12. Management Accounting - Business Strategy (FLBS)

Syllabus overview

The syllabus emphasises both the importance of the organisation’s environment and the role of the Chartered Management Accountant in setting and evaluating strategic options. Differing approaches to strategy are presented as a response to the need to fulfil objectives.

The Chartered Management Accountant can play a major role in enhancing understanding of the relative importance of competitive forces and influences. Once this framework is established the relative position of the organisation within this setting can be attempted. Then follows the assessment of possible actions to enhance performance within this context, some steps having an external focus, for example branding and supply chain partnerships, others an internal focus. The question of where the organisation’s boundaries should be set is also considered.

The Chartered Management Accountant is a key player in the implementation of strategic plans. Different approaches to performance measurement are considered and the inherent problems in measuring a complex organisation are raised.

Aims

This syllabus aims to test the student’s ability to:

- evaluate different approaches to strategy formulation;
- evaluate the environmental influences on the organisation and evaluate its position;
- evaluate the role of management accounting techniques in a changing business environment;
- evaluate strategic options and make appropriate recommendations;
- evaluate performance measurement systems for an organisation.

Assessment

There will be a written paper of 3 hours. There will be two sections; section A will have a compulsory question based upon a scenario up to a maximum of 50 marks; Section B will contain a choice of questions, normally two from four.

Learning outcomes and syllabus content

12(i) Setting objectives - 10%
Learning outcomes

On completion of their studies students should be able to:

- identify the importance of objectives and objective setting;
- evaluate and contrast differing corporate frameworks and objectives;
- evaluate an organisation’s mission, goals and aims and recommend appropriate changes;
- evaluate different approaches to strategy formulation and recommend the most appropriate.

Syllabus content

- The importance of developing achievable objectives for the organisation.
- Competing objectives for the organisation: profit motive, short term and long term, sustainable growth, stakeholders and social responsibility. The objectives of not for profit organisations are also considered.
- Formulating the organisation’s mission, goals, aims and critical success factors.
- The rational model of strategy formulation.
- Other less formal approaches to strategy formulation, including incrementalism and emergent approaches.

12(ii) Appraising the environment - 25%

Learning outcomes

On completion of their studies students should be able to:

- evaluate the competitive forces in the market place;
- evaluate the importance of international issues including competition, management and regulation;
- explain the role and activities of pressure groups;
- evaluate the availability and quality of data for environmental analysis;
- analyse and evaluate the organisation’s customer portfolio;
- prepare and evaluate competitor analysis;
- evaluate relationships with customers and suppliers and recommend appropriate changes or improvements.

Syllabus content

- The importance of relating the organisation to its environment when assessing its competitive position and consideration of the level of uncertainty and risks that the organisation faces.
- Classifying and assessing the changing national and international influences on the organisation carefully using appropriate models and techniques (for example PEST). This would include such issues as EU regulation, GATT agreements and trade cycles.
- The influence of industry forces in the market place (for example Porter’s 5 forces model).
- International factors affecting the market place: country advantages and global factors.
- The role and activities of interest groups and pressure groups (for example self-interest groups, such as industry associations, as well as environmental and
ethical pressure groups). This topic is concerned with the recognition of additional stakeholders.

- The availability and quality of data and information for environmental analysis. This includes the need for Internet and database interrogation.
- The customer portfolio: Customer analysis and behaviour, including the marketing audit and customer profitability analysis as well as customer retention and loyalty. The concept of relationship marketing.
- The importance of relationships with customers and suppliers, adversarial relationships or partnerships in the supply chain.
- The implications of the above for the Chartered Management Accountant and the management accounting information system.

12(iii) Position appraisal and analysis - 25%

Learning outcomes

On completion of their studies students should be able to:

- evaluate the strengths, weaknesses, opportunities and threats of an organisation;
- evaluate and produce a comprehensive review of performance, resources and capabilities;
- evaluate the product portfolio of the organisation and advise an appropriate action;
- produce a benchmarking exercise and evaluate the outcomes;
- identify and evaluate an organisation’s value chain and the accounting implications thereof;
- evaluate the impact of the external environment and the strategic objectives on an organisation;
- identify the position of organisational boundaries.

Syllabus content

- The current state of the organisation and its advantages and disadvantages (for example SWOT analysis).
- Auditing an organisation’s resources; considering intangible resources, products, services, people, structure, finance, stakeholder relations and systems.
- The product portfolio, product life cycle and BCG analysis.
- Benchmarking performance with best practice organisations.
- Value chain analysis and the implications for the organisation and the accounting system.

12(iv) Evaluating strategic options - 25%

Learning outcomes

On completion of their studies students should be able to:

- identify and evaluate an organisation’s planning gap;
- evaluate and recommend growth and divestment strategies;
- evaluate and recommend response strategies to competitors’ actions;
- prepare and evaluate strategic scenario plans;
- evaluate and recommend appropriate changes in organisational structure;
• identify and evaluate approaches to the design and operation of the management accounting systems;
• apply investment techniques to marketing and strategy decisions.

Syllabus content

• The importance of the planning gap and the use of scenario planning.
• Competitor analysis including generic competitive strategies, product-market strategies (Ansoff) and competitor response profiles.
• Branding and brand switching strategies.
• Advantages and disadvantages of different methods of growth, including international acquisitions. The evaluation of growth strategies.
• Divestment strategies and demergers and the evaluation of such actions.
• The development and evaluation of response strategies to the actions of competitive forces (for example competitor price changes).
• The implications for the internal organisation of the entity of the environment and corporate objectives.
• Alternative forms of organisation (core and non-core activities) and the effects of changes in technology (for example home working) and the labour market (flexible employment relationships).
• The application of business process re-engineering and the need for customer responsiveness.
• The role of the management accounting and information systems in supporting management and the appropriateness of management accounting techniques for alternative organisational structures and philosophies.
• The concept and design of a strategic management accounting information system to assist strategy formulation, implementation and control.
• The use of investment appraisal techniques in marketing and strategy selection, for example volume enhancing marketing spends and decay reducing marketing spends.
• The basics of transaction cost analysis and the implications for the location of assets, knowledge, people and activities inside or outside the organisation.
• Contracting and outsourcing decisions and their financial effects.
• The potential problems and advantages in contracting out the finance function as a whole or of some elements of the function.
• The implications of the above for the Chartered Management Accountant and the management accounting information system.

12(v) Implementing and controlling plans - 15%

Learning outcomes

On completion of their studies students should be able to:

• evaluate and recommend appropriate control measures;
• evaluate and produce multidimensional models of performance measurement;
• discuss the effect of regulation on performance;
• evaluate the use of shareholder value analysis;
• identify problems in performance measurement and recommend solutions;
• evaluate performance from different time and stakeholder perspectives.

Syllabus content
• The problem of assessing strategic performance; the use of profit and cash measures and the concept of appropriate measures for an industry and contingent on environmental factors.
• Non-financial measures and their interaction with financial measures. Consider the need for ethical and environmental measures.
• Multidimensional models of performance: including the balanced scorecard, the results and determinants framework (six dimensional performance matrix) and the performance pyramid.
• The effect of regulation, both voluntary and legal, on corporate performance.
• The achieving of success for the shareholder; shareholder value analysis and value drivers. The strategic use of shareholder value analysis in resource allocation and re-balancing the portfolio.
• Strategic business unit performance: transfer pricing, reward systems and agency theory.
• The appraisal and comparison of international subsidiaries.
• Short versus long term achievement: research and development, changing technology, outsourcing and capital investment.