance can be viewed is that of time. The period over which success will be assessed differs across businesses, and is often influenced by the sector and stakeholder demands. One interviewee summed up this tension, by explaining how their organisation had adopted, **'a strategy of generating long term profit which is appropriate for the sector, but they were still exposed to short term pressures from investors and the impact of cyclical commodity prices.'**

In terms of the selected timeframe, the challenges of short termism are a well-rehearsed criticism of management, especially in the UK. The claim is that long term, sustainable growth created by investment, planning and perseverance is forgone in preference for quick wins and short-term gain. The opposite point of view is that there is no long term without a short term and in any event in the long term we are all dead (including organisations).

This tension concerning timeframes may be encountered by management when they are initially determining an organisation's strategic intent, or may occur at a later date when the influence of different stakeholders shifts.

(e) Staff capabilities and interests

Tensions relating to staff often exacerbate other challenges

In the course of our research, we found that examples of tensions concerning staff capabilities and interests were particularly prevalent. They often occurred in combination with other tensions and so acted as complicating factors.

As with all organisational activities, the effectiveness of BPM is dependent on the capabilities (including skills, knowledge, attitude and motivation) of the staff implementing it. While this capability issue is not limited to BPM, it was frequently mentioned during our research, and can be of particular concern for BPM which requires such a wide range of expertise across the whole business. Specific examples included poor communication skills and analytical techniques, **'Often staff do not have the capability to fully understand complex analysis techniques, which can lead to them being misused and misinterpreted.'**

Higher skills such as flexibility and the ability to exercise professional judgement are also critical. To complicate matters, the mix of abilities required will be different for each organisation and will also change over time.

Employee interests can become misaligned

This tension arises where the interests of individual employees become misaligned with those of the organisation. As one interviewee explained, **'Our organisational objective is to increase total shareholder return. But this is not necessarily what employees want. They want job security and to feel affiliated with the company.'** Another common example occurs when employees are motivated to pursue individual targets – particularly when they are linked to reward – to the detriment of overall organisational success.

Differing interests can also be seen to exert an influence during the information use aspect of BPM. Employees may be motivated to interpret performance information in a way that supports their own interests. This interpretation would then drive particular actions that may not necessarily help achieve the organisation's mission and vision.

Role differences are caused by structures, functions and specialisation

Roles can be shaped either by the organisational structure and reporting lines, or by the function of the role being undertaken (for example within sales, finance or human resource departments). Role tensions arise from the different, and potentially conflicting, activities that these individuals, or groups of individuals, perform within an organisation. Such conflicts were highlighted by an interviewee who had experienced, **'Problems managing differing internal interests, such as between our head office and the subsidiaries.'**

Role tensions are similar to 'employee interests' (discussed above) but are more influenced by organisational structures and functions than personal interests. However, role differences can also be significant contributors to organisational success, as they allow people to specialise and so to carry out their tasks at a higher performance level.

Cultural differences can affect how BPM is approached

Cultural differences can occur both locally and internationally. Locally, tensions can arise between, for example, generations, regions or even individual teams. They may concern ways of working and attitudes. One interviewee observed that, **'In my regional team we respected each other, were open, honest and shared problems, but others were less open regarding forecasts.'** Differences may also be caused by unstated assumptions and norms, such as where, **'Weekly sales are seen as more important than new business.'**

Internationally the impact can be accentuated by differing legal, social, political and accounting traditions. One interviewee recognised, **'The global scale of our business provides strength and size, but this brings with it the potential for management culture clashes.'**

In some circumstances it may be advantageous to have consistency across all elements of BPM and across all areas of the organisation. For example, a common approach to goal setting, use of analytical techniques and interpretation of outcomes. However, sometimes there may be an advantage to flexing the approach across the organisation

2.3 Information provision tensions

These tensions occur within the **information provision** component of BPM, although, as with other tensions, their influence also feeds through to the rest of the framework. They are summarised in table 2.

Table 2 – Information provision tensions

Inherent tensions
Systems
<ul style="list-style-type: none">• Cost versus value• Fragmented systems versus update requirements• Informal versus formal
Analytical techniques
<ul style="list-style-type: none">• Which to use• Analytical perspective taken• Change versus consistency• Dealing with multiple sources of data• Calendar issues
Plans and targets
<ul style="list-style-type: none">• Fixed budget versus adaptive planning• Basis of forecasting assumptions
Measurement – of actuals
<ul style="list-style-type: none">• Operational versus accounting sources• Speed versus reliability
Evaluation and presentation
<ul style="list-style-type: none">• Signal interpretation• External benchmarks: problems and benefits• Over-simplification versus information overload

(a) Systems

Cost versus value

Particularly where resources are limited, the cost/benefit case for further investment in BPM may be hard to prove

In many organisations, information technology is considered central to BPM. As one interviewee put it, **'IT development plans should be considered essential to delivering the strategy.'** Similarly, another saw the lack of adequate supporting infrastructure as a **'burning platform that necessitates change.'** However, sometimes, particularly where resources are limited, the cost/benefit case may be hard to prove, and the IT investment necessary to support other projects, such as non-negotiable statutory reporting may be given priority. Without investment, businesses may find themselves muddling through and finding workarounds. This is not only time consuming, but may also expose the organisation to increased risk. Additionally, if a business opportunity occurs then the poor controls may not be sufficient to fully exploit it.

The cost versus value tension arises throughout BPM, although we have categorised it here as systems can often be the most costly area. Another example commonly occurs in the trade-off between the expense of collecting performance information as part of **measurement of actuals** and the value of that information to the organisation. Costs include staff expertise and time, IT systems and management controls. This is not a simple relationship and interviewees sometimes found it hard to identify whether committing extra resources, for example in, **'additional reporting,'** was adding value. Accounts of management information reports that were withdrawn without their absence being noticed suggest that more information is not necessarily better information. However, if BPM costs are unwisely restricted, the benefits that are lost may not be immediately apparent, but could be substantial.

This uncertainty around 'the potential value created by BPM is doubtless one reason why interviewees found that, **'the case for investment in BPM was hard to sell to the rest of the business.'** Plus, it may not be clear which element, staff, IT or controls, would add the most benefit.

Fragmented systems versus update requirements

Fragmented systems are a common complaint

This cost versus value tension is heightened by the fast pace of IT developments and by changing organisational requirements. Systems can quickly become outdated. Interviewees described how, **'Continual IT developments and improvements often lead to a mix of systems that have poor inter linkage.'** If resources are limited then management will need to choose between keeping the systems integrated, but perhaps partially obsolescent or updating them, and having to resolve the problems of fragmentation that occur when generations of systems are required to work together. On the positive side, ongoing IT developments can lead to improved functionality, and perhaps improve both the information provision and information use components of the framework.

Informal versus formal

Organisations consist of a combination of formal and informal systems

Organisations consist of a combination of formal and informal systems, and in SMEs and young organisations the proportion of informal systems and processes may be relatively high. Rather than being documented these systems may partly rely on the know-how of individuals. This has the advantages of allowing flexibility and being less costly, however it also brings risks. Valuable knowledge may be lost as staff move on and controls may become less effective as the organisation grows.

(b) Analytical techniques

Which techniques to use

Too much choice, fads and blind spots complicate matters when it comes to selecting analytical techniques

Management needs to decide not only what success will look like, but also what method they will use to assess it. **'We only want to take on profitable jobs, but can't agree how to define a profitable job,'** was the complaint within one organisation.

There are a wide range of lenses through which performance can be analysed and a wide range of associated tools that have been developed. These tools often reflect different conceptual stances, such as:

- activity based costing versus throughput accounting;
- balanced scorecard versus a less formal set of measures;
- discounted cash-flow versus return on investment; and
- total quality management versus Six Sigma.

The variety of tools available makes this a difficult choice to make. There is the risk of adopting an approach by default, following bad advice or opting for the latest fad.

Analytical perspective taken

Take too wide or too narrow a focus and your perspective may be distorted

Similarly, a tension arises over which organisational units of analysis to use, for example in retail: individual store level, country, or region. Take too wide a focus and you can lose sight of crucial detail, such as the ability to identify loss making activities (including individual products, projects or services); take too narrow a focus and the overall picture may be ignored.

Additionally, the choice of horizontal, vertical or matrix perspectives can produce very different views of performance. One interviewee highlighted the dysfunctional behaviour caused when a decision was made to remove freight costs from the way business unit profitability was analysed and instead make the logistics department accountable. The result was that all airfreight activity was vetoed by the logistics department, even in cases where it would have been beneficial to the overall business. Similar issues were recounted when a business moved from analysing performance by geography to by product.

Change versus consistency

It can be difficult to see when a certain technique is no longer the best choice

Compounding the initial difficulty of selecting an appropriate tool – or mix of tools – there is also the likelihood that organisational needs will change. As the organisation and its operating environment evolve the selected approach may become outdated. Often this poor fit is not immediately apparent. This is because the adopted analytical technique comes to shape the way we view the organisation. The technique, such as activity based costing, influences how the organisation operates and how performance is reported etc. and consequently the approach itself may become taken for granted.

Dealing with multiple sources of data

Time is wasted arguing over the numbers

When different, and possibly conflicting, sources and versions of information are used they may give rise to differing interpretations of performance. One interviewee explained how it was difficult to identify and use the correct data because, **'So many versions of reports are produced and the numbers change so fast you can accidentally use the historic ones.'** Multiple versions can result in uncertainty and conflict. We were told of management meetings being hijacked by disputes over which numbers were correct. Time that it was felt could be better employed focusing on analysis and the implications for decision making.

Calendar issues

Formal reporting periods may not match those best suited to performance management

A further issue relates to differing time horizons. Depending on the industry sector, operating cycles can vary from seconds (eg, financial market traders) to decades (eg, new aircraft development). The problem is that other reporting periods, especially in accounting do not match these 'natural' cycles. This leads to the need for complex work in progress and income/cost calculations within projects. It also increases the risk that inconsistent sources of data may be used by different people within the business.

Similarly, the periods in which operating cycles are measured do not always match the periods of the calendar, for example, weeks straddle months and years, and there are also annual differences in terms of where festivals, bank holidays and even days of the week fall. This is further complicated in businesses that operate in more than one country. These problems can cause problems when comparing performance across the business or with prior periods.

(c) Plans and targets

Fixed budget versus adaptive planning

The trade-off between using fixed or flexible planning is a long running debate

The trade-off between using fixed or flexible planning is a long running debate. The benefit of fixed plans is that they provide a clear focus for actions. In effect they create a useful illusion of certainty in an inherently uncertain world. The downside is that they can become detached from reality as the underlying environment changes. This can lead to poor decision making and perverse actions.

When a flexible approach to planning is used there is a less clearly defined focus for action, but consequently there is the potential to respond when the environment changes in unanticipated ways. More information on this ongoing debate can be found on the Beyond Budgeting Institute's website bbri.org.

Basis of forecasting assumptions

The uncertain world can disrupt the assumptions on which forecasts are based

Plans and targets are central to managing performance, both in terms of deciding what to do and providing an internally generated measure of success. Within this report, for simplicity's sake, we use the term plans and targets to encompass a multiplicity of activities, including: budgets, forecasts, scenario plans, sensitivity analyses, and stress tests. The central tension is that the future is uncertain, while plans and targets provide a set view of how to operate and what success will look like. This can result in a number of issues, including:

- concerns over the nature and reliability of the underlying assumptions, and so the level of confidence that can be ascribed to plans and targets; and
- the danger that plans and targets become detached from strategic intent as things change.

(d) Measurement – of actuals
Operational versus accounting sources

It is important to assess the pros and cons of different sources of performance information

Performance information can be drawn from both operational and accounting sources and while both results from the same underlying organisational activities, their nature differs significantly. The main advantage of operationally sourced information is that it can have a direct connection to organisational activities. It can be real time and can be collected, and analysed to reflect organisational structures (such as by branch, product and customer) and cycles (such as daily or weekly). It can also be quickly adapted to suit changing requirements. Its disadvantage is that it can be difficult to build in controls to ensure reliability eg, to ensure that all costs have been captured.

Accounting information has the advantage of the inherent controls of the double entry system and so can potentially provide greater reliability. On the other hand it is more formal, time lagged (although flash reports are becoming quicker), and produced to set accounting time scales. It is analysed in line with a chart of accounts, which are generally rigid. Non finance professionals who need to use this accounting information may not fully understand how it relates to operations, and if you don't keep the end user in mind, then as one interviewee explained, **'If they don't recognise the numbers then they don't use them.'** And one thing is certain. Time spent in management meetings trying to reconcile sources could better spent making business decisions.

Speed versus reliability

A balance needs to be found between users' demands for quick information and concerns over accuracy

A further aspect is the tension between speed and reliability. A key element of the usefulness of information is the speed with which it is produced and communicated; if it is late then events may have moved on. However, the information also has to be reliable, and the controls required to ensure accuracy generally slow down production. **'Is the data we are using accurate anyway?'** one interviewee asked. Examples where speed of production could reduce reliability include: relying on immediate sales figures that do not take accounts of downward revisions; or gross production figures that do not consider subsequent product faults or recalls.

Our research highlighted a demand for flash reports and real-time information, but also concern over the pressures this caused. There is clearly a trade-off between providing information quickly with unclear reliability or slower but with more confidence over its integrity.

(e) Evaluation and presentation

Signal interpretation

Differentiating between signals and noise requires skill and professional judgement

The core tension around performance evaluation is whether variances against plans and targets have been caused by random noise, which naturally occurs in stable processes, or by signals that indicate a need to respond. This evaluation can be difficult to do, but investigating and following up on variances which are simply noise, can be very time consuming. Also, if this noise is mistakenly interpreted as significant then it can lead to counterproductive and costly responses.

Assuming it is possible to distinguish between signals and noise, it may still be difficult to work out what the signal indicates. It may be that there has been a genuine shortfall or overachievement of targets. Alternatively the assumptions which underpinned the original plans may have been, or might have become, inappropriate. Differentiating between these two explanations can be difficult and of course the cause could be a combination of both.

External benchmarks: problems and benefits

The benefits of benchmarks include the debate they stimulate

Benchmark comparisons against competitors (or other relevant organisations) can be another way of measuring organisational success. Tensions arise as robust, comparable information is difficult to obtain. Available market information can be confusing and inconsistent, and organisations are understandably protective of performance information that may provide others with a competitive advantage.

Even if the information is superficially comparable, differences across organisations and in the definitions used, may mean it is not. One interviewee highlighted the time consuming nature of obtaining useful information, and how, **'It is very difficult to compare unit costs with other businesses, as benchmark calculations are inconsistent and can be misinterpreted.'** The extent of the problem was revealed by interviewees who explained how even benchmarking across divisions or subsidiaries within a single organisation was prone to such issues. And all benchmarks, whatever, their source can become rapidly outdated.

There is also the argument that benchmarking can stifle innovation and that while comparatives may be useful for average or poor performers, that leading companies need to keep challenging themselves and not be content with being the best. However, interviewees also recognised that the true value of benchmarks is the debate they stimulate, rather than their exact comparability.

Oversimplification versus information overload

It is important to understand the critical success factors in a business in order to avoid information overload

In recent year IT developments have led to an exponential increase in the capacity to produce information. Not only have our internal systems become more sophisticated but the potential offered by big data is also alluring. Unsurprisingly, information overload, **'There is simply too much data in our business,'** was a common view expressed in our research.

One of the most critical elements of effective BPM is to have a small number of key measures. This is far from one interviewee's experience of, **'...a lack of grading of KPI importance, resulting in trivial performance measures being reported with the same prominence as critical success factors.'** The temptation can be to report as much information as possible to ensure nothing is missed. This may be an indication that management don't fully understand their critical success factors and so are frantically trying to work out what is important from a mountain of data (rather than deciding what is important upfront and then seeking the best source of this information). The danger is that no actions are taken through an inability to see the woods for the trees.

2.4 Impact of tensions on information use

The impact of tensions on an organisation's performance is complex and messy

In section 1.3 we identified four uses for the outputs of BPM: driving strategic change, operational management and control, BPM process change, and motivating staff. This section reviews the potential impact of tensions on each of these uses.

However, first it is important to remind ourselves that the effect of any tension is not certain. The impact of tensions is complex and messy. Impacts occur in a changing and interactive manner, and are specific to each organisation. Consequently, it is not possible to isolate a clear cause and effect relationship; at best we can draw together overall tendencies.

(a) Strategic change

The framework (figure 2) illustrates how BPM provides feedback which can lead to the reassessment of an organisation's strategy. Generally, tensions within the organisational setting section interfere directly with this activity, whereas information provision tensions act indirectly.

Impact of organisational setting tensions

Tensions within the organisational setting component have a direct impact on strategic change, as they affect the clarity and focus of strategy development and implementation.

Even if the outputs of your BPM are telling you that your strategy needs to adapt, the same tensions that affected its original development and implementation can hinder this change. For example, **the uncertain world** can make strategy development difficult as it may not be clear what can be delivered, and how, in an unclear future. Further, **staff interests** may not be aligned with the new strategy, and so they may not be motivated to make the change happen.

Impact of information provision tensions

Information provision tensions have an indirect impact on strategic change, as they affect the nature and quality of information that is used to re-evaluate the strategy. If the information informing the change is compromised then any decisions based upon it may also be compromised.

(b) Operational management and control

If performance information indicates that plans and targets are not being met then management can make changes to operational activities to resolve this. This time, it is the information provision tensions that have a more direct impact on successful operational management and control, whereas the organisational setting tensions exert their influence indirectly.

Impact of organisational setting tensions

Organisational setting tensions impact on operational management and control by affecting the clarity of the organisation's performance goals. As the whole focus of BPM is to facilitate the achievement of organisational goals, if those goals become unclear, or if there are multiple goals that are inconsistent, the whole core rationale of BPM is challenged. Unwise changes to operational activities may be made based on flawed strategic goals. Alternatively the structure and resources available within an organisation may not be sufficient to support the desired operational changes.

Impact of information provision tensions

Information provision tensions have a more direct impact on operational management and control as they affect the quality and usefulness of the information that informs operational change. Below are some examples of where each of the information provision tensions can have an impact:

- **Systems.** If systems tensions result in inadequate information being produced then the evidence to properly inform management and control actions may not be available.
- **Analytical techniques.** If the information being produced does not properly reflect how the organisation operates, and so provide a clear picture of performance, then this can lead to management and control decisions being made on the basis of inappropriate analysis.
- **Plans and targets.** Fixed budgets can become unachievable due to external events, but in order to minimise negative variances (and possibly protect their reward), staff may not take the most appropriate actions.
- **Measurement.** Differences between sources of data can lead to confusion over what the actual situation is and protracted debates over the accuracy of numbers. Rather than using this information to improve performance, management may defer making decisions.
- **Evaluation and presentation.** Misinterpretation of signals from performance variance reports can lead to inappropriate management and control actions.

(c) BPM process change

Changing the BPM process within an organisation could address some of the dysfunctional impact of existing tensions. For example, improving systems or changing the analytical techniques employed could provide better quality, and more useable, performance information in the future.

However, the tension between **cost and value** of process change will come into play. While you may have identified shortcomings in your current approach, the resources needed to enable improvement may not be available or cost effective.

(d) Motivating staff

The Framework identified a range of factors, both hard (staff appraisals, reward schemes) and soft (initiatives concerning communication, staff morale) that can be used to motivate staff.

However, the tensions around **staff capabilities and interests** can limit the effectiveness of such motivational initiatives. For example, dysfunctional reward schemes can exacerbate, or even cause, a lack of alignment between staff and organisational goals, resulting in employees pursuing their own goals (and bonuses) to the detriment of organisational ones.

2.5 Responding to the tensions

Tensions are specific to an organisation and need to be responded to intelligently using professional judgement.

If we view tensions as opposing forces in a continuous state of rebalancing themselves (as introduced in section 2.1), then change can be achieved through promoting a (positive) driving force, or undermining a (negative) restraining force, or both.

Alternatively, returning to a medical analogy the BPM system will present the symptoms of any tensions, and so provide a signal that action is needed. An effective response requires: examination of the organisation and its symptoms, diagnosis, treatment and ongoing monitoring. Tensions may be mitigated, but they always have the potential to reappear, perhaps in an altered form. Also, as in medicine, when multiple illnesses (or tensions) manifest at the same time, the causes can be harder to identify and treat, plus the impact can be greater. Whichever analogy you prefer, professional judgment is key.

Expanding on the medical analogy, the overall response approach is:

Diagnosis is the starting point

Until the underlying cause is acknowledged and identified, it is difficult to develop an effective response.

Treatment is organisation specific

As we have already seen, effective BPM needs to be tailored to an individual organisation. Similarly, responses to tensions have to fit the particular circumstances. However, an awareness of a potential range of remedies from which to select can make this easier.

Cures are not perfect

Diagnosis is complex. There can be no perfect answer, and there may be side effects. The goal is therefore to achieve a good enough solution that enables the organisation to meet its performance goals.

Continual monitoring is required

Continual monitoring of the organisation's response to any treatment is required. This is undertaken through the production, interpretation and use of the information produced by BPM.

Setbacks are to be expected

Underperformance may occur as a result of unavoidable uncertainties rather than management failure. It is crucial to understand the potential impact of tensions, and interpret results through this lens, rather than by taking the simple view that success equate to management competence, and failure to management incompetence.

An organisation operates holistically

All of its separate activities are interdependent and changes in one area will have a knock-on impact on another. Our framework provides a means by which an organisation's BPM processes and systems can be analysed, strengths and weaknesses identified and its overall effectiveness appraised. Combined with a deeper understanding of the tensions at play this will provide a platform for strengthening an organisation's approach to BPM.

The need for professional judgement

Central to performance management is the need for a high degree of professional judgement and adaptability. While our framework and the list of tensions are useful tools, professional judgement and adaptability remain critical capabilities for professional accountants.

No organisation's BPM is perfect, and an ongoing review and development of its approach is critical

In summary, BPM development and its use will always be messy. The test of effectiveness is whether it materially achieves its purpose, even if there are some shortcomings. And the process is continuous; as the impact of the tensions evolves, what is effective today may become ineffective in six months or six days' time. Ongoing review and development will be required.

Status of the project and proposed further work

This is an interim report, which we hope will promote discussion. We would be delighted to receive your thoughts and feedback via emma.riddell@icaew.com or via our LinkedIn.com group.

Our initial proposals for further work are set out below.

- **Case studies and potential responses to BPM tensions**

During our field work we have accumulated a number of case studies. We will seek further examples and publish them to illustrate the impact of the tensions in practice. We will also provide guidance on potential responses that organisations could consider when dealing with such tensions.

- **Extend the interview research**

The research we have carried out resonates with our own experience. We will carry out further in-depth interviews and surveys with a wide variety of stakeholders.

- **Seek out more feedback from practitioners**

We intend to actively seek out feedback on the proposals from finance professionals working in the area of performance management.

- **Invite academic review**

Many of the tensions that we have identified will already have been subject to in depth academic enquiry, even if not necessarily within a BPM context (eg, a stakeholder or agency theory context). We intend to actively seek feedback from the academic community and aim to stimulate independent academic research.

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None of the commentators should be assumed to agree with the views expressed in this report and they are not responsible for any errors or omissions.

Dr Philip Smith

Philip has over 30 year's business experience, at FD, MD, executive chairman, investor and advisor levels. He specialises in driving business performance improvement in private and private equity backed businesses across a wide range of sectors. In recent years he has pursued a twin track research and practice career, following his completion of an Executive Doctorate in Performance Management from Cranfield School of Management in 2008. He is a Chartered Accountant, MBA and committee member of the ICAEW Finance and Management Faculty (Chair 2012–2014), and was principal author, with Rick Payne, of the 2011 ICAEW report – *The finance function: a framework for analysis*.

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Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

T +44 (0)20 7920 8451

E ffm@icaew.com

icaew.com/ffm

 [linkedin.com – ICAEW](https://www.linkedin.com/company/icaew)

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