CIMA'S Official Learning System

Strategic Level

Management Accounting – Business Strategy

Neil Botten
Contents

The CIMA Learning System
Acknowledgements xv
How to use your CIMA Learning System xv
Guide to the Icons used within this Text xvi
Study technique xvii
Business Strategy Syllabus xix
Transitional Arrangements xxii

1 Setting the Goals of the Organisation 1

Learning Outcomes 3

1.1 The identity of stakeholders 3
  1.1.1 Sources of stakeholder power 5
  1.1.2 Stakeholder claims on an organisation 6
  1.1.3 Challenges and opportunities presented by stakeholder groups 7
  1.1.4 Conflict between stakeholders 8
  1.1.5 Management of stakeholders 9

1.2 Mission statements 10

1.3 Corporate social responsibility 12
  1.3.1 The importance of CSR 16

1.4 Setting strategic objectives 17
  1.4.1 The link between mission and objectives 17
  1.4.2 The goal structure 18

1.5 Critical success factors 19
  1.5.1 Defining critical success factors 19
  1.5.2 Methodology of CSF analysis 20

1.6 Meeting the objectives of shareholders 21
  1.6.1 Maximisation of shareholder wealth as an objective 21
  1.6.2 Financial and non-financial objectives 21

1.7 Objectives of not-for-profit organisations 22
  1.7.1 The nature of not-for-profit organisations 22
  1.7.2 Example: the Chartered Institute of Management Accountants 23
  1.7.3 Key features of NPO objective setting 23
  1.7.4 Public sector objectives 24

1.8 Competing objectives 25
  1.8.1 Importance of the existence of competing objectives 25
  1.8.2 Resolving competing objectives 26
2 Appraising the Environment

Learning Outcomes

2.1 The importance of the business environment
2.1.1 Environmental impact assessment
2.1.2 Environmental segmentation
2.1.3 A model of the organisation in its environment
2.1.4 Example of a car manufacturer
2.1.5 Process of understanding environment
2.1.6 Evaluation of environmental segment models
2.1.7 Survival and success factors

2.2 Causes of environmental uncertainty
2.2.1 Components of uncertainty
2.2.2 Impact of uncertainty
2.2.3 Has uncertainty really increased?

2.3 Competitor analysis
2.3.1 The importance of competitor analysis
2.3.2 Levels of competitors
2.3.3 Gathering competitor intelligence
2.3.4 Forecasting competitors’ response profiles

2.4 Competitor accounting
2.4.1 Description
2.4.2 Evaluation of barriers to entry
2.4.3 Estimate competitors’ costs

2.5 The global economic environment
2.5.1 The main sources of economic impacts on the firm
2.5.2 The new global economy
2.5.3 The European Union
2.5.4 The North American Free Trade Agreement (NAFTA)
2.5.5 Regional Economic Integration in other parts of the world

2.6 The domestic economy
2.6.1 The objectives of macroeconomic policy
2.6.2 The business cycle
2.6.3 Globalisation of macroeconomic policies
2.6.4 The World Trade Organisation

2.7 National competitive advantages
2.7.1 Background
2.7.2 Porter’s Diamond
2.7.3 Demand conditions
2.7.4 Related and supporting industries
2.7.5 Factor conditions
2.7.6 Firm structure, strategy and rivalry
2.7.7 Other events
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.7.8</td>
<td>National competitive advantage</td>
<td>65</td>
</tr>
<tr>
<td>2.7.9</td>
<td>Losing competitive advantage</td>
<td>65</td>
</tr>
<tr>
<td>2.7.10</td>
<td>Porter's strategic prescriptions</td>
<td>65</td>
</tr>
<tr>
<td>2.7.11</td>
<td>Comment on Porter's Diamond</td>
<td>66</td>
</tr>
<tr>
<td>2.8</td>
<td>Country analysis and political risk</td>
<td>66</td>
</tr>
<tr>
<td>2.8.1</td>
<td>Political risk</td>
<td>66</td>
</tr>
<tr>
<td>2.9</td>
<td>Sources of environmental information</td>
<td>67</td>
</tr>
<tr>
<td>2.9.1</td>
<td>Environmental scanning</td>
<td>67</td>
</tr>
<tr>
<td>2.9.2</td>
<td>Accessing environmental information</td>
<td>68</td>
</tr>
<tr>
<td>2.9.3</td>
<td>Detailed environmental analysis</td>
<td>68</td>
</tr>
<tr>
<td>2.9.4</td>
<td>Categorisation of information sources</td>
<td>69</td>
</tr>
<tr>
<td>2.10</td>
<td>Summary</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td><strong>Revision Questions</strong></td>
<td>73</td>
</tr>
<tr>
<td></td>
<td><strong>Solutions to Revision Questions</strong></td>
<td>75</td>
</tr>
</tbody>
</table>

### 3 Position Appraisal and Analysis

**Learning Outcomes**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>The SWOT analysis</td>
</tr>
<tr>
<td>3.1.1</td>
<td>SWOT and corporate appraisal</td>
</tr>
<tr>
<td>3.1.2</td>
<td>Purpose of a SWOT analysis</td>
</tr>
<tr>
<td>3.1.3</td>
<td>The cruciform chart</td>
</tr>
<tr>
<td>3.1.4</td>
<td>From SWOT to strategy</td>
</tr>
<tr>
<td>3.1.5</td>
<td>The TOWS approach</td>
</tr>
<tr>
<td>3.1.6</td>
<td>The value of SWOT</td>
</tr>
<tr>
<td>3.1.7</td>
<td>When should SWOT take place?</td>
</tr>
<tr>
<td>3.2</td>
<td>The position audit</td>
</tr>
<tr>
<td>3.2.1</td>
<td>Definition</td>
</tr>
<tr>
<td>3.2.2</td>
<td>The Ms model</td>
</tr>
<tr>
<td>3.2.3</td>
<td>Conducting the position audit</td>
</tr>
<tr>
<td>3.3</td>
<td>Value chain analysis</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Generating superior performance</td>
</tr>
<tr>
<td>3.3.2</td>
<td>The value chain</td>
</tr>
<tr>
<td>3.3.3</td>
<td>Primary activities</td>
</tr>
<tr>
<td>3.3.4</td>
<td>Support activities</td>
</tr>
<tr>
<td>3.3.5</td>
<td>Linkages within the value chain</td>
</tr>
<tr>
<td>3.3.6</td>
<td>Vertical linkages in the value system</td>
</tr>
<tr>
<td>3.3.7</td>
<td>Organisational implications of the value chain</td>
</tr>
<tr>
<td>3.3.8</td>
<td>Management accounting and the value chain</td>
</tr>
<tr>
<td>3.3.9</td>
<td>A practical example</td>
</tr>
<tr>
<td>3.3.10</td>
<td>Evaluation of value chain analysis</td>
</tr>
<tr>
<td>3.3.11</td>
<td>Alternative value chains</td>
</tr>
<tr>
<td>3.3.12</td>
<td>Supply chain management</td>
</tr>
<tr>
<td>3.3.13</td>
<td>The lean supply chain</td>
</tr>
<tr>
<td>3.4</td>
<td>Benchmarking</td>
</tr>
<tr>
<td>3.4.1</td>
<td>Definition</td>
</tr>
<tr>
<td>3.4.2</td>
<td>Purposes of benchmarking</td>
</tr>
</tbody>
</table>
3.4.3 Stages in setting up a benchmarking programme 105
3.4.4 Benchmarking and performance measurement 107
3.4.5 Evaluation of benchmarking 108
3.4.6 An example of benchmarking 108

3.5 Gap analysis 113
3.5.1 Definition 113
3.5.2 Example of a gap analysis diagram (Figure 3.11) 113
3.5.3 Using gap analysis 113
3.5.4 Forecasts and gap analysis 114
3.5.5 Four levels of uncertainty 115
3.5.6 A conclusion on gap analysis 117

3.6 Scenario planning 117
3.6.1 Planning scenarios 117
3.6.2 Constructing scenarios 118
3.6.3 Using scenarios in strategy formulation 121
3.6.4 Advantages of scenario planning 122

3.7 Foresight 122
3.8 Summary 123

Revision Questions 125
Solutions to Revision Questions 131

4 Strategic Aspects of Marketing 147
Learning Outcomes 149
4.1 Sources of earnings 149
4.1.1 Earnings as an objective 149
4.1.2 Product versus customer views of earnings 149
4.1.3 Implications of the different views of earnings 150
4.2 Product life cycles 151
4.2.1 The product life cycle model 151
4.2.2 Using the product life cycle model 152
4.2.3 Problems of the product life cycle model 153
4.3 The BCG portfolio matrix 154
4.3.1 Levels of portfolio analysis 154
4.3.2 The growth-share matrix 154
4.3.3 The importance of relative market share 155
4.3.4 Strategies for each quadrant 156
4.3.5 Evaluation of the BCG matrix 157
4.3.6 Customer portfolio analysis 158
4.3.7 Alternative portfolio models 161
4.4 Direct product profitability 162
4.4.1 Origins of the concept 162
4.4.2 Calculating DPP 162
4.4.3 Improving DPP 163
4.4.4 Evaluation of DPP 164
4.5 The nature of a marketing audit 164
4.5.1 The marketing audit 164
4.5.2 A brief description of the role of marketing 164
4.5.3 Marketing planning 166
4.5.4 The content of a marketing audit 167
4.5.5 Steps in conducting a marketing audit 167
4.6 Customer profitability analysis 168
   4.6.1 Definitions 168
   4.6.2 Two views of customer profitability 168
   4.6.3 Customer account profitability (CAP) analysis 168
   4.6.4 Examples 170
   4.6.5 Attribute costing 171
   4.6.6 Evaluation of CAP analysis 173
   4.6.7 Life cycle customer value 174
   4.6.8 Concluding comments on customer profitability analysis 175
4.7 Brand strategies 176
   4.7.1 Description of a brand 176
   4.7.2 Importance of brands to strategy 176
   4.7.3 Five brand strategies 177
   4.7.4 Challenges to branding 179
   4.7.5 Financial management of brands 180
   4.7.6 Valuing brands 181
4.8 Relationship marketing 181
   4.8.1 Factors giving rise to relationship marketing 181
   4.8.2 Relationship marketing versus transactions marketing 182
   4.8.3 Strategies to develop relationship marketing 182
   4.8.4 A broader role for relationship marketing 183
4.9 Data Warehousing and Data Mining 184
   4.9.1 Data warehousing 184
   4.9.2 Evolution of data warehousing 185
   4.9.3 Data mining 186
   4.9.4 Data mining and the Internet 187
   4.9.5 Objectives and management issues of data warehousing and mining 188
   4.9.6 Issues with objectives 188
   4.9.7 Issues with management 188
   4.9.8 The future of data warehousing and data mining 189
4.10 Summary 190

Revision Questions 193

Solutions to Revision Questions 199

5 Strategic implications of IT 211
5.1 Introduction 213
   Learning Outcomes 213
5.2 The strategic case for IT investment 213
   5.2.1 Three information strategies 214
   5.2.2 Information technology strategy 214
   5.2.3 Information systems and information management strategies 215
   5.2.4 The applications portfolio 216
   5.2.5 Major investment decisions 217
5.3 Using IT to gain competitive advantage
  5.3.1 The value chain 217
  5.3.2 Defining competitive advantage 218
5.4 Using IT for competitive advantage
  5.4.1 Cost leadership 218
  5.4.2 Differentiation 219
  5.4.3 Focus 220
5.5 Using information for competitive advantage
  5.5.1 Cost leadership 220
  5.5.2 Differentiation 221
  5.5.3 Focus 221
  5.5.4 Linkages with suppliers or customers 221
  5.5.5 A composite example 221
5.6 Value-added networks and extranets
  5.6.1 Description 223
  5.6.2 VAN provision 223
  5.6.3 Competitive advantage 224
  5.6.4 Extranets 224
5.7 Using e-commerce for competitive advantage
  5.7.1 What is e-commerce? 225
  5.7.2 Establishing an e-commerce strategy 228
  5.7.3 Social and technological effects of the Internet 229
5.8 The need for information systems strategies
  5.8.1 Background 230
  5.8.2 Why have a strategy for the IS? 230
  5.8.3 Benefits of a formal strategy 230
  5.8.4 IS, IT and IM strategy 231
  5.8.5 Content of IS, IT and IM strategies 231
5.9 Collaborative strategies
  5.9.1 Business Information Strategies – Corporate Partnerships and Alliances 233
5.10 Developing an information systems strategy
  5.10.1 General planning models 234
  5.10.2 The link between corporate strategy and IS strategy 234
  5.10.3 Limitations of strategic planning models 235
  5.10.4 An IS planning model 236
  5.10.5 Alternative models 237
5.11 The changing role of the IT department
  5.11.1 Initiation/contagion 238
  5.11.2 Control 238
  5.11.3 Integration 238
  5.11.4 Downsizing and rightsizing the IT department 239
  5.11.5 Information centres 240
5.12 Organisational knowledge management
  5.12.1 Introduction 240
  5.12.2 Knowledge management 241
  5.12.3 What is knowledge? 242
5.12.4 Where does knowledge come from? 243
5.12.5 What is the value of knowledge? 243

5.13 Developing a knowledge strategy
5.13.1 Information technology infrastructure 244
5.13.2 Knowledge sharing systems 245
5.13.3 Cultural issues 247
5.13.4 Capturing knowledge 247
5.13.5 Storing knowledge 248
5.13.6 The benefits of OKM 248

5.14 Profit impact of marketing strategy 249
5.15 Executive information systems 249
5.16 Summary 250

Revision Questions 251
Solutions to Revision Questions 255

6 Strategic Options and their Evaluation 263

Learning Outcomes 265
6.1 Three sets of strategic choices 265
6.1.1 Recap and overview 265
6.1.2 Development strategies 266
6.1.3 Some illustrations 266
6.2 Porter's generic competitive strategy model 267
6.2.1 Three generic strategies 267
6.2.2 Diagram of Porter's model 268
6.2.3 Competitive advantage 268
6.2.4 Competitive scope 269
6.2.5 Focus strategies 270
6.2.6 An illustration of Porter's model — automobiles 270
6.2.7 Using Porter's model 271
6.2.8 Limitations of Porter's model 271
6.2.9 Alternatives to Porter: the resource-based view 274
6.3 Product-market strategies 274
6.3.1 The Ansoff matrix 274
6.3.2 Market penetration strategy 274
6.3.3 Product development strategy 275
6.3.4 Market development strategies 275
6.3.5 Diversification strategies 276
6.3.6 Strategic development and risk 277
6.4 Alternative growth strategies 278
6.4.1 The expansion method matrix 278
6.4.2 Internal development 279
6.4.3 Joint development strategies 285
6.4.4 Mergers and acquisitions 292
6.5 International growth strategies 296
6.5.1 Types of international growth 296
6.5.2 Issues in international growth strategies 298
8 Implementing and Controlling Plans

8.1 Theories of control
8.1.1 Introduction
8.1.2 The link between decision-making and control
8.1.3 Performance measurement and control
8.1.4 A simple example of control
8.1.5 A complex example of control
8.1.6 Management by remote control
8.1.7 Control in unitary and multidivisional organisations

8.2 The functions of performance measurement

8.3 Conventional profit-related measures of business performance
8.3.1 Justification of profit-related measures
8.3.2 Profit-based performance measures
8.3.3 Importance of considering the capital base
8.3.4 Shareholder wealth
8.3.5 Return on investment and residual income
8.3.6 Comparison of ROI with RI
8.3.7 Common problems of profit-based measures

8.4 Value-based management approaches
8.4.1 Background to value-based management
8.4.2 Drivers of shareholder value
8.4.3 Areas covered by VBM 417
8.4.4 Economic value added and market value added 418
8.4.5 Critique of EVA/MVA 421
8.4.6 Total shareholder return (TSR) 421
8.4.7 Linking VBM to business strategy 422
8.4.8 Driving down responsibility for value creation 423

8.5 The role of the corporate centre in control 425
8.5.1 Influencing how financial returns are made 425
8.5.2 Strategies and styles 425

8.6 Management accounting and performance measurement 426
8.6.1 Role of management accounting in implementing and controlling strategies 426
8.6.2 Problems of conventional management accounting 427
8.6.3 Integrated cost systems 428
8.6.4 Activity-based management (ABM) 429

8.7 Multidimensional performance measurement 432
8.7.1 The performance measurement manifesto 432
8.7.2 Suggested approach to developing a performance measurement system 433
8.7.3 Measures to ensure the organisation is innovating and developing 435
8.7.4 The six-dimensional performance matrix 435
8.7.5 The balanced scorecard (BSC) 438
8.7.6 What does a BSC look like? 442
8.7.7 Benefits and drawbacks of BSC 442
8.7.8 Summary of issues in using the BSC 443
8.7.9 The performance pyramid 444
8.7.10 Control systems and the product life cycle 444

8.8 Stakeholder measures 446
8.8.1 Background 446
8.8.2 Measuring customer attitudes 446
8.8.3 Supplier relationship monitoring 448

8.9 Additional control mechanisms 449
8.9.1 Criticisms of conventional budgeting 449
8.9.2 Alternative structures and mechanisms 451
8.9.3 Relationship with performance measurement 452

8.10 Multinational industries 452
8.10.1 Issues in control of multinational operations 452
8.10.2 Transfer pricing in multinationals 453
8.10.3 Research evidence on multinational transfer prices 453
8.10.4 Implications for strategic management of MNEs 454
8.10.5 Broader control over subsidiaries in MNEs 456

8.11 Summary 456

Revision Questions 459

Solutions to Revision Questions 465
Preperring for the Examination 485
   Format of the examination 487
   About the examination 487
   Revision technique 488
      Planning 488
      Getting down to work 488
      Tips for the final revision phase 489
   Revision Questions 491
   Solutions to Revision Questions 525

November 2007 Examinations 597

Index 629