

‘Linkages between Competitive Strategy and Management Accounting’

23rd July 2014

9:00 am to 10:00 am



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Simplified Strategic and business planning model





MANAGEMENT ACCOUNTANT KEY IN STRATEGY ANALYSIS

Knowledge is required of:

- What the business is, what its strengths and weaknesses are, what its potential is, what its capacity to change is
- What the opportunities and threats facing the business are, what the capability of its rivals are, what the changing external environment holds for it
- What the business would like to be, how this relates to the knowledge of what it is and what the external environment means for it.



Strategy based on such knowledge is required to:

- Determine where the business should go and how to take it there
- Prepare the business for uncertainty
- Prepare the business to seize opportunity
- Prepare the business for change



What is Management Accounting?

Management accounting combines accounting, finance and management with the leading edge techniques needed to drive successful businesses.

Chartered management accountants do:

- Advise managers about the financial implications of projects.
- Explain the financial consequences of business decisions.
- Formulate business strategy.
- Monitor spending and financial control.
- Conduct internal business audits.
- Explain the impact of the competitive landscape.
- Bring a high level of professionalism and integrity to business.



The Management Accounting Skill-Set

CIMA teaches strategic business and management skills:

- Analysis – they analyse information and using it to make business decisions.
- Strategy – they formulate business strategy to create wealth and shareholder value.
- Risk – they identify and manage risk.
- Planning – they apply accounting techniques to plan and budget.
- Communication – they determine what information management needs and explain the numbers to non-financial managers.



THE 8 BIG managerial components of implementing strategy

- Build organization with the competencies, capabilities, and resource for successful strategy execution
- Allocating ample resources for critical activities
- Supportive policies
- Best practices and pushing for continuous improvement

- ICT and operating systems to deliver strategy
- Tying rewards and incentives to key strategic targets
- Shaping the work environment and corporate culture to fit the strategy
- Exercising the strategic leadership needed to drive implementation forward



STRATEGIC QUESTIONS FOR A MANAGEMENT ACCOUNTANT

QUESTION 1: HOW WELL IS THE PRESENT STRATEGY WORKING?

- Whether the firm's sales are growing faster, slower, or about the same pace as the market as a whole, thus resulting in a rising, eroding or stable market share.
- Whether the company is acquiring new customers at an attractive rate as well as retaining existing customers.



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING?

QUE 1 CONT...

- **Whether the firms's profit margins are increasing or decreasing and how well its margins compare to rival industry' margins.**
- **Trends in the industry net profits, return on investment and economic value added and how these compare to the same trends for other companies in the industry.**
- **Whether the company's overall financial strength and credit rating are improving or on the decline.**



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING?

QUE 1 CONT...

- **Whether the company can demonstrate continuous improvement in such internal performance measures as unit cost, defect rate, scrap rate, employee motivation and morale..**
- **How shareholders view the company based on trends in the company's stock price and shareholder value**
- **The company's image and reputation with its customers.**
- **Whether the company is regarded as a leader in technology, product innovation, ecommerce, product quality, having the best prices, and other relevant factors on which customers base their choice.**



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING?

QUESTION 2: WHAT ARE THE COMPANY'S RESOURCE STRENGTHS AND WEAKNESSES AND ITS EXTERNAL OPPORTUNITIES AND THREATS?

- **Identifying company strengths and resource capabilities**
- **Identifying company weaknesses and resource deficiencies**



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING? QUESTION 2 CONT...

MOBILIZING COMPANY RESOURCES TO PRODUCE COMPETITIVE ADVANTAGE





WHAT IS THE MANAGEMENT ACCOUNTANT SAYING?

QUESTION 3: ARE THE COMPANY'S PRICES AND COSTS COMPETITIVE

- Assessing whether a company costs are competitive with those of its close rivals is a necessary part of company situation analysis.
- **Principle of competitive markets** The higher a company costs are above those of close rivals, the more competitively vulnerable it becomes.
- **Basic concept strategic cost analysis** involves comparing how a company unit costs stack up against the unit costs of key competitors activity by activity, thereby pinpointing which internal activities are a source of cost advantage or disadvantage.



QUE 3 CONT

- **Basic concept** A company's value chain identifies the primary activities that create value for customers and the related support activities.



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING?

QUESTION 4: HOW STRONG IS THE COMPANY'S COMPETITIVE POSITION?

- Systematic assessment of whether a company's overall competitive position is strong or weak relative to close rivals is an essential step in the company's situation analysis.



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING?

QUESTION 5: WHAT STRATEGIC ISSUES DOES THE COMPANY FACE

- Identifying the strategic issues a company faces is a prerequisite to effective strategy making. It involves developing a “worry list” of strategic challenges concerning “how to ...” “whether to...?” and “what to do about...”
- **Strategic management principle** A good strategy must contain ways to deal with all the strategic issues that stand in the way of the company’s financial and competitive success in the years ahead.



QUE 5 CONT...

- Is the present strategy adequate for protecting and improving the company's market position in light of the five competitive forces-particularly those that are expected to intensify in strength?
- Is the company vulnerable to the competitive efforts of one or more rivals?
- Should the present strategy be adjusted to better respond to the driving forces at work in the industry?



QUE 5 CONT...

- Is the present strategy closely matched to the industry's future key success factors?
- Does the present strategy adequately capitalize on the company's resource strengths and capabilities?
- Which of the company's opportunities merit top priority? Which should be given low priority? Which are best suited to the company's resource strengths and capabilities?



WHAT IS THE MANAGEMENT ACCOUNTANT SAYING? QUE 5 CONT...

- How important is it for the company need to correct its resource weaknesses? Are there things the company can do to lessen the impact of external threats?
- Does the company have competitive advantage, or must it work to offset competitive disadvantage?
- Where are the strong spots and weak spots in the present strategy?



INDUSTRY AND COMPETITIVE ANALYSIS

- Managers are not prepared to decide on a long-term direction or a strategy until they have a keen understanding of the company's strategic situation – the exact nature of the industry and competitive conditions it faces and how these conditions match up with its resources and capabilities.



THE CONCEPT OF DRIVING FORCES

- Industry conditions change because important forces are driving industry participants (competitors, customers, or suppliers) to alter their actions; the **driving forces** in an industry are the major underlying causes of changing industry and competitive conditions



INDUSTRY AND COMPETITIVE ANALYSIS..CONT

- Analysis is the critical starting point of strategic thinking

~Kenichi Ohmae

Things are always different – the art is figuring out which differences matter.

~ Laszlo Birinyi



MURIMI SAYS THANK YOU

- FOCUS on Outside Results, Not Inside Results
Results and resources exist on the outside.

- PRIORITIZE Results with SMART.

Standards of Performance

Create clear goals and a rigorous accountability system with celebration mileposts.

- MEASURE Your Results

Track your progress with leading indicators.

- SLOUGH OFF Yesterday

When the horse is dead, dismount!

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Thank you

