

# Strategic Position

Topic Gateway series no. 44



## About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA Members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

## About the Technical Information Service

CIMA supports its members and students with its Technical Information Service (TIS) for their work and CPD needs.

Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the *CIMA Official Terminology* 2005 edition.

CIMA members and students should sign into My CIMA to access these services and resources.

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## Strategic Position

### Definition

The strategic position is concerned with the impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders. Together, a consideration of the environment, strategic capability, the expectations and the purposes within the cultural and political framework of the organisation provides a basis for understanding the strategic position of an organisation.

*Johnson and Scholes, 2005*

It is important to take account of the future and to assess whether the current strategy is a suitable fit with the strategic position. If not, the organisation needs to determine what changes it needs to make and whether it is capable of effecting such changes.

In summary, the strategic position forms an integral part of the strategic management process. It informs the strategic choices that need to be made and subsequently implemented.

### Context

In the current syllabus, CIMA students will learn and may be examined on this topic in paper 6, Management Accounting, Business Strategy and paper 10, Test of Professional Competence in Management Accounting (TOPCIMA).

### Related concepts

CIMA Strategic Scorecard™; competitor analysis; benchmarking; strategic planning; corporate strategy.

Related topic gateways are the CIMA Strategic Scorecard™, Key Approaches and Trends in Strategy and Strategic Analysis Tools.

## Overview

As indicated above, there are three key aspects of strategic position, all of which have a powerful influence on the organisation's strategy:

- the external environment
- the organisation's strategic capability in terms of its resources and competences
- culture and ethical values of the organisation and stakeholder influences.

The real art of understanding strategic position is in being aware of the linkages between these three aspects, how they change over time and how they can be integrated to create value. Johnson and Scholes point out that a successful organisation 'will have found a way of operating such that environmental forces, organisational resources and competences, and stakeholder expectations mutually reinforce one another' (ibid).

The crucial point to remember is that the best understanding of the strategic position counts for nothing unless the organisation can use the knowledge effectively to develop and implement a successful strategy.

Prior to the 1990s, strategic management tended to focus on the interface between strategy and the external environment in which the organisation operated. However, during the 1990s, the emphasis shifted towards internal factors or the 'resource based view' which stressed the role of the organisation's resources and capabilities as the principal basis for its strategy. The organisation can exploit its unique collection of resources and competences to gain competitive advantage and in a way that is difficult for competitors to imitate.

## Application

There are a number of tools and techniques that organisations can use to understand their strategic position. Many are listed in the Strategic Planning topic gateway. In respect of strategic position, it is important that:

- The organisation needs to use the resulting information effectively. It needs to be discussed, debated and challenged so that the implications can be understood.

- The organisation might need to develop its own tools and techniques to understand its position effectively. The tools and techniques listed below are only a means to an end. What really matters is that understanding the strategic position should help the organisation to formulate and implement a successful strategy.
- The organisation should not paralyse itself through analysis. It may be best to select just a few tools and stick to those.
- Understanding the strategic position should not be an intense one off exercise associated with the annual strategic planning cycle. Instead, it should be thin but ongoing. Some issues, such as competitor information, will need to be reviewed at least monthly.

## Understanding the external environment

Organisations need to understand the external environment in terms of:

- macro influences – these include political, economic, technological and social factors
- micro influences – factors specific to the particular industry and related industries, including competition, customers, suppliers and barriers to entry.

## The STEEPLE framework

This approach reviews current and future aspects of the external environment based on categories such as social, technological, economic, ethical, political and environment (STEEPLE) issues. Some of these factors are used in variants of this framework and are known as STEP, PEST, or PESTEL.

## Scenario planning

This takes the above frameworks a stage further by developing some possible coherent outcomes to some of the key environmental influences. Given the high degree of uncertainty related to predictions, it is inadvisable to make the scenarios too complex. Their main function is not to predict the future, but to provide a useful debating tool to help decision makers to think more strategically. The Shell oil company is probably one of the best known users of scenarios and it is possible to access their current scenarios – Shell Global scenarios to 2025 as well as scenarios – an Explorers Guide on the Shell website. [www.shell.com](http://www.shell.com)

## Competitor analysis

There is a separate topic gateway on competitor analysis.

An organisation will need to undertake competitor analysis at industry level, for example, banking, airline or clothing.

It is also important to analyse specific segments of an industry in order to develop targeted strategies, for example, the business and economy segments of the airline industry. Segmentation is particularly important if the nature and intensity of competition in the submarkets is significantly different. It can inform the organisation which segment is especially attractive to new entrants and/or help it to allocate resources more effectively to outperform the industry average.

It may be possible to source much material through desk research, but an organisation might also need to commission its own specific research into particular markets.

## Understanding strategic capability

This considers what customers value in terms of product and service features. The organisation first needs to understand the threshold features that all providers must offer if they are to stay in the market. It must then understand the critical success factors or what it must do well in order to succeed and outperform the competition.

In addition, the organisation should consider whether it has the resources and competences to succeed in that particular market.

A useful framework distinguishes the threshold resources and competences that are required to operate in the market compared with those that are unique to the organisation and thus represent a key source of competitive advantage. It is important to note that even the threshold level may change over time so the organisation may need to continue to invest in its resource base simply to stay in business.

Status of organisation's resources and competences	Same as competitors or easy to imitate	Better than competitors and difficult to imitate
Resources	Threshold resources	Unique resources
Competencies	Threshold competences	Core competences

*Johnson and Scholes, 2005*

Resources may be classified in the following ways:

- physical resources such as plant, machinery and buildings
- human resources
- financial resources
- intangible resources such as knowledge and intellectual capital, brands and reputation.

Organisations will obtain competitive advantage by using resources effectively to create competences. Unique resources include talented individuals such as a top footballer or collections such as EMI's music library. However, it can be difficult to sustain competitive advantage through a unique resource if they can be poached by rivals or have a limited lifespan. An organisation must achieve at least a threshold level of competence in order to stay in business. This level will change over time.

'Core competences are activities or processes that critically underpin an organisation's competitive advantage. They create and sustain the ability to meet the critical success factors of particular customer groups better than other providers in ways that are difficult to imitate' (ibid).

It is important to note that the core competence must relate to an activity that underpins the value in the product feature from the perspective of the customer. For example, the Spanish clothing chain Zara has been able to exploit its competency in being able to supply 'fast fashion' which is valued by design conscious 'fashionistas'. Of course, customer preferences will change over time and therefore core competences will be eroded. On the other hand, opportunities will open up to exploit core competences in new markets.

Although it can be difficult to identify core competences, a framework for this is included in the key approaches and trends section of the Strategy topic gateway.

There are a number of useful tools that can help the organisation understand how they create value and what the industry standards are.

Benchmarking can help the organisation understand what constitutes good or bad performance – see separate topic gateway.

Value chain analysis can help the organisation to understand where value is created and lost as it maps the activities which together create the product or service.

A value chain can be defined as:

'The sequence of business activities by which, in the perspective of the end user, value is added to the products or services produced by an entity.'

*CIMA Official Terminology, 2005*

There are several approaches to understanding strategic capability which use these tools.

An overall position audit is defined as:

'Part of the planning process which examines the current state of the entity in respect of: resources of tangible and intangible assets and finance; products, brands and markets; operating systems such as production and distribution; internal organisation; current results; and returns to stockholders.'

*CIMA Official Terminology, 2005*

A three step approach suggested by Grant as to the appraisal of resources and capabilities and how these affect strategy formulation is outlined below.

*Grant, 2004*

**Step 1** is to identify key resources and capabilities. Value chain analysis can be used here.

**Step 2** is to appraise resources and capabilities against the two key criteria of importance and relative strengths. Benchmarking can be used to appraise the latter.

**Step 3** is to develop strategy implications by exploiting key strengths, managing key weaknesses and developing response in relation to superfluous strengths.

Additional corporate appraisal frameworks are outlined below.



## SWOT analysis

This is defined as:

'a critical assessment of the strengths and weaknesses, opportunities and threats (SWOT analysis) in relation to the internal and environmental factors affecting an entity in order to establish its condition prior to the preparation of the long term plan.'

*CIMA Official Terminology, 2005*

SWOT analysis is a useful technique that pulls together the internal and external aspects of the strategic position by considering the organisation's strengths, weaknesses, opportunities and threats. It can be difficult to identify whether a particular issue is actually a strength or a weakness. However, it is more important is to identify internal and external strategic factors and to understand their implications, rather than get overly concerned about such classifications.

## Understanding stakeholders and organisational culture

Understanding the specific political and cultural context in which the organisation operates can have a significant impact on strategy. Johnson and Scholes set out the following key areas that need to be addressed.

- The corporate governance and regulatory framework – whom is the organisation there to serve and how should its purposes and direction be determined?
- Organisational stakeholders – whom does the organisation actually serve in practice and where does the power lie?
- Ethical considerations – which purposes should the organisation fulfil?
- Cultural issues – which purposes are prioritised in practice and why?

Such analysis enables the organisation to understand the ease or difficulty with which new strategies could be adopted. However, it is arguable that this is the most important aspect of the strategic position to understand, given that a strategy is only successful when it is implemented effectively.

## Further Information

### General

It is essential to keep up to date with external developments by reading the quality press and industry specific journals to gain a good understanding of your organisation's strategic position. Industry and country surveys are also useful sources of information. CIMA's Technical Information Service (TIS) is able to help with sourcing business information.

Some useful sources include:

Business Source Corporate, which is available via My CIMA and provides access to more than 3,000 business and academic journals worldwide. There are also over 1,400 country economic reports, 10,000 company profiles and over 5,000 industry reports. [www.cimaglobal.com/mycima](http://www.cimaglobal.com/mycima)

The Economist Intelligence Unit – provides information and analysis on 200 countries and eight key industries. It is available via Business Source Corporate. [www.eiu.com](http://www.eiu.com)

McKinsey Quarterly newsletter – quarterly newsletters, surveys, information on specific industries and countries. [www.mckinseyquarterly.com/home.aspx](http://www.mckinseyquarterly.com/home.aspx)

Trade associations or other industry portals may provide relevant information or useful links.

The business and market intelligence field is a vast one in its own right and many services are subscription only.

It is also a useful idea to think about reading articles, publications and sourcing websites that are not on your normal reading list to get a feel for current and future trends. For example, it might be worth accessing websites that are popular with teenagers to understand their needs and concerns.

### Books

Grant, R. M. (2004). *Contemporary strategy analysis: concepts, techniques, applications*. 5th ed. Oxford: Blackwell Publishing. Plenty of background on useful tools and techniques such as SWOT analysis, Porter's Five Forces and value chain analysis.

Hamel, G. and Prahalad, G. K. (1996). *Competing for the future*. Boston, Mass.: Harvard Business School Press

Johnson, G. and Scholes, K. (2005). *Exploring corporate strategy: text and cases*.

7th ed. Harlow: Financial Times Prentice Hall. A very popular and widely available set text. Provides a very useful framework for understanding all key aspects of the strategic position and relates this to the generation of strategic options through to implementation.

Porter, M. E. (2004). *Competitive strategy: techniques for analyzing industries and competitors*. New York: Free Press

*Business: the ultimate resource™*. (2006). 2nd ed. London: A and C Black Publishers (2005). *CIMA Official Terminology*. London: CIMA Publishing

*The CIMA Strategic Scorecard™*: boards engaging in strategy. April 2007. CIMA Executive Report. Available from: [www.cimaglobal.com/strategicscorecard](http://www.cimaglobal.com/strategicscorecard) [Accessed 6 February 2008].

## Understanding future trends

There is a wealth of literature available on future global trends, for example:

Aburdene, P. (2007). *Megatrends 2010: the rise of conscious capitalism*. Charlottesville, VA: Hampton Roads

Dixon, P. (2007). *Futurewise: the six faces of global change*. London: Profile Business

## CIMA Mastercourses

Strategic thinking, influencing and implementation. To book via [www.cimamastercourses.com](http://www.cimamastercourses.com) please go to Find and key in the course code STII.

Strategies of the Serengeti. To book via [www.cimamastercourses.com](http://www.cimamastercourses.com) please go to Find and key in the course code SOTS.

The myths and context of strategy. To book via [www.cimamastercourses.com](http://www.cimamastercourses.com) please go to Find and key in the course code TMCS.

## Websites

Shell – useful information on scenario planning. [www.shell.com](http://www.shell.com)

Accountancy firms are often useful sources for surveys. See the following firms. Ernst and Young

[www.ey.com/global/content.nsf/International/Home](http://www.ey.com/global/content.nsf/International/Home)

KPMG [www.kpmg.com](http://www.kpmg.com)

Grant Thornton [www.grantthornton.co.uk](http://www.grantthornton.co.uk)

Chantrey Vellacott [www.cvdfk.com/publications](http://www.cvdfk.com/publications)

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