

CIMA - Summary

Improving strategic decision making

Introduction

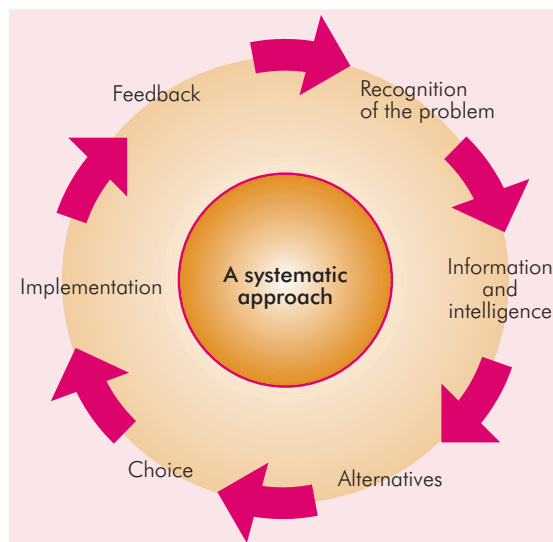
Financial accountants keep records of business transactions to prepare a firm's accounting statements. Management accountants evaluate and interpret this data to advise senior management. They manage business performance and can improve decision making. CIMA is the leading and largest professional body for management accountants. It provides qualification and development opportunities for management accountants. CIMA people are financially qualified business leaders. They are not limited to working in accountancy or finance departments.

The decision making process

Effective business decisions bring together the right resources for the right markets at the right time. A good decision can help a business gain a competitive edge. Decisions must reflect a firm's aims and relate to objectives. A systematic approach involves:

- recognition of the problem
- information and intelligence
- alternative solutions
- choosing the most appropriate option
- implementation
- feedback.

This sort of approach can reduce risk. However, there are variable factors in a business' external environment. These can increase risk. It is vital to balance risk against the likely return on investment.

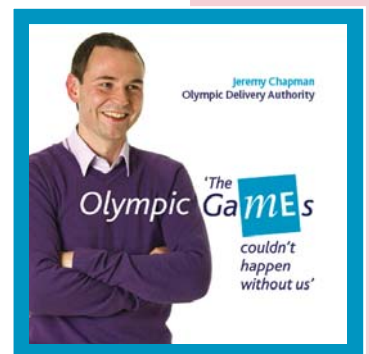


Levels of decision making

Decisions are made at different levels in a business' hierarchy. Decisions can be:

- strategic – these are long-term and higher risk in their impact. They shape the direction of the whole business and are usually made by senior managers
- tactical – these help to implement the strategy. They are often made by middle managers
- operational – these relate to the day-to-day running of the business. They are mainly routine and can be taken by anyone.

Decisions at all levels need information. A business creates a trail of data. This includes, for example, records on sales, staff costs or payments. Financial accountants use recorded data to prepare the accounting statements for a business. Management accountants use internal data (such as a balance sheet) and external data (such as market information) to identify trends. This data is used to assess effects on the business and its strategies in order to make better choices.



Analysing accounts

A management accountant sifts through evidence and extracts data that will help managers make better business decisions. The starting point is often two key accounting documents:

- The income statement is a record of all sales and all corresponding expenses over a given time - usually a year.
- The balance sheet explains how the business uses its resources and how those have been financed.

Financial data must be compared over time to identify a clear pattern. Capital employed is one important financial ratio. It measures how well the company is exploiting the assets at its disposal. Management accountants compare their business' financial performance with other businesses for context.

Performance indicators

Key Performance Indicators (KPIs) help managers assess if the business is achieving its targets. As management accountants know the strategy for the whole business, they can work with department managers to find out the right measures for recording progress in each area. The data from KPIs allow managers to make informed decisions and adjust strategy if needed. For example, Tesco has set specific KPIs to reduce its effect on the environment.

Key performance indicator		Performance	
			Blue = above target Red = below target
Carrier bags	Reduce carrier bags given out by 25% over 2 years to 2008	●	Saved around 1.3 billion bags – over 25%
Landfill avoidance	To divert 75% of waste from landfill	●	70% of our waste was diverted

Adapted from Tesco plc Annual Report 2008

Conclusion

CIMA members are management accountants. They offer strategic advice, manage risk and make and support key business decisions. They consider qualitative performance indicators, such as brand reputation and customer satisfaction. They analyse external information, such as what competitors are doing and may then benchmark performance against similar businesses to help improve efficiency. CIMA members help to shape strategy and contribute to the business' competitive edge.

