



## **CIMA Operational Case Study**

# **2019 Syllabus: The New Content**

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# CIMA Operational Case Study

## Introduction

## How To Use This Study Text

## 1. Introduction

### Overview

This study text is designed to help bridge the gap in your knowledge between the CIMA 2015 syllabus and the current CIMA 2019 syllabus.

### Purpose

We are aware that some students will be sitting the Operational Case Study under the 2019 syllabus, but have only sat some of the operational papers (E1, P1, F1) under the 2015 syllabus.

Since the 2019 syllabus contains new topics that were not included in the 2015 syllabus, we have created this study text to bridge that knowledge gap.

Therefore, it's likely that you won't need all three sections of this text. You may just need to review the new additions to F1 or E1.

### Structure

The study text is split into three sections: E1, F1 and P1. Each section will contain topics that are new to the 2019 syllabus that were not covered in the 2015 syllabus. However, it will not cover content that is in both the 2015 and 2019 syllabi.

If there is any content that you do not fully understand, we would advise that you refer back to core study text of the module.



## **CIMA Operational Case Study**

### **Section A - E1**

## **Managing Finance in a Digital World**





## **CIMA E1 Study Text**

### **Chapter 1**

# **Organisational Structure**

### 1. Change in organisations

The **rate at which change happens in the world is accelerating**. We can see evidence of this change all around, especially in the way that **technology is becoming more integrated into our lives**. Next time you're in a public place, take a look around to see just how many people are using some form of technology. It's almost guaranteed that you'll see someone on a mobile phone! Yet only 30 years ago, the Internet hadn't been invented and very few people had mobile phones or a personal computer.

We can see evidence of the increasing rate of change in business, with the number of patents filed to protect intellectual property increasing, and the average life-span of products decreasing. Change is becoming an everyday reality of an organisation, and in this increasingly volatile environment, **organisations are having to adapt the way they do business**.

Some **key factors of change which are forcing organisations to adapt are:**

- **Changing technology** - The key driver of the changes we are experiencing is thought to be the increasingly rapid rate of technological change, unparalleled in recent history. Organisations are having to adapt to emerging technologies, with capabilities that allow them to take over routine tasks, such as data entry, and carry out new tasks which have never been possible before, such as the analysis of massive data sets.
- **Changing levels of competition** - Organisations are also having to deal with rapid changes to the levels of competition, with new entrants entering the market seemingly out of nowhere or causing disruption to whole industries. For example, the ride-share company Uber quickly established and grew rapidly in cities across the world, causing massive disruption to the taxi industry.
- **Growing collaborative consumption** - This is the growing popularity of sharing of goods and services, which is causing disruption to their respective industries. A good example is Airbnb, in which owners rent out their private accommodation to others, which is causing disruption to the hotel industry. This is creating new business models which existing competitors are having to adapt to.
- **Changes to customer expectations** - A number of factors are changing what a customer expects from an organisation and its products. For example, with faster communication channels, enabled by social media and improvements in technology, consumers now expect speedier customer service and greater efficiency from an organisation. Organisations are having to adapt to ensure that they are fulfilling changing customer needs.

## Organisational Structure

- **Less customer loyalty** - With greater access to information, through the development of the Internet and mobile technologies such as smartphones, combined with a more competitive market, businesses are finding that consumers are no longer loyal to a particular brand. Consumers are more likely to 'shop around', and studies have shown that over 80% of customers will research a product online before buying it.
- **Globalisation** - Economies and cultures are becoming more integrated with one another through interconnected networks, such as trade, and the spread of technology and media. It is getting easier for businesses to source supplies from other countries, and sell their products to foreign markets.

### Changes to roles in the finance function

In line with how organisations are adapting to change, the roles of business professionals are evolving, and of particular interest to us in the E1 syllabus, **the roles of those working in the finance function are evolving.**

You will hear the term 'finance function' a lot in subsequent chapters, with whole chapters dedicated to it! For now, to understand this last point, you just need to know that **the finance function is the part of the organisation which controls and manages anything related to finance and so as wider changes happen to the organisation so the finance function has to change too.**

## 2. Transformation of organisational structures

It is important to remember **the types and forms of organisational structure that we have discussed in this chapter are not static. As the internal and external environment of an organisation changes, new structures may be adopted** to adapt to this. For example, advances in technology are changing the way business is conducted and how people communicate with one another. These changes can affect the structure of the organisation by changing how processes are managed and coordinated.

For example, we are seeing parts of the organisation, such as the finance function, being relocated to other countries or being outsourced to an external provider, driven by a desire to reduce costs further and enabled by technology. This changes the structure of the organisation, and **generally, we are seeing organisations becoming more flexible in their structure** to adapt to change more easily.

While we are not going to focus so much on how exactly whole organisations could be transformed in the future, we are going to take a look at a specific area of the organisation, the finance function, and how its organisational structure is being transformed.

### 3. Transformation of the finance function

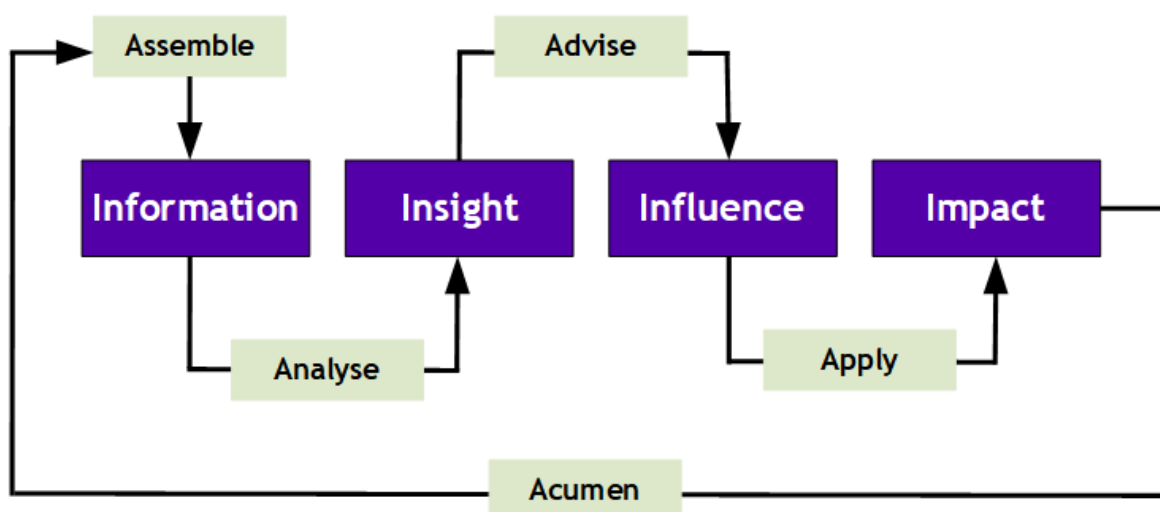
We are now in an era, referred to as the digital age, when the use of computing technology is becoming widespread and integrated into all aspects of modern life. It is also becoming integrated into the basic finance activities of the finance function, and in doing so, is transforming it.

To understand how the finance function is being transformed, we first have to understand how the finance function actually manages the finances of the business.

#### The role of the finance function - the five As

CIMA has identified five basic activities which are at the core of the finance function, and allow information to be used to impact the business. Finance professionals may carry out different tasks as technology changes their role, but these five basic activities stay the same.

Helpfully, the five basic activities each begin with the letter A, so we refer to them as the five As. The five As are linked together by four stages between information and impact, which also very helpfully, all start with the letter I: information, insight, influence and impact. You can see how each of the five As relate to the four Is in the diagram below:



#### Assembling information

The finance function **collects data** from a range of sources, including financial and non-financial data. The data is **assembled together and put into prescribed formats**, ready for internal and external reports.

## Organisational Structure

It's important to note here, that the difference between data and information is that data is the unprocessed raw facts, whereas information has been processed and organised. During this basic finance activity, facts start off as data and end up as information!

Data might be basic financial transactions such as purchases and sales, which is collated and organised into information in the form of an income statement which details the profitability of the business.

### Analysing for insights

The finance function analyses the information to **find patterns and trends**, which **provide useful insights** for internal and external stakeholders.

Monthly profits might be analysed and compared with previous years to look for trends. Perhaps January's sales were significantly up on previous years showing the success of the new year sales campaign.

### Advising to influence

The finance function **communicates these insights to advise** the relevant internal or external stakeholders, and in doing so, the finance function can influence decision-making processes.

In our example, the finance department will advise the marketing function on the success of their campaign so they can ensure that marketing approach is used again in future.

### Applying for impact

The finance function applies itself by **implementing decisions to guide the actions of the organisation**. This way, the finance function is able to help the organisation achieve its desired impact. The finance function can do this through systems that it enables and controls, such as strategic planning, budgeting and performance measurements and review.

For example, monthly profitability analysis might be part of a standard monthly process ensuring that finance can support divisions on a regular basis. Perhaps in our case, the finance team could also help the marketing department by giving them support for higher marketing budgets based on the success of their January campaign.

### Acumen

The finance function helps the organisation to make better future decisions by **analysing the outcome of these finance processes so that more valuable information can be produced in future**. This is about having the right internal financial processes and ensuring that they are continuously adapted.

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Perhaps the monthly profit review could also include a breakdown of profits by each product to further support the marketing department in their decision making.

### The shape of the finance function

If we had to visualise what shape the finance function is, what would it be?

This is an interesting question and something that is really useful to think about to help us understand how the finance function operates within an organisation, as well as how the digital age is transforming the finance function.

When we say **'shape' of the finance function**, what we really mean **is the arrangement of the roles, responsibilities and reporting relationships within the finance function** - just like how we've been talking about the organisational structure of the whole business!

Believe it or not, the shape of the finance function is somewhat of a contentious issue at the moment! This is because the **shape of the finance function being transformed by the digital age**, so we have to re-evaluate how to best describe its shape.

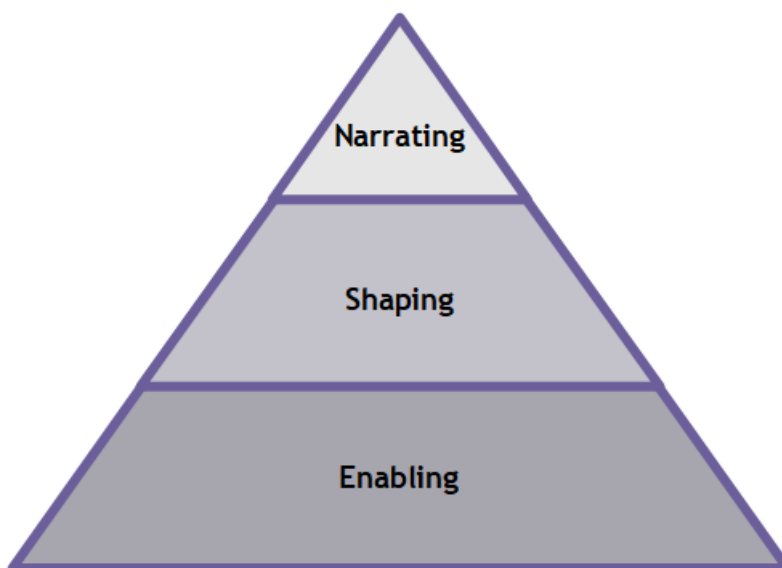
### The traditional hierarchical finance function

Traditionally, the shape of the finance function has been visualised as a **triangle**. This **has a hierarchical structure**, which means there are **layers of management, each with control over the layer below** - a bit like the vertical organisational structure for a whole business.

As triangles have a broad base, this shows that there is the **greatest number of staff in the lowest management level** and **fewest staff at the most senior management level**. Each management level has fewer staff than the level below.

The **role of the finance function can be defined as enabling, shaping and narrating how an organisation creates and preserves value**. Sounds complicated! However, it becomes clearer when we **split the levels of management into these three broad categories**, to look at how the hierarchical structure of the finance function achieves the role:

## Organisational Structure



### Enabling

At the enabling level, finance staff in the lowest management levels **carry out operational processes which enable the creation and preservation of value** in the organisation.

It involves tasks such as the collection and processing of data, assembling data into formats ready for financial reports, assembling management data so it is accessible for managers, and analysing information to identify patterns and gain relevant insights.

### Shaping

At the shaping level, finance staff **take the information and insights** gained at the enabling level and use this **to influence how value is created and preserved**.

This shaping can be **through controlling the operational processes** which happen out at the enabling level, and by **communicating information and insights to influence decisions** made the management levels above.

You can also think of this as **the basic finance activity from the five As of advising for influence**.

### Narrating

At the narrating level, the most senior levels of management, senior finance staff **determine how value is created and preserved** in the organisation, **to help ensure that the organisation achieves its goals and has its desired impact**. The finance function can guide the actions of the organisation through strategic planning, financial reporting and budgeting, and management of performance.

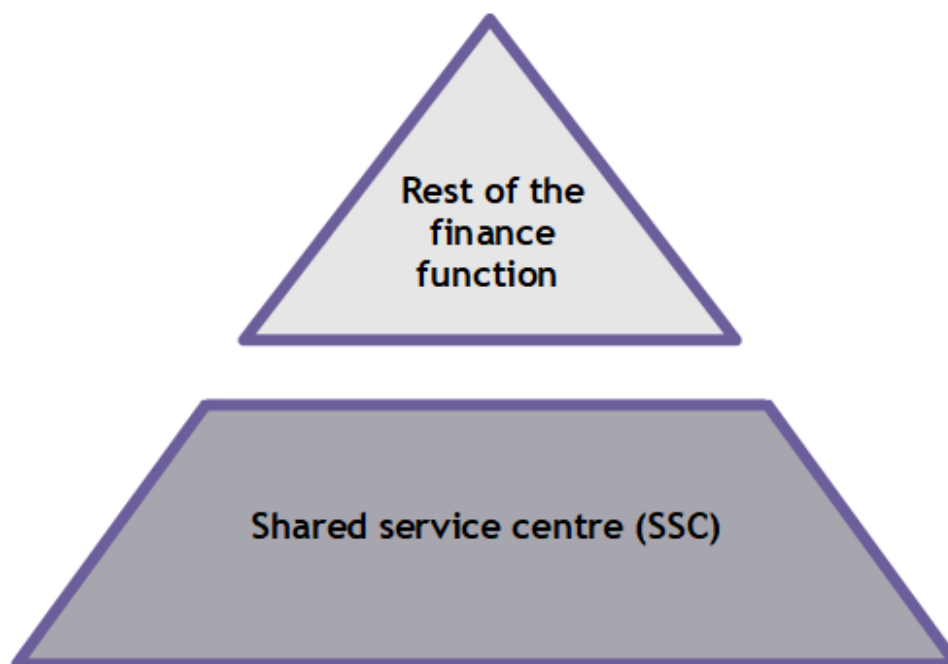
## Organisational Structure

This is achieved through the basic finance activity from the five As of applying for impact.

### The segregated finance function

During the last 20 years, the shape of the finance function has changed to what is best described as a segregated triangle. In large organisations in the past, each division is likely to have had their own finance function using the hierarchical model shown above. However, many large companies have, in recent years, combined all operational processes into their own centralised department.

This centralised department is a type of shared service centre (SSC). We will look at SSCs in more depth in another chapter, but basically, they are the provision of a service, such as finance, by one part of an organisation where that service had previously been found in more than one part of the organisation.



The segregation of financial operational processes into an SSC has been driven by a desire to reduce costs, as it is more efficient to have operations grouped together in one central location. This segregation has been enabled by developments in information and communications technology, which have allowed previously separate functions to be linked together through a central information system.



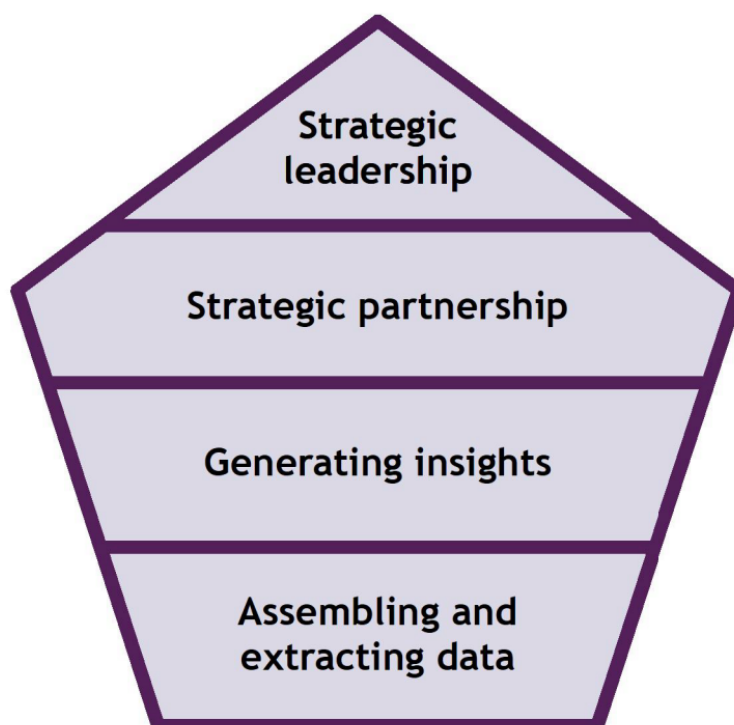
### The digital age finance function

We're currently seeing **another change in the shape of the finance function, as the use of technology becomes more integrated into its operations.**

In particular **process automation**, in which tasks previously done by humans are transferred to computers, **is having a big impact on the shape of the finance function.** We will explore in more depth how business process automation works in another chapter. What you need to know for now is that **automation of financial operational processes means that the finance function is taking on a pentagonal shape.**

**The broad base of the triangle in the hierarchical and segregated models, which represents the staff carrying out financial operational processes, e.g. collection and processing of data, is eroded as these processes are automated, reducing the number of staff in the lowest management levels.**

In their digital age model of the finance function, **CIMA splits the finance function into four levels:**



## Organisational Structure

### Level 4: Assembling and extracting data

At the lowest management level, data is collected, cleaned and assembled together. The extracted data and information becomes the foundation of finance professionals operating at the next level.

In the digital age, **much of this is carried out by computing technology, reducing the number of staff involved**. The role of those still working at this level is to ensure that accounting rules and standards are applied correctly and operate the technology systems in place.

### Level 3: Generating insights

**Technical specialists**, who focus on specific areas of the finance function, receive the relevant data handed to them from the level below. They **analyse this data to gain insights** about how value is being created in the organisation. They might, for instance find ways in which costs could be saved or revenues increased to help improve profits. They then communicate this information to the level above.

### Level 2: Strategic partnership

Financial professionals receive the insight provided by the level below, in the form of financial reports. They **act as strategic partners to the rest of the organisation by communicating this insight to internal and external stakeholders**, and by doing so, influence and shape how the organisation creates and preserves value. So, for example, they might advise on cost saving measures that can be applied in a particular department based on the analysis undertaken.

This is where the pentagonal shape of the finance function is at its widest, forming a bulge in the number of finance staff working in this area. Traditionally, the focus of the finance function has been on increasing efficiency and reducing operating costs. However, as automation can do both of these, financial professionals can focus instead on strategic partnering and creating value.

### Level 1: Strategic leadership

Finance professionals at the most senior levels of management, such as the **chief finance officer (CFO)**, **lead and manage the finance function**. They formulate strategies and work alongside other senior management, such as the chief executive officer (CEO), to determine how the organisation creates and preserves value.

## The future diamond shape of the finance function

So the big question is, how will the finance function continue to evolve?

The answer is, we will most likely **see more of the data extraction and assembly processes being automated, further replacing jobs** in the lowest management levels of the finance function. These changes **will result in a diamond-shaped**

Organisational Structure

**finance function.** Generating insight, strategic partnering and strategic leadership will continue to be important roles in the finance function.

