

ACCA

SBL

Strategic Business Leader

Integrated Workbook

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Integrated Workbook Icons



Advantage



Assets



Choices



Conflict



Definition



Difficult point



Disadvantage



Factory/Manufacturing



Important Calculation



Key Point



Success/Failure



Systems



Target

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Chapter 1

Introduction to the Strategic Business Leader (SBL) exam



Outcome

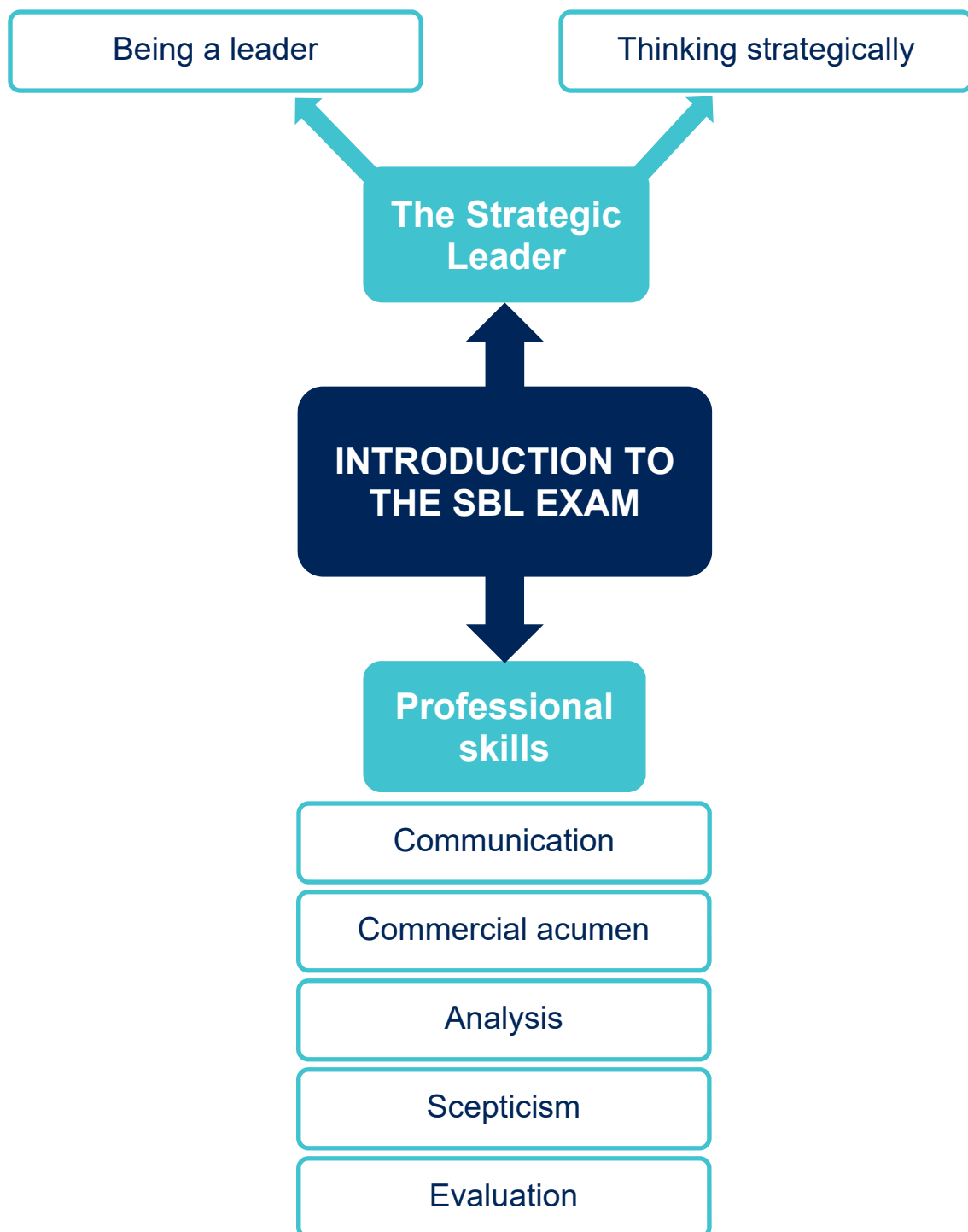
By the end of this session you should be able to:

- the key aspects of the SBL exam that make it different from other ACCA exams
- understand how the SBL is marked and what key skills are tested.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 1 of your Study Text



Overview



1 Your role – being a strategic leader

1.1 Being a leader

As a leader, you are expected to be able to analyse a business situation and provide and implement appropriate, effective and sustainable solutions.

This means that you can

- be clear and focussed, identifying the key issues in any situation
- analyse and address ethical concerns
- use technical models and quantitative analysis to draw out key issues, establish causality and integrate a wide range of factors into a coherent argument
- make recommendations that meet the needs of users and are 'fit for purpose'.

1.2 Thinking strategically

Having a strategic perspective means that you can do the following:

- Take a **long term** perspective.
- Look at the **whole organisation** as well as individual products /divisions / SBUs.
- Set the direction of the whole organisation and **integrate** its activities.
- Consider the views of **all stakeholders**, not just shareholders.
- Analyse the organisation's **resources** and define resource requirements.
- Relate the organisation to its **environments**.
- Look at gaining a sustainable **competitive advantage**.

Illustrations and further practice

Notes



2 The professional skills that you will be tested on

2.1 Communication

Syllabus spec

- (a) **Inform**
- (b) **Persuade**
- (c) **Clarify**

In summary, this means you have to express yourself clearly and convincingly through the appropriate medium while being sensitive to the needs of the intended audience.

2.2 Commercial acumen

Syllabus spec

- (a) **Demonstrate awareness**
- (b) **Use judgement**
- (c) **Show insight and perception**

In summary, this means you have to show awareness of the wider business and external factors affecting business, using commercially sound judgement and insight to resolve issues and exploit opportunities.

2.3 Analysis

Syllabus spec

- (a) Investigate
- (b) Enquire
- (c) Consider

In summary, this means you have to thoroughly investigate and research information from a variety of sources and logically process it with a view to considering it for recommending appropriate action.

2.4 Scepticism

Syllabus spec

- (a) Probe
- (b) Question
- (c) Challenge

In summary, this means you have to probe, question and challenge information and views presented to them, to fully understand business issues and to establish facts objectively, based on ethical and professional values.

2.5 Evaluation

Syllabus spec

- (a) Assess and use professional judgement
- (b) Estimate
- (c) Appraise

In summary, this means you have to carefully assess situations, proposals and arguments in a balanced way, using professional and ethical judgement to predict future outcomes and consequences as a basis for sound decision-making.

Illustrations and further practice

Notes

Questions



Chapter 2

Concepts of strategy



Outcome

By the end of this session you should be able to:

- describe the different levels of strategic planning for an organisation
- recognise the fundamental nature of strategy and strategic decisions within different organisational contexts
- describe the JSW model for defining elements of strategic management
- assess the implications of strategic drift and how it might be avoided

and answer questions relating to these areas.

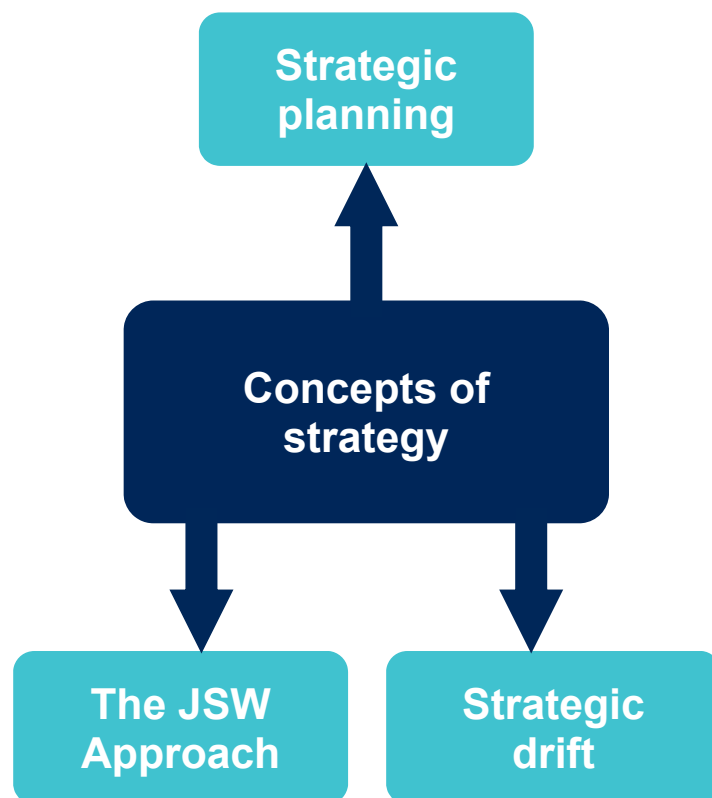


One of the PER performance objectives (PO3) is that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance – which may include making or recommending business process changes and improvements. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 2 of your Study Text



Overview



1 Strategic planning

1.1 What is strategy?



Strategy is:

‘A pattern of activities that seeks to achieve the objectives of the organisation and adapt its scope, resources and operations to environmental changes in the long term.’

It involves setting the future plans of the organisation and requires a detailed understanding of the organisation’s resources, environment and stakeholders.

Strategy can be undertaken at several levels within the organisation:

- **corporate (strategic)**
- **business (management)**
- **functional (operational)**

Illustrations and further practice

Notes

1.2 Why perform strategic planning?



- forces forward planning
- better fit with the environment
- better use of resources
- provides direction
- sets targets for performance
- clear organisation goals

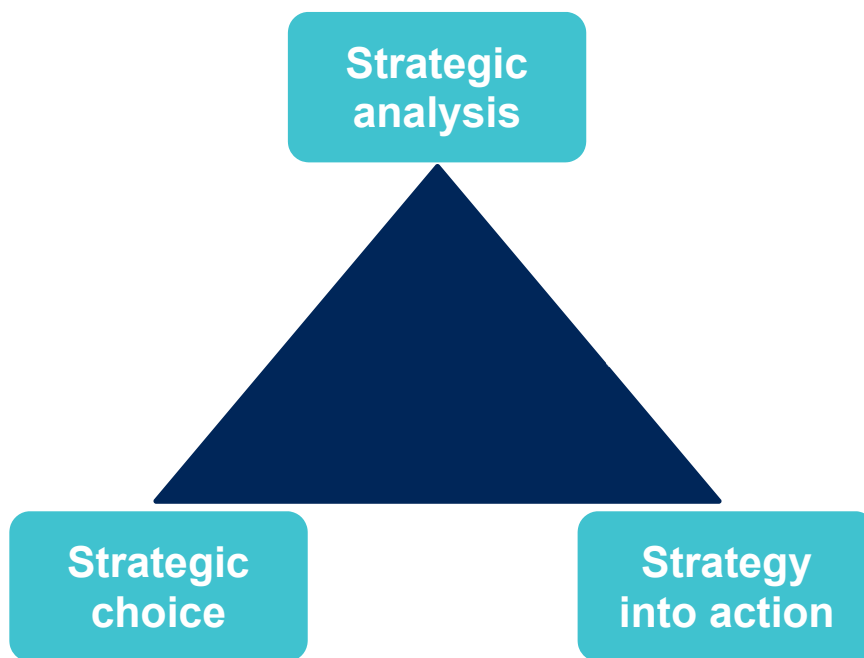


- time consuming/expensive
- difficult in rapidly changing environments
- stifles innovation
- can miss unplanned opportunities
- bureaucratic
- less relevant in a crisis

Notes



2 The JSW approach

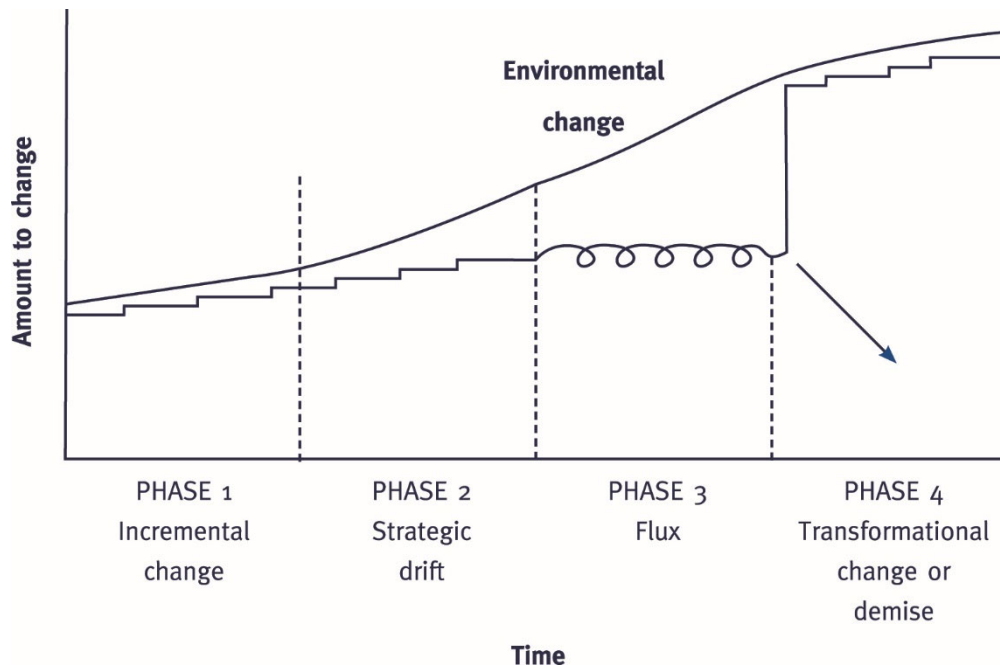


Illustrations and further practice

Notes

3 Strategic drift

3.1 The phases of strategic drift



Notes



3.2 How to avoid strategic drift

- regularly assess the environment (both in its current state and its expected future state) for changes
- have flexible systems for reacting to changes in the environment
- break down barriers to change by having an organisational culture that successfully copes with change
- have clear understanding of the mission and objectives in order to understand where the organisation wants to be in the future and to guide strategic choices
- have strong leaders who are willing and able to make changes to organisational direction and strategy.

Notes



Questions



Chapter 3

Strategic analysis



Outcome

By the end of this session you should be able to:

- assess the macro-environment of an organisation using PESTEL
- evaluate the sources of competition in an industry or sector using Porter's five forces framework
- explore, using Porter's diamond, the influence of national competitiveness on the strategic position of an organisation
- identify and evaluate an organisations strategic capability, threshold resources, threshold competences, unique resources and core competences
- highlight how these external key drivers of change are likely to affect the structure of a sector or a market
- apply Porter's value chain to assist organisations to identify value adding activities in order to create and sustain competitive advantage
- identify and evaluate the strengths and weaknesses of an organisation and formulate an appropriate SWOT analysis

and answer questions relating to these areas.

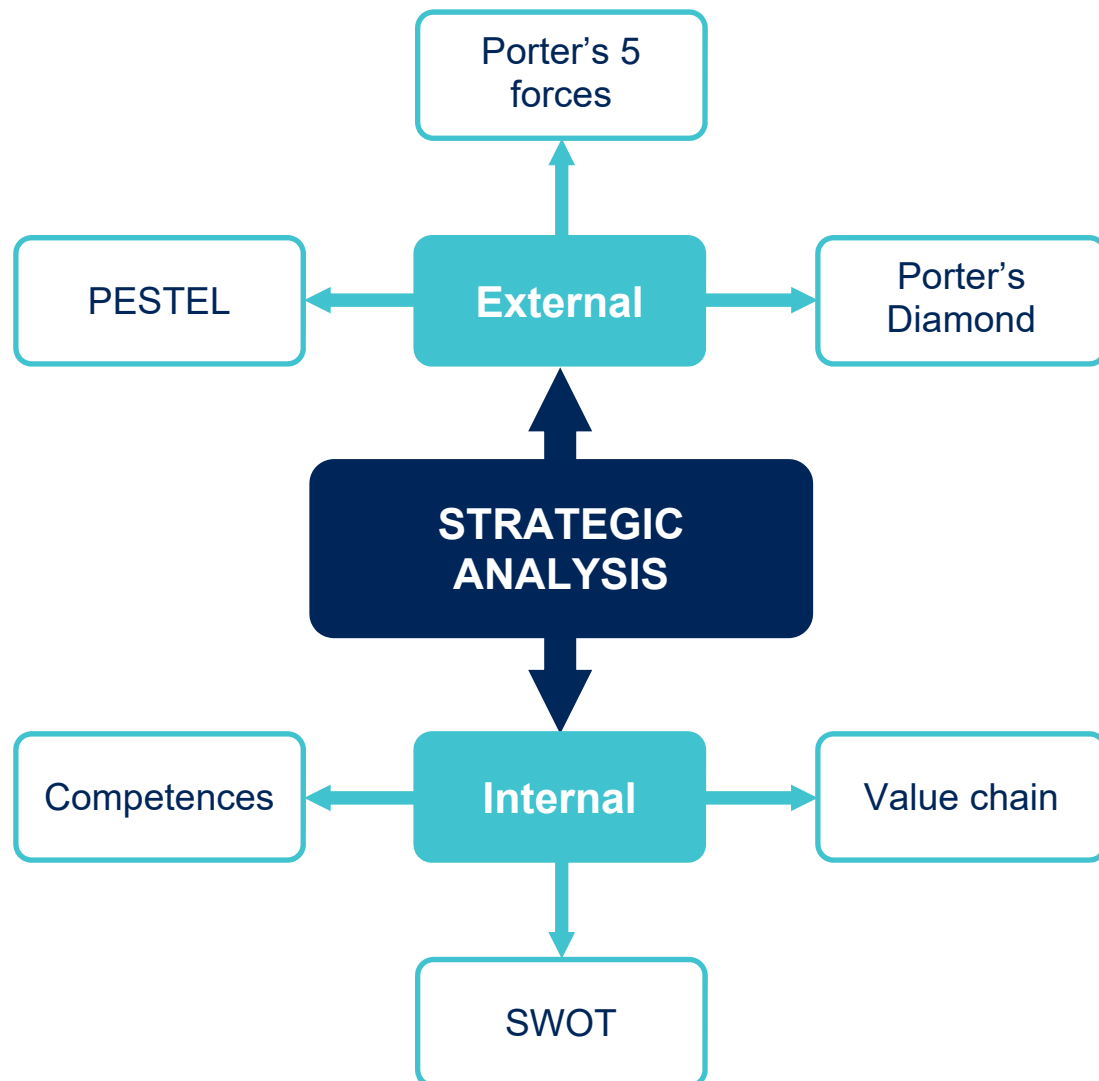


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The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 3 of your Study Text



Overview



Note: The SBL exam will not test individual theories or models in isolation or require for these theories or models to be quoted in answers to exam questions. However, understanding the theories and models is essential to provide a framework to help you approach the practical tasks in the exam.

You should use models that you judge to be relevant for a particular task or scenario to help generate the scope and structure of an answer.

1 PESTEL

These are uncontrollable, external (macro-environmental) factors which can impact on an organisations future **growth**.

The influences can come from

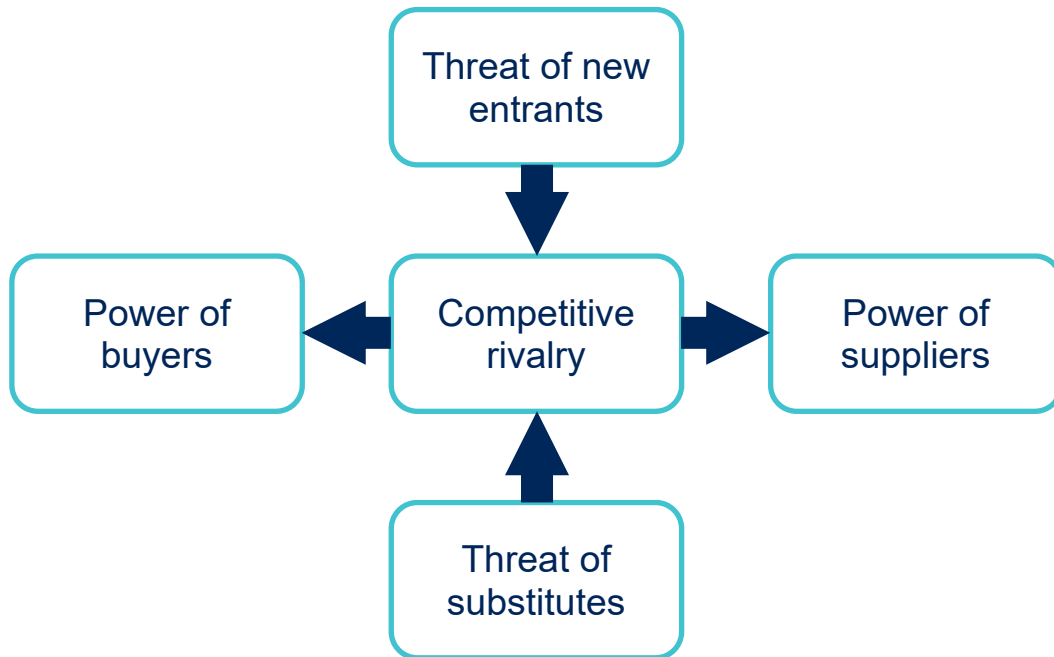
- **Political** factors
- **Economic** factors
- **Social** factors
- **Technological** factors
- **Ecological** factors
- **Legal** factors

Illustrations and further practice

Notes

2 Porter's five forces

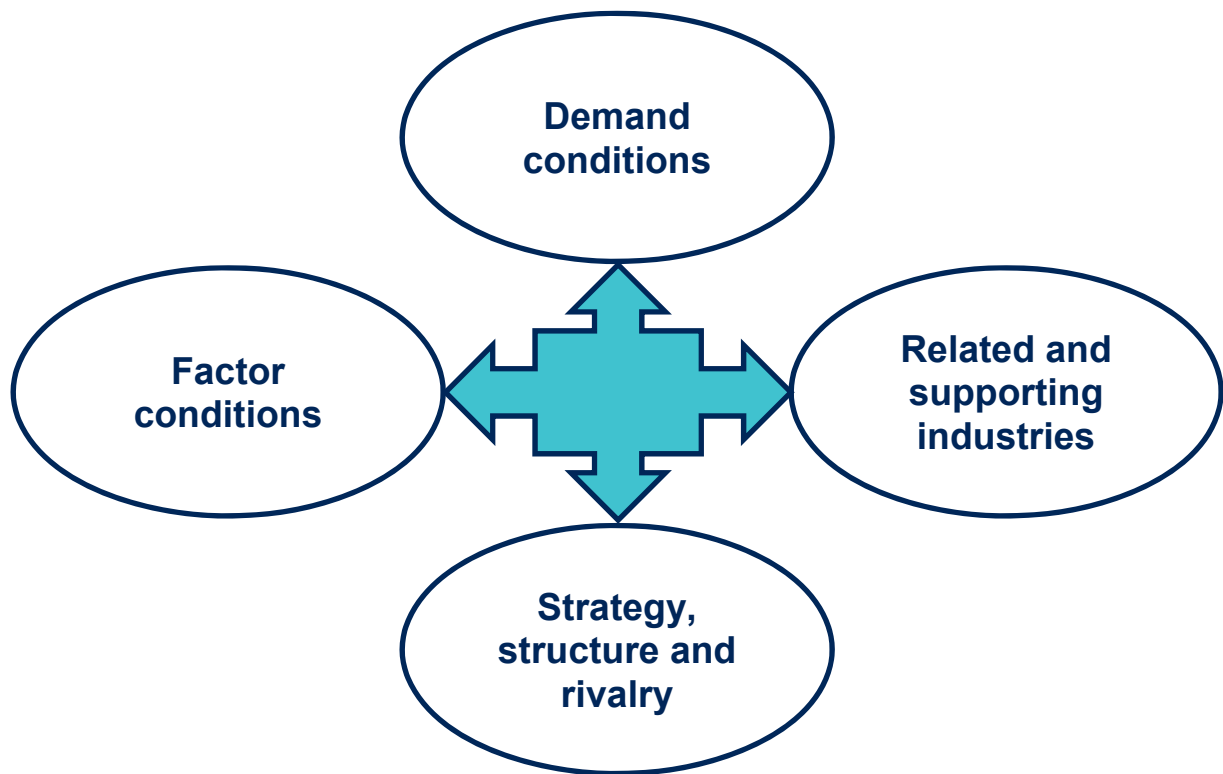
This examines the **attractiveness** of the industry that the organisation faces.



Illustrations and further practice

Notes

3 Porter's diamond



Illustrations and further practice

Notes

4 Strategic capabilities

4.1 Resources



There are two main types of resource:

- **threshold**
- **unique**

4.2 Competences



These are groups of abilities, skills or resources that enable the organisation to act effectively.

There are two main types of competence:

- **threshold**
- **core**

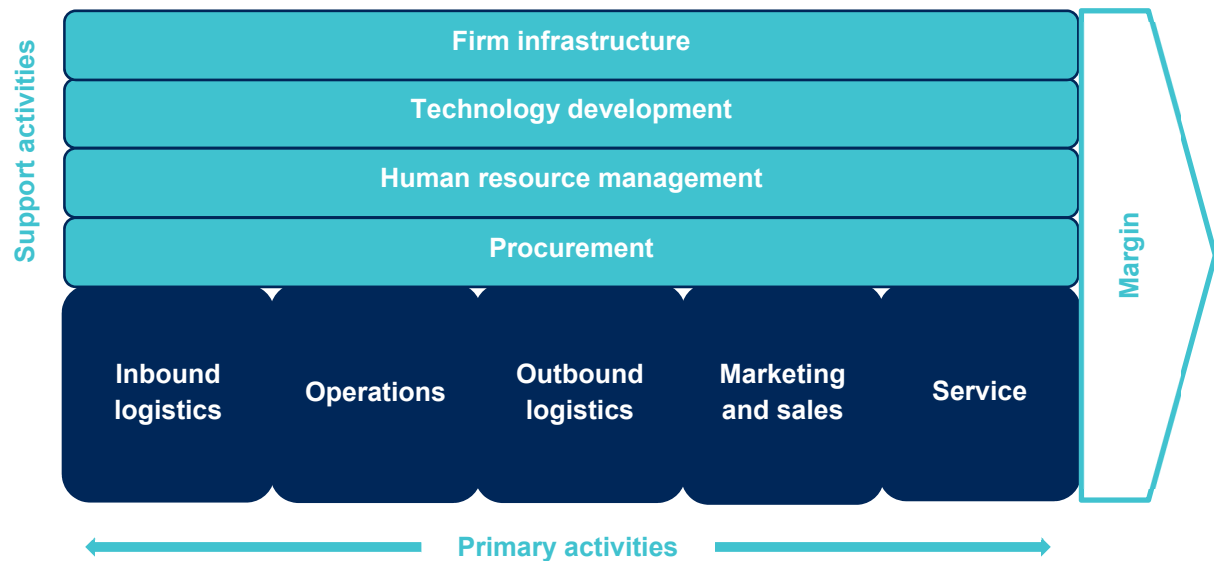


An organisation's core competences tend to become threshold over time as rivals copy them and customer needs and expectations change. This means that they need to be monitored regularly.

Notes



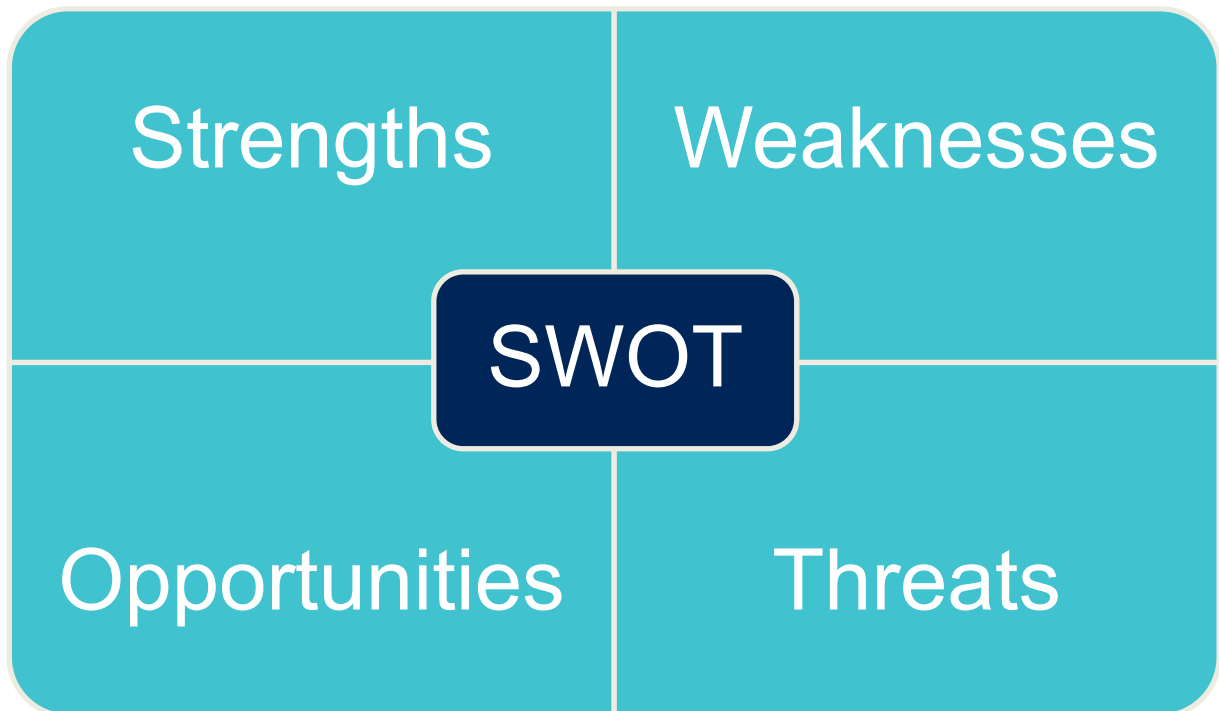
5 Value chain analysis



Illustrations and further practice

Notes

6 SWOT analysis



Key technique:

-
-
-
-

Illustrations and further practice



Notes



Questions



Notes



Chapter 4

Performance analysis



Outcome

By the end of this session you should be able to:

- assess organisation performance and position using appropriate performance management techniques, key performance indicators (KPIs) and ratios
- apply the Baldrige model for world class organisations to achieve and maintain business performance excellence

and answer questions relating to these areas.

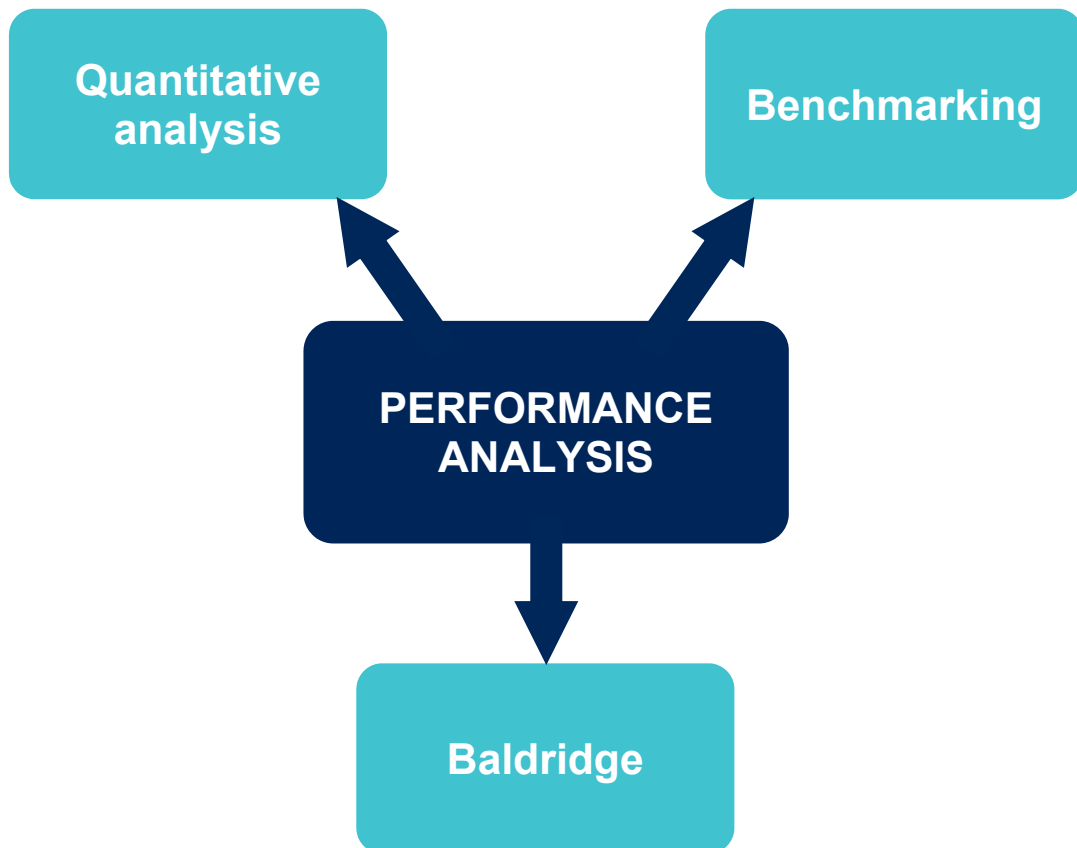


One of the PER performance objectives (PO18) is to carry out an internal or external audit from collecting evidence, through to forming an opinion. You demonstrate professional scepticism and make sure judgements are based on sufficient valid evidence. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 4 of your Study Text



Overview



1 Quantitative analysis

1.1 Tables of data

When given a table:

- understand its key message(s)
- use this message to support your analysis.

1.2 Financial statements

When given financial statements:

- choose 3 or 4 key ratios
- explain why the ratio has changed
- suggest what the implications might be for the business.

Illustrations and further practice

Notes

2 Benchmarking



Benchmarking is the process of systematic comparison of a service, practice or process. Its use is to provide a target for action in order to improve competitive position.

The objectives of benchmarking are to:

- determine where improvements are required
- analyse how high performance is achieved
- use this information to improve performance levels in processes

2.1 Types of benchmark



Internal	This determines internal best practice
Competitive	This examines the performance of rivals
Activity / best-in-class	This examines the level of performance from a similar process in a different industry

Notes



3 Baldrige performance excellence



Illustrations and further practice

Notes

Questions



Chapter 5

Strategic choice



Outcome

By the end of this session you should be able to:

- apply the value chain in a scenario
- explain, in a scenario, through the strategic clock, generic strategy options
- discuss how big data can be used to inform and implement business strategy
- explain strategies for sustaining competitive advantage
- describe different types of benchmarking

and answer questions relating to these areas.



One of the PER performance objectives (PO3) is that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance – which may include making or recommending business process changes and improvements. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 5 of your Study Text

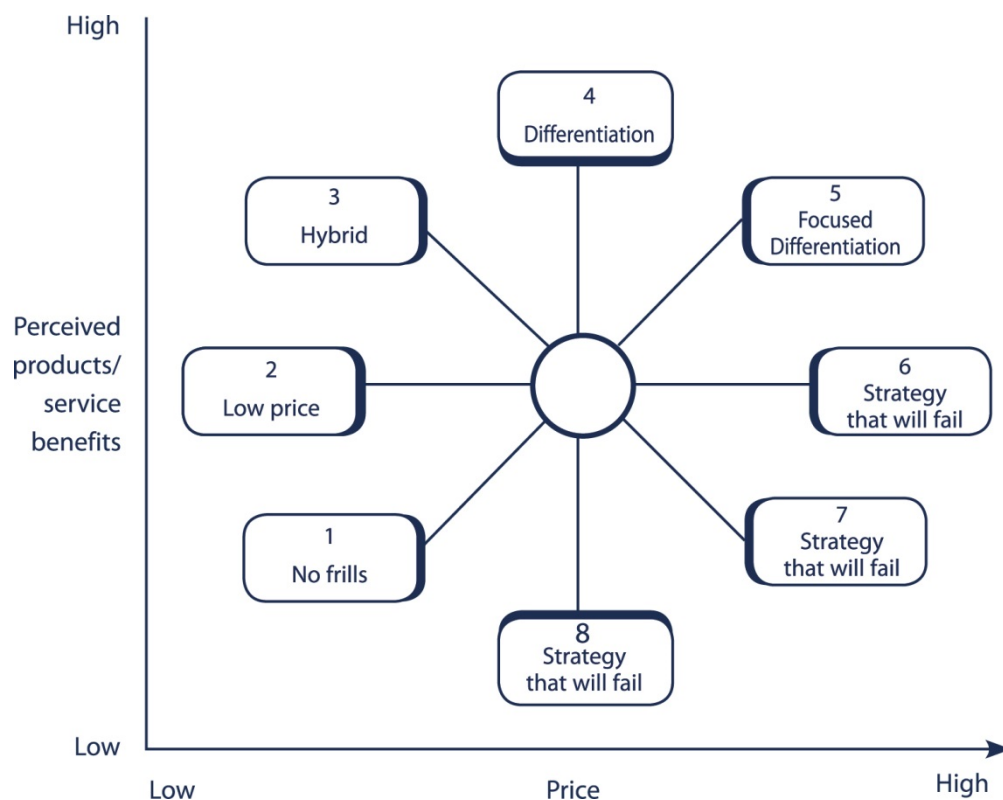


Overview



1 Competitive strategies

1.1 The strategy clock



Notes



Chapter 5

1.2 Elements of competitive strategies

	CSFs	Key threats
No frills	Finding cheaper alternatives Eliminating all waste	Changes in buyer preferences Loss of barriers to entry
Low cost	Economies of scale A focus on cost reduction	Larger (international?) rivals
Hybrid	Economies of scale Branding Service levels	Loss of brand Difficult to achieve Target for all rivals
Differentiation	Innovation Branding Marketing	Being copied New technology which differentiates
Focused differentiation	Market knowledge Unique product/service	Recession Small market size Few barriers

Notes



2 Maintaining competitive advantage

2.1 Sustaining cost advantages

- constant focus on cost reduction
- being aggressive in price wars
- investing in technology.

2.2 Sustaining differentiation strategies

- constantly innovate
- create/reinforce barriers to entry
- improve the customer experience.

2.3 Other ideas

- lock-in customers
- exploit existing technological innovations
- sustain knowledge management.

Illustrations and further practice

Notes

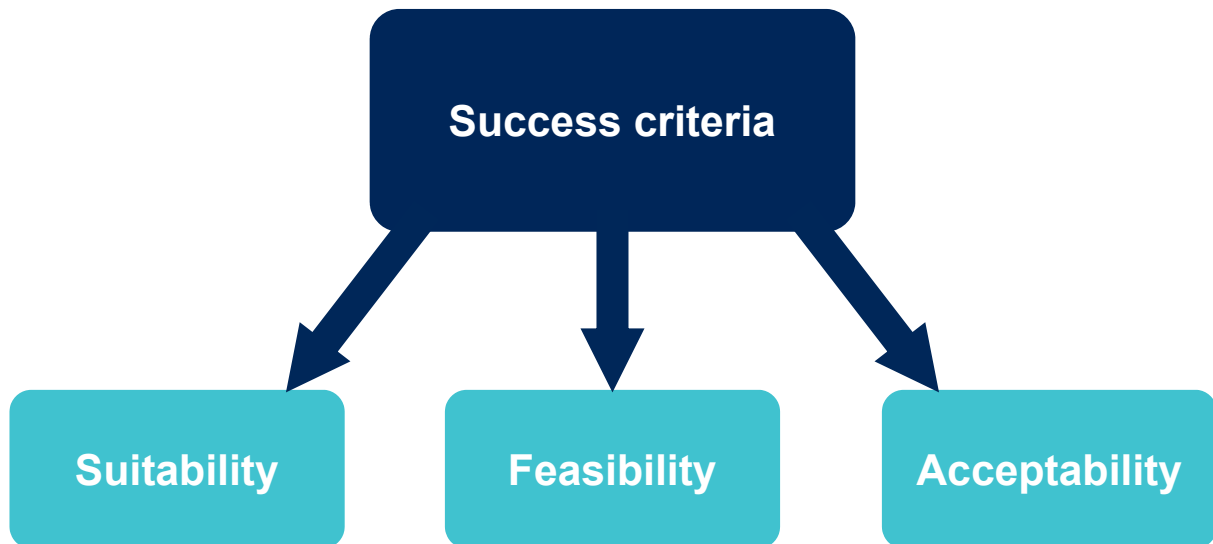
3 Growth strategies – Ansoff

	Existing product	New product
Existing market	Market penetration <ul style="list-style-type: none"> – Introduce a new or improved competitive strategy – Best used when market is growing Risks <ul style="list-style-type: none"> – Competitors will react – Can lead to stagnation 	Product development <ul style="list-style-type: none"> – Create new or improved products – Or copy rivals Risks <ul style="list-style-type: none"> – Unknown demand – Can harm existing products
New market	Market development <ul style="list-style-type: none"> – Target a new market segment – Strategic alliances are often used to reduce risks Risks <ul style="list-style-type: none"> – Puts a strain on capabilities – Need new external analysis 	Diversification <ul style="list-style-type: none"> – New products and markets – Can be forward, backward, horizontal or conglomerate Risks <ul style="list-style-type: none"> – Very different CSFs – Need new external analysis – Can reduce flexibility

Notes



4 Strategy evaluation



Illustrations and further practice

Notes

Questions



Chapter 6

Methods of strategic development



Outcome

By the end of this session you should be able to:

- assess different methods of pursuing a chosen strategic direction
- describe the relationship between corporate parents and business units, the rationales for adding value and how a corporate parent can destroy value
- apply the BCG matrix or parenting matrix to assist organisations in managing their portfolios

and answer questions relating to these areas.



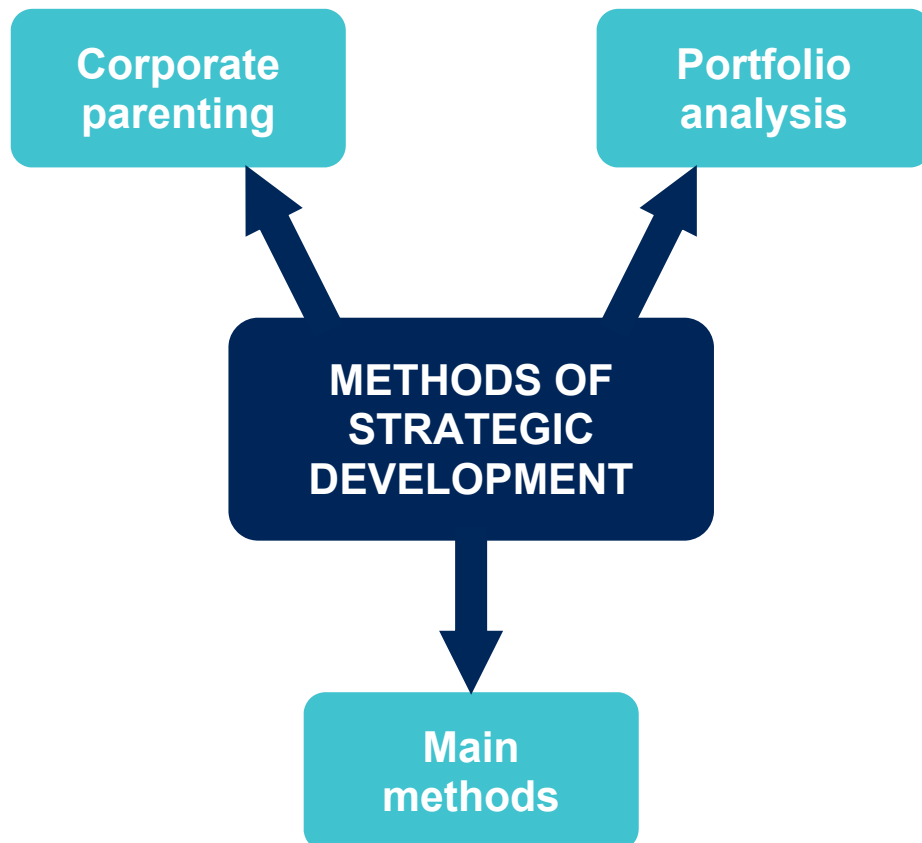
PER

One of the PER performance objectives (PO3) is that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance – which may include making or recommending business process changes and improvements. Working through this chapter should help you understand how to demonstrate that objective.

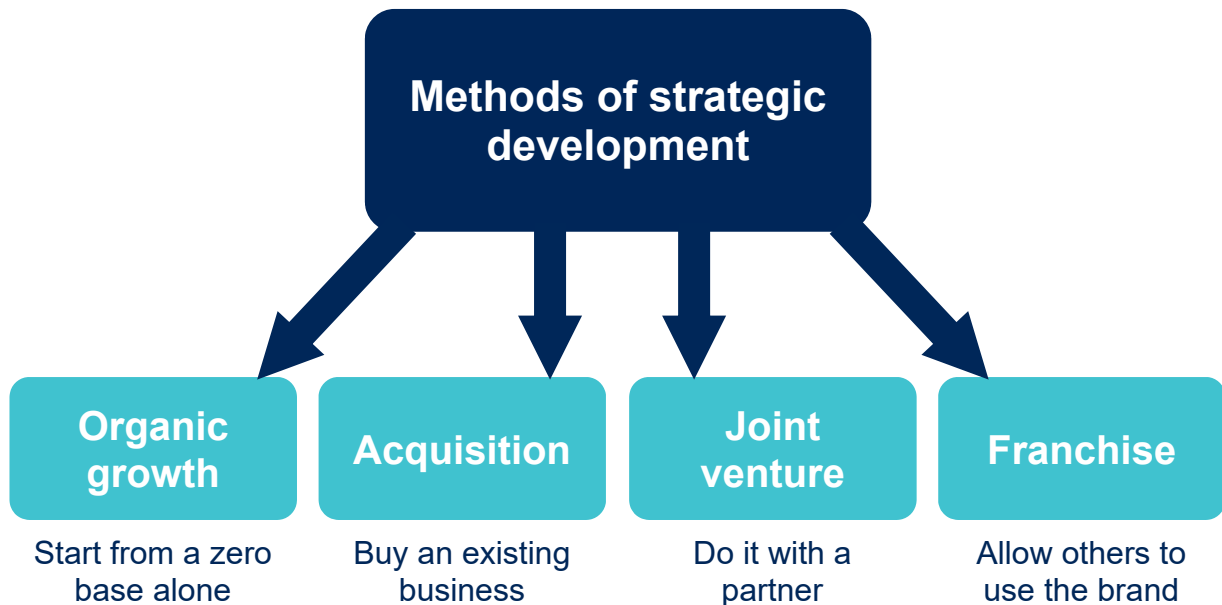
The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 6 of your Study Text



Overview



1 Main methods of development



Illustrations and further practice

Notes

2 Corporate parenting

2.1 Corporate parenting



Corporate parenting looks at the relationship between head office and individual business units.

2.2 How to add value

- Provide resources
- Provide central services
- Provide access to markets
- Monitor performance and solve problems
- Share expertise
- Facilitate collaboration and cooperation
- Help in strategic decision making and train senior management.

Notes



2.3 Rationales for adding value

- Synergy manager
- Portfolio manager
- Parental developers

2.4 How to destroy value

- Imposing high admin costs
- Adding extra levels of bureaucracy
- Adding extra elements of complexity.

Notes



3 Portfolio analysis

3.1 Portfolio analysis



This determines the fit between a SBU and the overall organisation as well as the fit for the SBU with other SBUs in the organisation's portfolio of SBUs.

3.2 Main uses

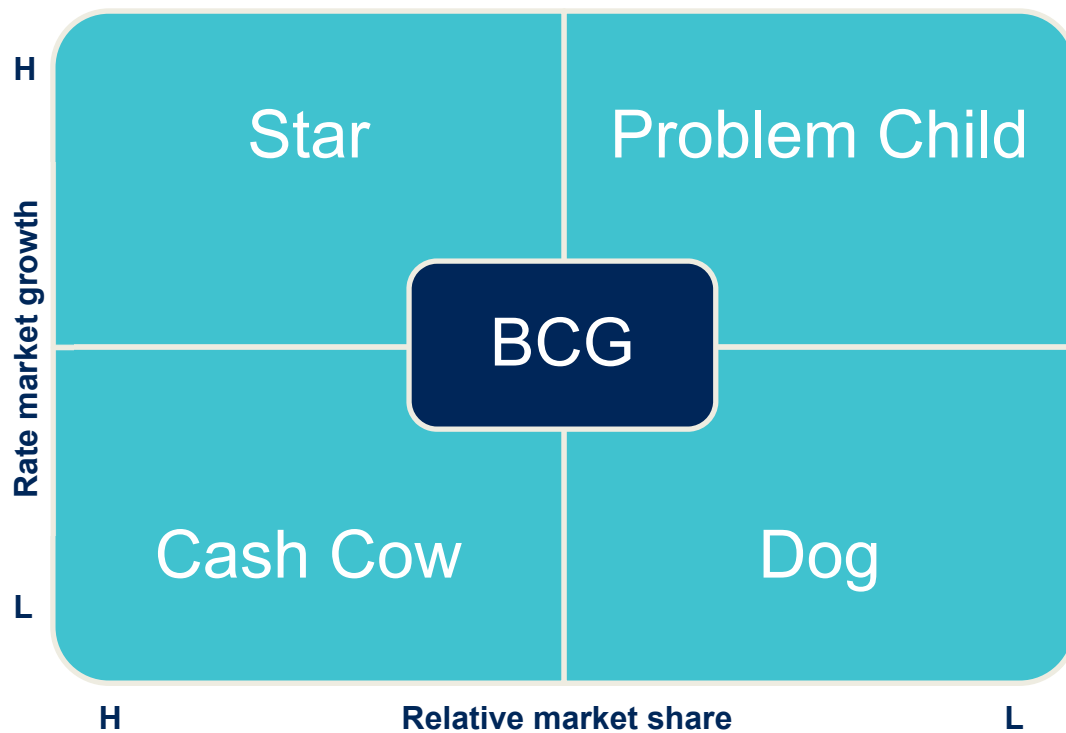
- Assessing performance and position of SBUs in the portfolio
- Determining strategies for SBUs
- Suggesting SBUs for disposal
- Assessing potential SBUs for acquisition.

There are two ways to do this.

Notes



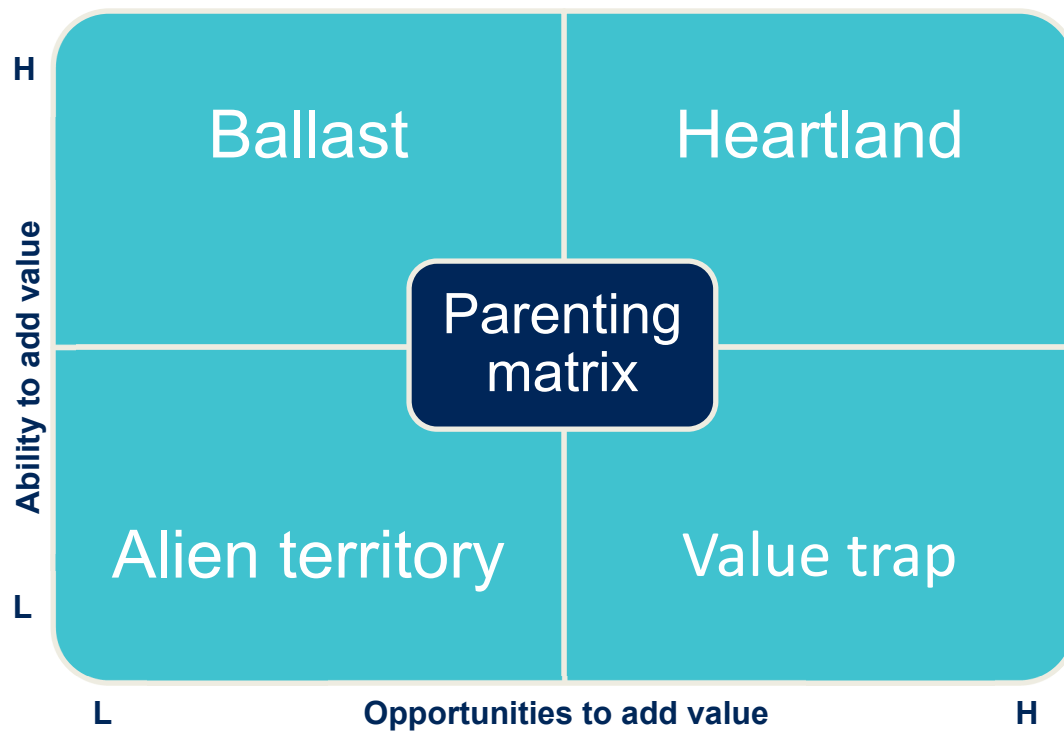
3.3 The BCG matrix



Illustrations and further practice

Notes

3.4 The parenting matrix (Ashridge)



Illustrations and further practice

Notes

Questions



Notes



Chapter 7

Governance – general principles



Outcome

By the end of this session you should be able to:

- discuss the nature of the principal-agent relationship in the context of governance
- analyse the issues connected with the separation of ownership and control over organisation activity
- compare rules versus principles based approaches to governance and when they may be appropriate
- discuss different models of organisational ownership that influence different governance regimes (family firms versus joint stock company-based models) and how they work in practice
- compare and contrast public sector, private sector, charitable status and non-governmental (NGO and quasi-NGOs) forms of organisation, including agency relationships, stakeholders' aims and objectives and performance criteria
- assess and evaluate the strategic objectives, leadership and governance arrangements specific to public sector organisations as contrasted with private sector
- explain democratic control, political influence and policy implementation in public sector organisations
- discuss obligations of the public sector organisations to meet the economy, effectiveness, efficiency (3 Es) criteria and promote public value

and answer questions relating to these areas.

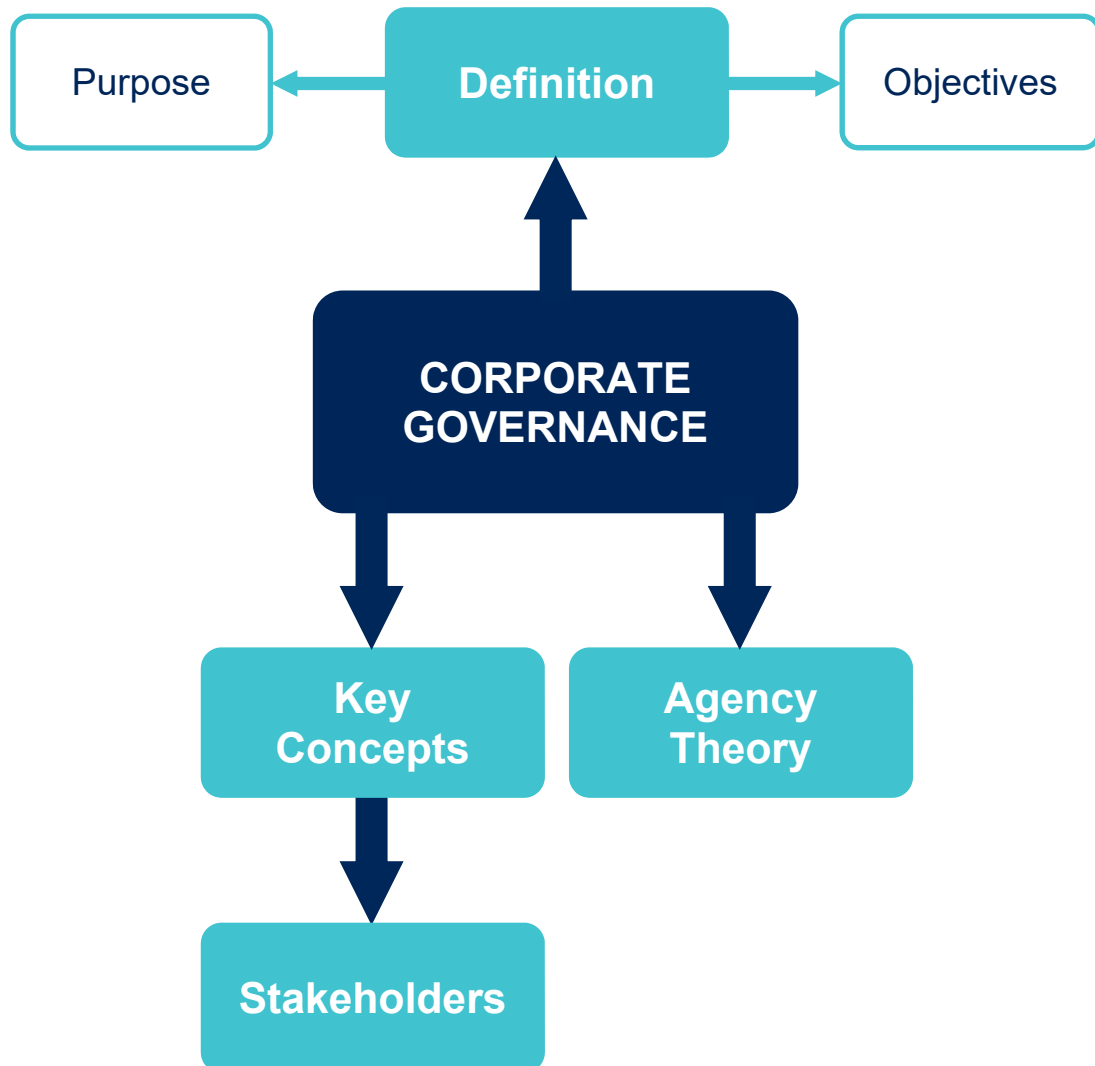


One of the PER performance objectives (PO4) is that you contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 7 of your Study Text



Overview



1 Corporate Governance

1.1 What is corporate governance?



- 'The system by which companies are directed and controlled in the interest of shareholders and others stakeholders.'

1.2 Importance of corporate governance:

- In most countries listed companies are required to comply.
- It is often built into stock exchange listing rules.
- Major influence on, and key part of, a company's risk management strategy.

1.3 Limitations of corporate governance:

- It does not prevent company failure or collapse.
- It cannot prevent companies failing to achieve their objectives.

1.4 Principles-based or rules-based

- Principles-based approach –
–
- Rules-based approach –
–

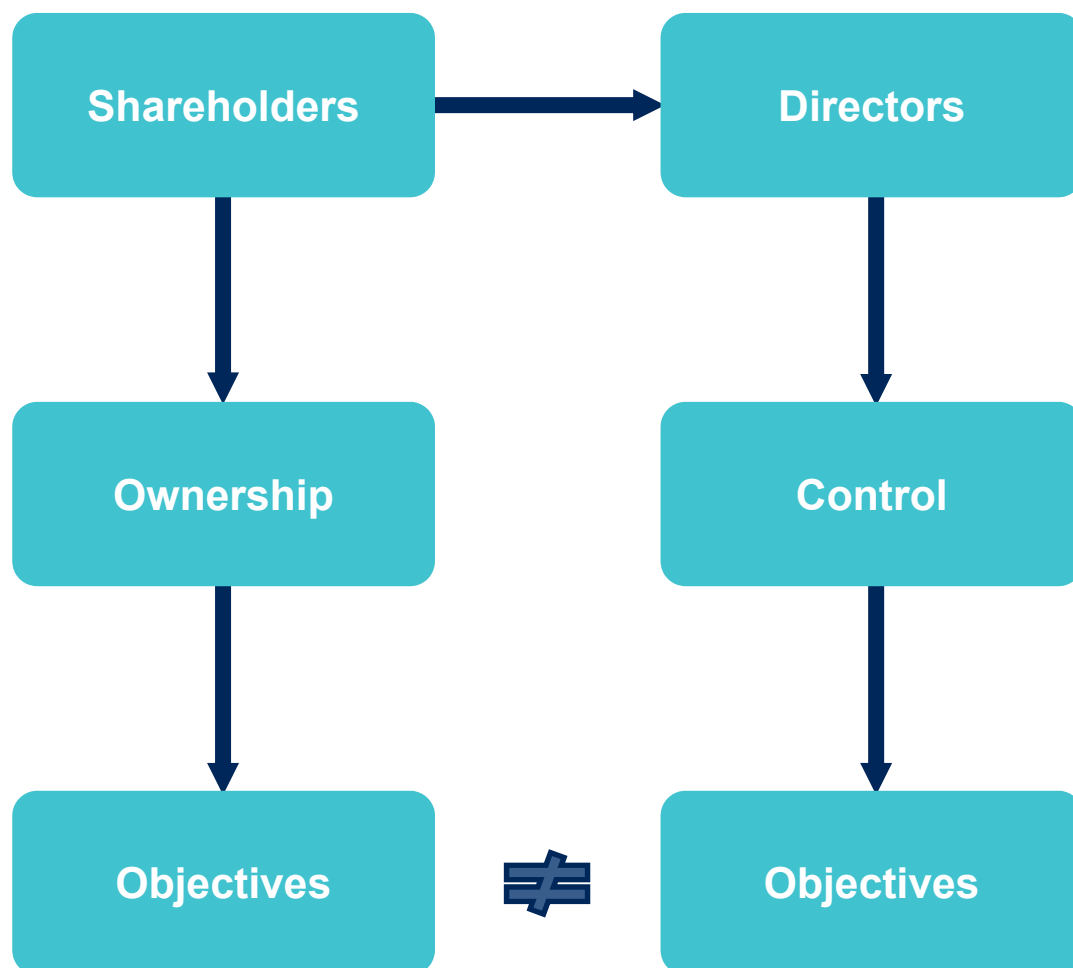
Illustrations and further practice



Notes



2 Company ownership and control



Notes



3 The business case for governance

Providing a business case for governance is important in order to enlist management support.

Corporate governance is claimed to bring the following benefits:

- strengthening the control structure of a business increases accountability of management
- more attractive to investors –
- the share price might rise – the ‘governance dividend’ –
- a socially responsible company – ‘social responsibility dividend’ –

Notes



4 Purpose and objectives of governance

4.1 For the private sector:

- to monitor those parties within a company which control the resources owned by investors.
- the primary objective of sound corporate governance is improved corporate performance and accountability in creating long term shareholder value.

4.2 For the public and not for profit sectors:

- objectives within these organisations are more complex and conflicting.
- organisations are often appraised according to the 'value for money' (VFM) that they generate.
 - defined as performance of an activity to simultaneously achieve

The three elements of value for money are:

- Economy =
- Effectiveness =
- Efficiency =

Illustrations and further practice

Notes

5 Key concepts



The foundation to governance is the action of the individual. These actions are guided by a person's moral stance.

Characteristics which are important in the development of an appropriate moral stance include the following:

- Fairness
 -
 -
- Openness/transparency
 -
 -
 -
- Innovation
 -
- Scepticism
 -
- Independence
 -
- Probity/honesty
 -
 -
- Responsibility
 -
 -

Chapter 7

➤ Accountability

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➤ Reputation

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➤ Judgement

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➤ Integrity

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Illustrations and further practice



Notes

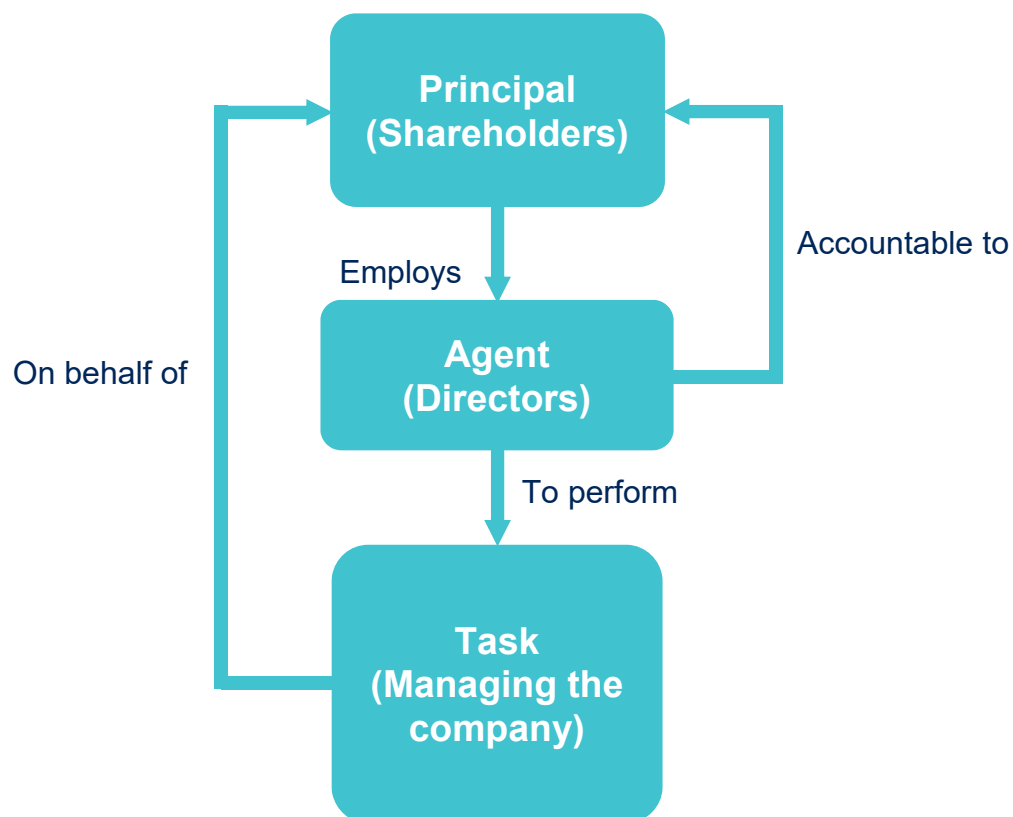


6 Agency Theory

6.1 What is agency theory?



- Agency theory is a group of concepts describing the nature of the agency relationship



Notes



6.2 Key concepts of agency theory

A number of key terms and concepts are essential to understanding agency theory.

- An **agent** is employed by a **principal** to carry out a task on their behalf.
- Agency refers to the **relationship between a principal and an agent**.
- Agency costs are incurred by principals in monitoring agency behaviour.
- By accepting to undertake a task on their behalf, an **agent** is **bound** by whom they are employed.
- Directors (agents) have a **duty** to the shareholders (principal) of their organisation (usually described through company law as 'operating in the best interests of the shareholders').
- Stakeholders are any person or group that can **be affected** by the policies or activities of an organisation.
- Agent objectives (such as a desire for high salary, large bonus and status for a director) will differ from the principal's objectives (wealth maximisation for shareholders).
- The most important agency costs are the **costs of monitoring**.

6.3 The cost of agency relationships

Agency costs arise largely from principals monitoring activities of agents, and may be viewed in monetary terms, resources consumed or time taken in monitoring. Costs are borne by the principal, but may be indirectly incurred as the agent spends time and resources on certain activities.

Examples of costs include:

- incentive schemes and remuneration packages for directors
- costs of management providing annual report data such as committee activity and risk management analysis, and cost of principal reviewing this data
- cost of meetings with financial analysts and principal shareholders
- the cost of accepting higher risks than shareholders would like in the way in which the company operates
- cost of monitoring behaviour, such as by establishing management audit procedures

6.4 Residual loss

- This is an additional type of agency cost and relates to directors furnishing themselves with expensive cars and planes etc. These costs are above and beyond the remuneration package for the director, and are a direct loss to shareholders

Illustrations and further practice



Notes



7 Stakeholders

7.1 Stakeholder theory

The basis for stakeholder theory is that companies are so large and their impact on society so pervasive that they should discharge accountability to many more sectors of society than solely their shareholders.

Stakeholders are not only are affected by the organisation but they also affect the organisation.



Notes



7.2 Internal corporate governance stakeholders



- A useful definition of a stakeholder, for use at this point, is
- there are a number of internal parties involved in corporate governance. These parties can be referred to as internal stakeholders.

Each internal stakeholder has:

- an operational role within the company
- a role in the corporate governance of the company
- a number of interests in the company (referred to as the stakeholder's 'claim').

7.3 External corporate governance stakeholders

- A company has many external stakeholders involved in corporate governance.

Each stakeholder has:

- a role to play in influencing the operation of the company
- its own interests and claims in the company



A stakeholder claim is where a stakeholder
These claims can be concerned with the way a
stakeholder may want to of an organisation or by
the way they are by the organisation.

There are:

- Direct claims – made by stakeholders directly with the organisation and are unambiguous e.g.
- Indirect claims – where the stakeholder is 'voiceless', e.g. an individual customer of a large retail organisation or

Notes



Illustrations and further practice



Notes



Questions



Chapter 8

Approaches to governance



Outcome

By the end of this session you should be able to:

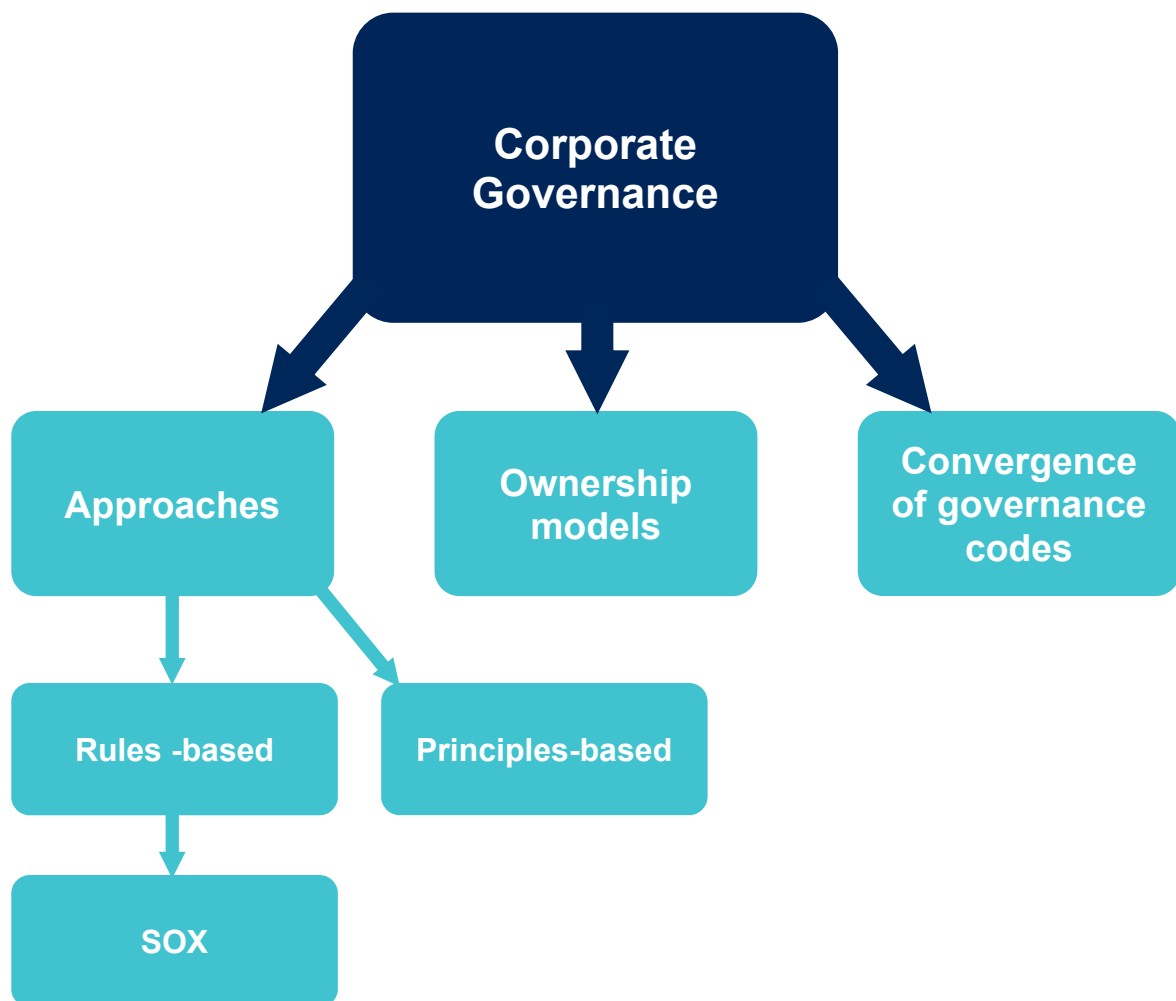
- compare rules versus principles based approaches to governance and when they may be appropriate
- discuss different models of organisational ownership that influence different governance regimes (family firms versus joint stock company-based models) and how they work in practice
- describe the objectives, content and limitations of, governance codes intended to apply to multiple national jurisdictions e.g. Organisation for economic cooperation and development (OECD) Report (2004) and International corporate governance network (ICGN) Report (2005)

and answer questions relating to these areas.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 8 of your Study Text

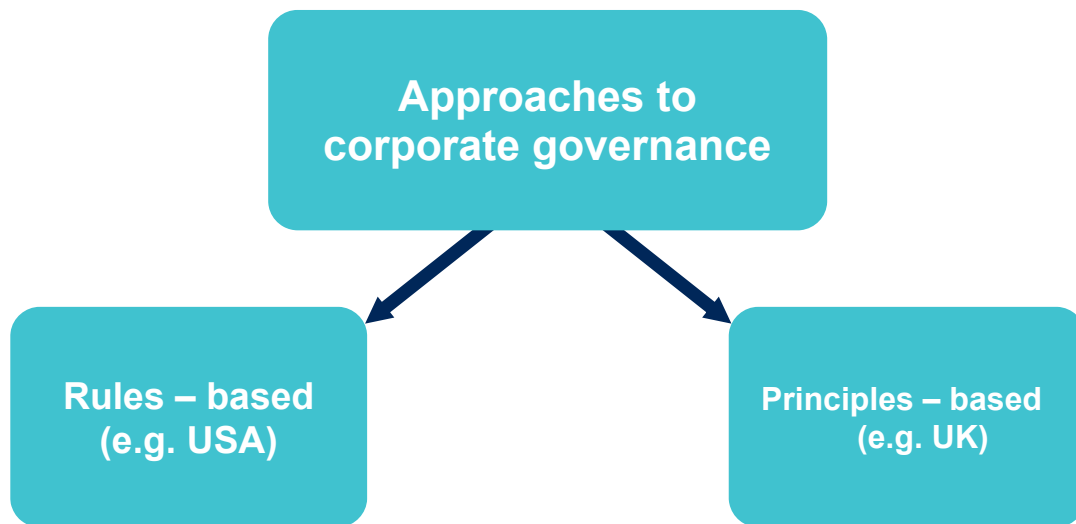


Overview



1 Corporate governance approaches

1.1 Rules and principles based approaches to corporate governance



- A rules-based approach instils the code into law with for transgression
- A principles-based approach requires the company to adhere to the spirit rather than the letter of the code. The company must either through reports to the appropriate body and its shareholders.

1.2 Choice of governance regime

The decision as to which approach to use for a country can be governed by many factors:

- dominant ownership structure (bank, family or multiple shareholder)
- legal system and its power/ability
- government structure and policies
- state of the economy
- culture and history
- levels of capital inflow or investment coming into the country
- global economic and political climate.

1.3 Comply or explain



- A principles-based code requires the company to state that
in its annual report. This will leave shareholders to
draw their own conclusions regarding the governance of the
company.

Illustrations and further practice



Notes



1.4 Arguments in favour of a rules-based approach

Organisation's perspective:

- Clarity in terms of what the company must do – the rules are a legal requirement, clarity should exist and hence is required.
- Standardisation for all companies – there is no choice as to complying or explaining and and possibly fairer approach for all businesses.
- Binding requirements – the criminal nature makes it very clear that the with.

Wider stakeholder perspective:

- Standardisation across all companies – a level playing field is created.
- Sanction – the sanction is criminal and therefore a greater deterrent.
- Greater confidence in regulatory compliance.

1.5 Arguments against a rules-based approach

Organisation's perspective:

- Exploitation of loopholes – the exacting nature of the law lends itself to the seeking of loopholes.
- Underlying belief – the belief is that you set (i.e. no 'buy-in' is required).
- Flexibility is lost – there is no choice in compliance
- Checklist approach – this can arise as companies seek to comply with all aspects of the rules and start ‘

1.6 Wider stakeholder perspective:

- ‘Regulation overload’ – the volume of rules and amount of legislation may give rise for businesses and for the regulators
- Legal costs – to enact new legislation to close loopholes
- Limits – there is , or go beyond the minimum level set
- ‘Box-ticking’ rather than compliance – this does not lead to well governed organisations.

Illustrations and further practice

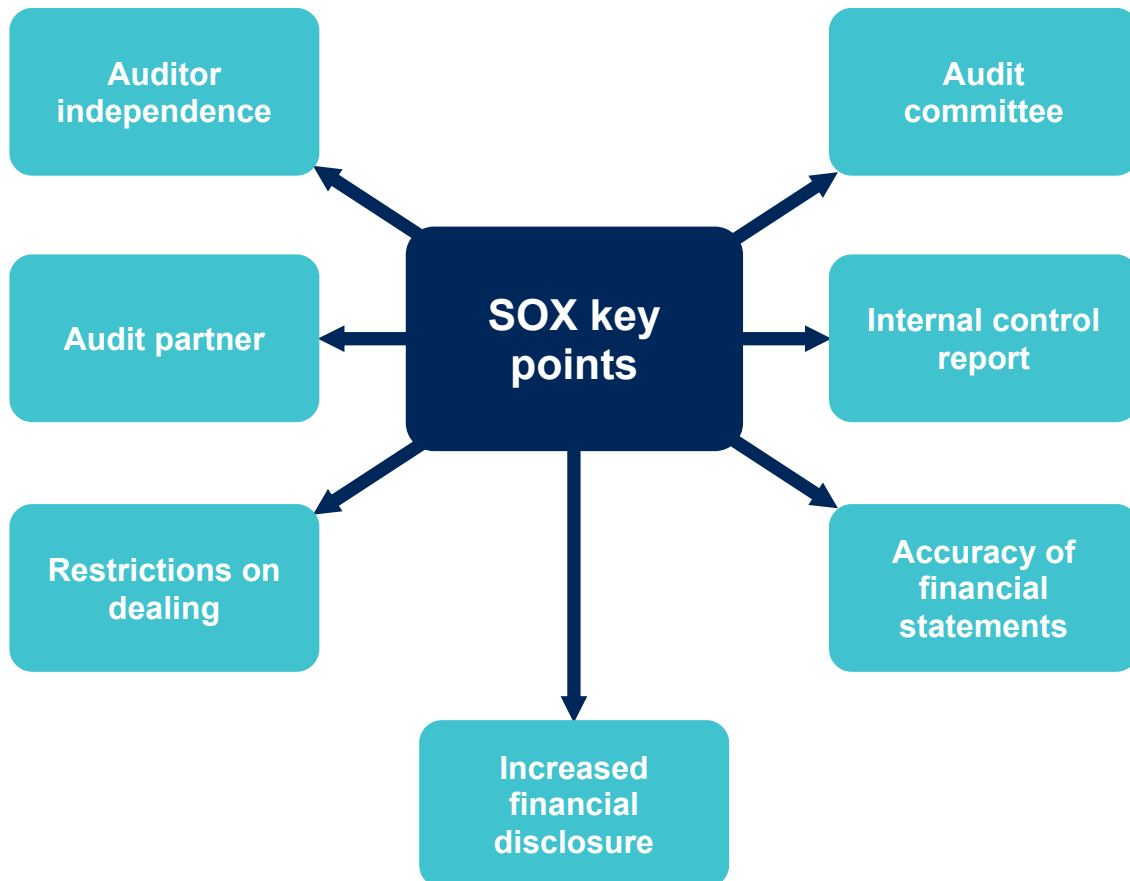


Notes



2 Sarbanes Oxley (SOX)

2.1 SOX key points



Notes



2.2 Key effects of SOX



- punishment of directors for mismanagement and criminal
- improved of material issues to shareholders
- improved in corporate US
- improved of companies
- greater firms between companies and audit
- improved governance through

2.3 Negative reactions to SOX

- doubling of costs to organisations
- onerous documentation and costs
- reduced of companies
- reduced risk taking and of organisations
- limited impact on the ability to stop corporate abuse
- legislation defines a and little more

Illustrations and further practice



Notes





Ownership models and governance structures

3.1 Family structures



A family structure exists where a family has a controlling number of shares in a company.

Benefits:

- Fewer agency costs
- Ethics
- Fewer short-term decisions

Problems:

- Gene pool
- Feuds
- Separation

Notes



3.2 Insider-dominated structures

Insider-dominated structures are where the listed companies are dominated by a small group of shareholders.

Benefits:

- The agency problem is reduced –
- Greater access to and potentially lower cost of capital
- Smaller base of shareholders willing to take a view of investment.
- Improved communication and influence over management.

Problems:

- Lack of minority shareholder protection (unlike protection in law in outsider-dominated structures).
- Opaque operations and in reporting.
- Misuse of power i.e. in influential positions and NEDs.
- The market does not decide or govern (shareholders cannot exit easily to express discontent).
- Tend to be reluctant until forced to develop formal governance structures.
- Reluctance of large independent shareholders to invest.

Illustrations and further practice

Notes



4 International convergence

The competitiveness of nations is a preoccupation for all governments because:

- Harmonisation and liberalisation of financial markets mean that foreign companies now find it easy to invest in any marketplace.
- A drive towards international standards in business practices to sit alongside the global shift in applying International Accounting Standards (IASs).

Two organisations have published corporate governance codes intended to apply to multiple national jurisdictions.

4.1 The Organisation for Economic Cooperation and Development (OECD)

The OECD provides a forum in which to establish and co-ordinate policies.

Content of the OECD principles:

- ensuring the basis for an effective corporate governance framework
- the rights of shareholders and key ownership functions
- the equitable treatment of shareholders
- the role of stakeholders in corporate governance
- disclosure and transparency
- the responsibilities of the board.

Notes



4.2 The International Corporate Governance Network (ICGN).

The ICGN represents investors, companies, financial intermediaries, academics and other parties interested in the development of global corporate governance practices.

Content of the ICGN principles:

- corporate objective – shareholder returns
- disclosure and transparency
- audit
- shareholders' ownership, responsibilities, voting rights and remedies
- corporate boards
- corporate remuneration policies
- corporate citizenship, stakeholder relations and the ethical conduct of business
- corporate governance implementation.

Limitations:

- All codes are voluntary and are not legally enforceable
- Local differences in company ownership models may mean

Notes



Questions



Chapter 9

Stakeholders and corporate social responsibility



Outcome

By the end of this session you should be able to:

- discuss and critically assess the concept of stakeholder power and interest using the Mendelow model and apply this to strategy and governance
- evaluate the stakeholders' roles, claims and interests in an organisation and how they may conflict
- explain social responsibility and viewing the organisation as a corporate citizen' in the context of governance
- explain and evaluate the concepts of 'CSR strategy' and 'strategic CSR'

and answer questions relating to these areas.



PER

One of the PER performance objectives (PO2) is that you manage stakeholder expectations and needs, developing and maintaining productive business relationships. You listen to and engage stakeholders effectively and communicate the right information to them when they need it. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 9 of your Study Text



Overview



1 Definition and nature of CSR



Notes



Chapter 9

1.1 The nature of CSR

Carroll's definition of CSR:



1.2 A four-part model of CSR

Economic responsibility

- Shareholders demand a
- Employees want jobs.
- Customers at a fair price.

Legal responsibility

- The law is a for operating within society.
- It is an accepted rule book for company operations.

Ethical responsibility

- This relates to doing what is

Philanthropic responsibility

- Relates to to improve the lives of others, e.g. charitable donations and recreational facilities.

NB: Whilst this is not contained in the syllabus and will not be examined directly, it is a good framework to understand the basic concept of CSR.

Illustrations and further practice



Notes



2 CSR strategy

2.1 Developing a CSR strategy



By taking a strategic approach to CSR organisations can determine what activities they have the resources to devote to being socially responsible and therefore choose those that will strengthen their competitive advantage.



Notes



3 Stakeholder theory

3.1 Stakeholders



Freeman defines stakeholders as 'any person or group that the policies or activities of an organisation'.

3.2 Stakeholder claims



These are the demands that the stakeholder makes of an organisation. They essentially from an organisation.

- **Direct stakeholder** claims are and are often made directly between the stakeholders and the organisation e.g. trade unions.
- **Indirect claims** are made by those stakeholders to the organisation. They have no 'voice' e.g. an individual customer of a large organisation.

Note: The claim of an indirect stakeholder will need to be interpreted by someone else in order to be expressed.

3.3 Stakeholder classifications and relations

Internal and external stakeholders

- This is the distinction between stakeholders inside the organisation and those outside.
- Internal: e.g.
- External: e.g.

Notes



Narrow and wide stakeholders

- *Narrow*: who are dependent on corporation output e.g.
- *Wide*: less dependent on company output e.g.

Primary and secondary stakeholders

- *Primary*: those that have a direct effect on the company and without whom it would be difficult to operate e.g.
- *Secondary*: those that have a limited direct influence on the organisation and without whom the company would survive e.g.

Active and passive stakeholders

- *Active*: those that wish to participate e.g. management but may also include e.g.
- *Passive*: those that do not wish to participate e.g.

Voluntary and involuntary stakeholders

- *Voluntary*: those stakeholders that choose to be involved in organisational decision making e.g.
- *Involuntary*: those stakeholders that do not choose to be involved in organisational decisions e.g.

Legitimate and illegitimate stakeholders

- *Legitimate*: those with an active economic relationship e.g.
- *Illegitimate*: those without such a link e.g.

Notes



3.4 Assessing stakeholder importance – Mendelow's Matrix

	Interest		
		Low	High
	Low	Minimal Effort	Keep informed
	High	Keep Satisfied	Key Players

Three attributes may be assessed:

- Power: the perceived ability of the stakeholder
- Legitimacy: whether the company perceives the stakeholder action to be legitimate.
- Urgency: whether the stakeholder claim calls for

Notes



4 The organisation as a corporate citizen

4.1 Corporate citizenship

- The key aspect about corporate citizenship is that it goes beyond compliance, obligations and that which is required by law.
- It is the conferral of rights on stakeholders and the acceptance by the company of its responsibilities.
- The company therefore embraces responsibility for its actions and encourages a positive impact on the stakeholders with whom it interfaces. This is achieved via its activities for example by its interaction with the environment, consumers etc.

It is linked to the concept of corporate accountability.

- Corporate accountability refers to whether the organisation is in some way answerable for the consequences of its actions beyond its relationship with shareholders.
- The demands for corporations to be more accountable and step up to their new role as valid members of society comes from two main sources:
 - government failure – e.g.
 - corporate power – e.g.

Notes



Illustrations and further practice



Notes



Questions



Notes



Chapter 10

Effective leadership



Outcome

By the end of this session you should be able to:

- explain the role of effective leadership and identify the key leadership traits effective in the successful formulation and implementation of strategy and change management
- apply the concepts of entrepreneurship and 'intrapreneurship' to exploit strategic opportunities and to innovate successfully
- discuss the importance of leadership in defining and managing organisational culture
- advise on the style of leadership appropriate to manage strategic change

and answer questions relating to these areas.



One of the PER performance objectives (PO5) is that you manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 10 of your Study Text



Overview



1

The nature and importance of leadership

1.1 The nature and importance of leadership

- Buchanan and Huczynski define a leader as 'someone who exercises influence over other people'.
- Another definition is: Leadership is an interpersonal influence directed toward the achievement of a goal or goals.

Three important parts of this definition are the terms interpersonal, influence, and goal:

- **Interpersonal**
- **Influence**
- **Goal**

Basically, this traditional definition of leadership says that a leader influences more than one person towards a goal.

Leadership can be viewed from three standpoints

- an **attribute** or a position, e.g. the managing director
- a **characteristic** of a person – a natural leader
- a category of **behaviour**

Leadership is all about moving people and things on, getting them from A to B – improving performance, changing the way things are done, making a new product – and if the designated leader cannot communicate the why, how and when of moving from A to B then he or she will neither behave like a leader, nor succeed in the task.

Notes



2 What makes an effective leader?

2.1 Trait theories

Many great leaders were considered to have:

- physical traits, such as drive, energy, appearance and height
- personality traits, such as adaptability, enthusiasm and self-confidence
- social traits, such as co-operation, tact, courtesy and administrative ability.

Other desirable features in leaders who are 'born not made' include:

- above-average intelligence
- initiative – independence and inventiveness and the capacity to perceive a need for action
- motivation
- self-assurance and self-confidence
- the 'helicopter factor' – the ability to rise above the particulars of a situation and perceive it in relation to the surrounding context
- other 'essential' qualities included enthusiasm, sociability, integrity, courage, imagination, determination, energy, faith, even virility.

Problems with trait theories:

- There will always be counter arguments.

2.2 Behavioural/style theories

The essence of leadership style theories is that a successful leader will exhibit a pattern of behaviour (i.e. 'style') in gaining the confidence of those they wish to lead.

Style is a difficult factor to measure or define. The style of a manager is essentially how he or she operates, but it is a function of many different factors.

There are four main management styles:

- **Tells (autocratic)**
- **Sells (persuasive)**
- **Consults (participative)**
- **Joins (democratic)**

Unfortunately, as with trait theories, it is possible to find counter examples e.g. Steve Jobs demonstrating the least effective style (autocratic) but running the largest technology company in the World

2.3 Contingency/contextual theories

The difficulty with style theories, even when they attempt to reflect the multidimensional nature of leadership, is that they ignore the important influence of the context in which the leader is operating.

The modern consensus is that there is no one best style of leadership that is equally effective for all circumstances.

A theory that is a mixture of both trait and contingency is the situational approach. This suggests that a successful leader will have the required traits and behaviour to fit the needs of the situation.

Illustrations and further practice

Notes



Leadership and management

3.1 Leadership v management

A leader can be a manager, but a manager is not necessarily a leader.

- Management is the process of setting and achieving the goals of the organisation through the functions of management: planning, organising, directing (or leading), and controlling.
- Generally speaking, leadership deals with the interpersonal aspects of a manager's job, whereas planning, organising, and controlling deal with the administrative aspects.
- The key point in differentiating between leadership and management is the idea that employees willingly follow leaders because they want to, not because they have to.

3.2 Key skills of a leader

Key skills include the following:

- An understanding of the precise requirements needed from the group.
- The ability to make decisions, sometimes under pressure.
- An understanding of human nature to appreciate the attitude of the group.
- Confidence both in the group and themselves.
- The ability to create a sense of direction.
- The leader must be interested in the long-term view of the group.
- The ability to identify opportunities and win the resources necessary to exploit them.
- The ability to inspire and motivate, to translate the vision into achievement.
- The possession of good communication skills.

4 Leadership and culture

It has been proposed that there are two types of leaders:

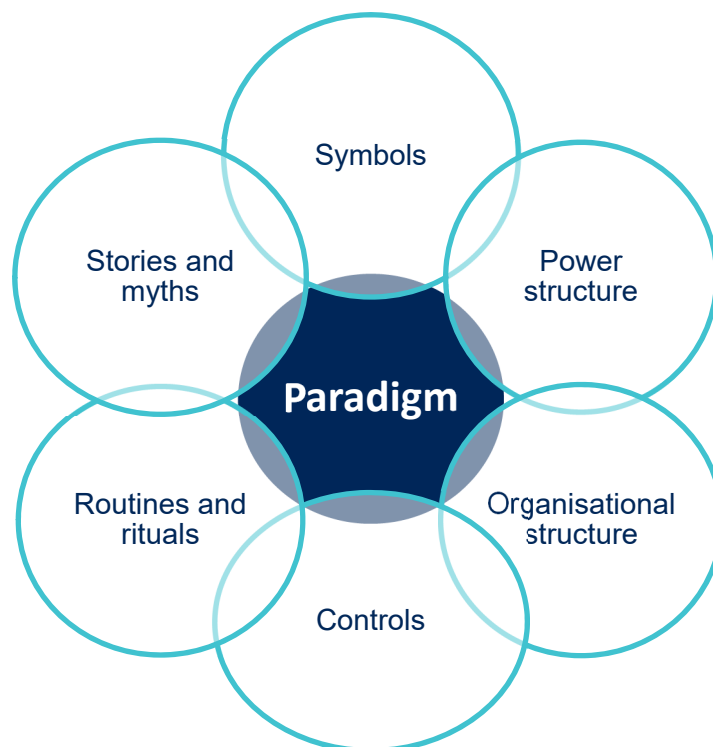
- **Transactional** leaders tend to be more passive. They see their relationship with their followers in terms of a trade.
- **Transformational** leaders more proactive. They see their role as inspiring and motivating others to work at levels beyond mere compliance.

Only transformational leadership is said to be able to change team/organisational cultures and move them in a new direction

Transformational leadership enhances the motivation, morale, and job performance of followers.

The distinguishing feature of transformational leadership is the ability to bring about significant change.

4.1 The cultural web



Note: The role of leadership and culture in managing change is discussed in further detail in Chapter 24.

Notes



5 Entre and intrapreneurship

5.1 The difference between entre and intrapreneurship



- An **entrepreneur** is an individual that 'starts-up' a business, is the owner and take all of the risk of financial loss.
- An **intrapreneur** is an employee of the company and does not usually have any ownership and minimum risk of financial loss.

5.2 Encouraging intrapreneurship

- Develop a culture where employees are encouraged to explore new ideas, even if they are not related to their official roles.
- Develop a culture where innovation is valued and failure is not the final word.
- Managers should have open door policies.
- Removing administrative barriers and bureaucracy.
- Budget for resources to develop new ideas.
- Give employees a degree of ownership of new ideas.
- Try to identify intrepeneurs and give them more time and resources to develop ideas further.

Notes



Questions



Chapter 11

The board of directors



Outcome

By the end of this session you should be able to:

- assess the major areas of organisational life affected by issues in governance
 - (i) duties of directors and functions of the board (including setting a responsible 'tone' from the top and being accountable for the performance and impacts of the organisation)
 - (ii) the composition and balance of the board (and board committees)
 - (iii) relevance and reliability of organisation reporting and external auditing
 - (iv) directors' remuneration and rewards
 - (v) responsibility of the board for risk management systems and internal control
 - (vi) organisation social responsibility and ethics.
- evaluate the cases for, and against, unitary and two-tier board structures
- describe and assess the purposes, roles, responsibilities and performance of Non-Executive Directors (NEDs)
- describe and assess the importance and execution of, induction and continuing professional development of directors on boards of directors
- explain the meaning of 'diversity' and critically evaluate issues of diversity on boards of directors

Chapter 11

- assess the importance, roles, purposes and accountabilities of the main committees within the effective governance
- describe and assess the general principles of remunerating directors and how to modify directors' behaviour to align with stakeholder interests
- explain and analyse the regulatory, strategic and labour market issues associated with determining directors' remuneration

and answer questions relating to these areas.

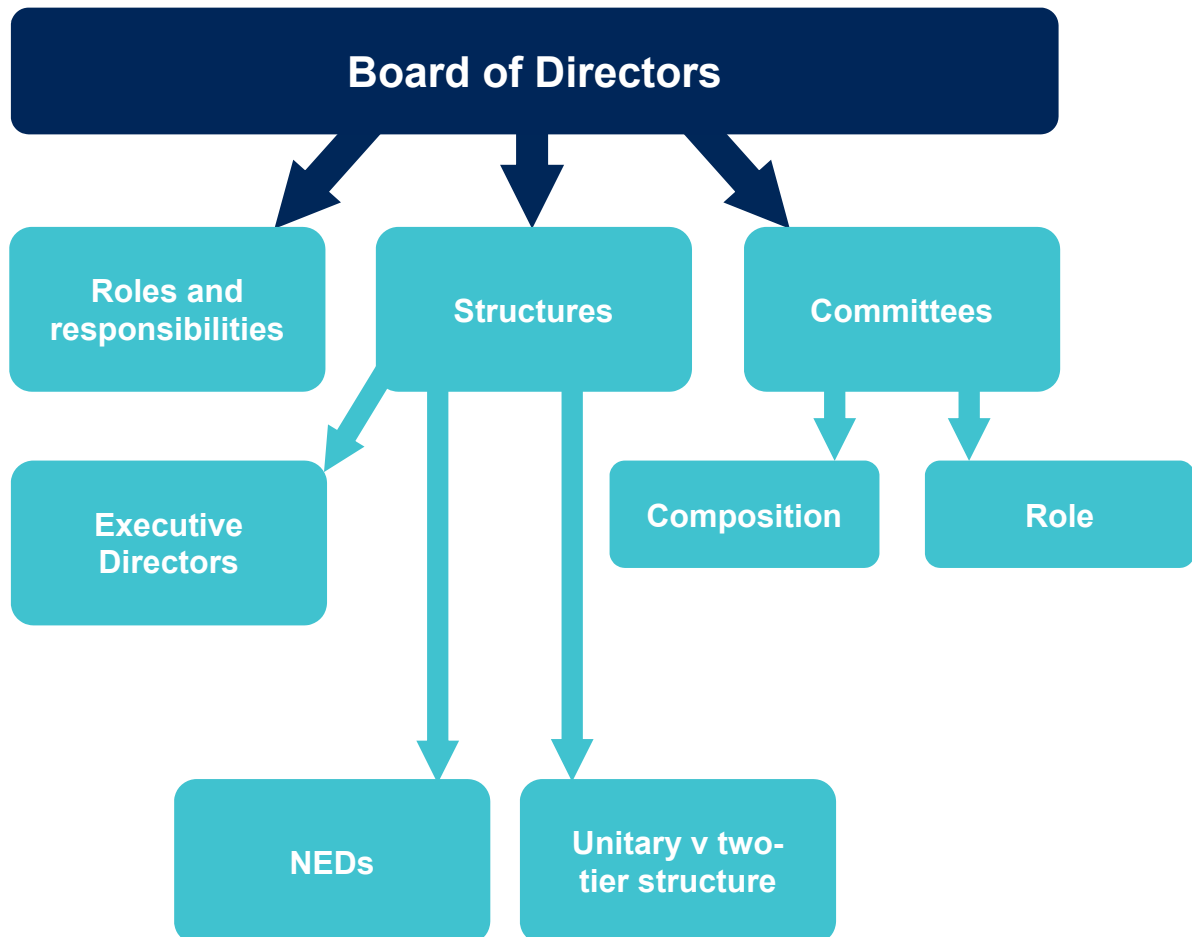


One of the PER performance objectives (PO4) is that you contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 11 of your Study Text



Overview



Notes



1 Roles and responsibilities

1.1 Board of directors- roles and responsibilities



In relation to corporate bodies:

- a director is an officer of the company charged by the board of directors with the responsibility of its affairs
- the directors of the company collectively are referred to as a board of directors
- the responsibilities of the board and all other directors (upon the board)
- directors, individually and collectively have a duty to act in the best interests of the company



From the principles in the UK Corporate Governance Code (2016), the key roles and responsibilities of directors are to:

- provide leadership and set the strategy of the company
- represent company view and interests
- decide on a range of matters to be reserved for board decision
- determine the company's strategic aims (strategic aims)
- select and appoint the CEO, chairman and other board members
- set the company's objectives
- ensure that the company's management is performing its job correctly
- establish appropriate systems of internal control
- ensure that the necessary financial and human resources are in place for the company
- ensure that its policies and objectives are understood and met
- ensure that the company discharges its duties effectively

For listed companies:

- appoint appropriate NEDs
- establish remuneration committee
- establish nominations committee
- establish audit committee
- assess its own performance and report it annually to shareholders
- submit themselves for re-election at regular intervals.

1.2 Potential problems for boards

- Rely on management to report information to them allowing problems to be obscured
- A board that meets only occasionally may be unfamiliar with each other. This can make it difficult for board members to question management.
- CEOs forceful personalities exercising too much influence over the rest of the board.
- CEO's performance is judged by the same directors who appointed him/her making it difficult for an unbiased evaluation.

1.3 Diversity



Diversity describes the range of visible and non-visible differences that exist between people.

Managing diversity harnesses these differences to create a productive environment in which everybody feels valued, where talents are fully utilised and in which organisational goals are met.

Notes



Chapter 11

These can be along the dimensions of:

- race
- ethnicity
- gender
- sexual orientation
- socio-economic status
- age
- physical ability
- religious beliefs
- political beliefs or other ideologies.

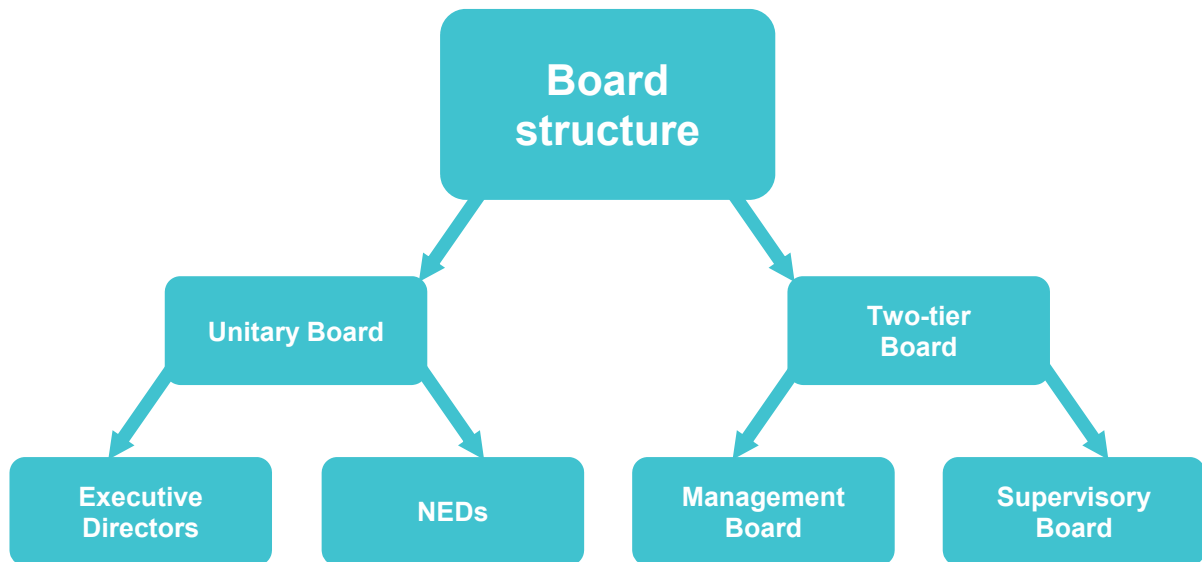
Diversifying the board is said broadly to have the following benefits:

-
-
-

Notes



2 Board structures



2.1 Two-tier boards

- predominantly associated with France and Germany.

There are two main reasons for their existence e.g. in Germany.



➤ **Codetermination:**

➤ **Relationships:**

These parties (stakeholders) are actively involved in company affairs, hence the two-tier structure.

Notes



Chapter 11

Lower tier: management (operating) board:

- responsible for day-to-day running of the enterprise
- generally only includes executives
- the CEO co-ordinates activity.

Upper tier: supervisory (corporate) board:

- appoints, supervises and advises members of the management board
- strategic oversight of the organisation
- includes employee representatives, environmental groups and other stakeholders' management representatives (these NEDs are not considered to be 'independent NEDs')
- the chairman co-ordinates the work
- members are elected by shareholders at the annual general meeting (AGM)
- receives information and reports from the management board.

Notes



2.2 Non-executive directors



- Strategy role –
- Scrutinising role –
- Risk role –
- People role –

2.3 Independence

The board should include a balance of NEDs and executives to reduce an unfavourable balance of power towards executives.

- The board should consist of _____ excluding the chair
- One NED should be the senior independent director who is directly available to shareholders if they have concerns which cannot or should not be dealt with through the appropriate channels of chairman, CEO or finance director.

Reasons for NED independence

- To provide a _____ of board decisions.
- To provide _____ and communicate effectively.
- To provide shareholders with an _____ on the board.
- To provide _____ in corporate governance.
- To reduce accusations of _____ in the behaviour of executives.

Notes



2.4 Threats to independence

- Material business relationship in last 3 years
- Employee in last 5 years
- Cross directorship in other companies
- Remuneration from the company besides director's fee
- Close family ties with director
- Significant shareholder
- Serves on board for more than 9 years

2.5 NEDs on the board



Advantages

- monitoring role
- additional expertise
- enhanced perception of company
- communication with stakeholders
- discipline over strategy.



Disadvantages

- unity of the board
- quality of NEDs
- liability of the role.

Notes



2.6 Chairman and CEO



'A clear division of responsibilities must exist at the head of the company. No individual should have unfettered power of decision.'

2.7 Chairman's responsibilities

- To ensure that the board sets and implements the company's direction and strategy effectively.
- To act as the company's lead representative, explaining aims and policies to the shareholders.

2.8 CEO's responsibilities

- To take responsibility for the performance of the company, as determined by the board's strategy.
- To report to the chairman and/or board of directors.

2.9 Reasons for splitting the role

- **Representation:**
- **Accountability:**
- **Temptation:**

Notes



2.10 Reasons against splitting the role

- **Unity:** the separation of the role provided by a single leader. rather than the unity
- **Ability:** both roles require an intricate knowledge of the company. It is far easier to have a single leader with this ability rather than search for two such individuals.
- **Human nature:** there will almost inevitably between two high-powered executive offices.

Illustrations and further practice



Notes



3 Directors' induction and CPD

3.1 Induction

- Although aimed at NEDs, the principles of an induction programme will be the same for new executive directors coming to the company from another organisation.
- For an internally-promoted director, it will depend on the person's background as to which aspects of the programme must be undertaken.
- It is important, for effective participation in board strategy development, not only for the board to get to know the new NED, but also for the NED to build relationships with the existing board and employees below board level.

3.2 Objectives of induction

- To communicate
- To communicate
- To reduce the time taken for an individual in their duties.
- To as a welcome member of the board.
- To of individuals for future periods.

3.3 CPD requirements

The following detail offers guidance on directors CPD requirements:

- To run an effective board, companies need to provide resources for developing and of their directors, including the NEDs.
- The chairman should address the of the board as a whole with a view as a team.
- The chairman should also lead in identifying the development needs of individual directors, with the company secretary playing a key role in facilitating provision.
- NEDs should be prepared to

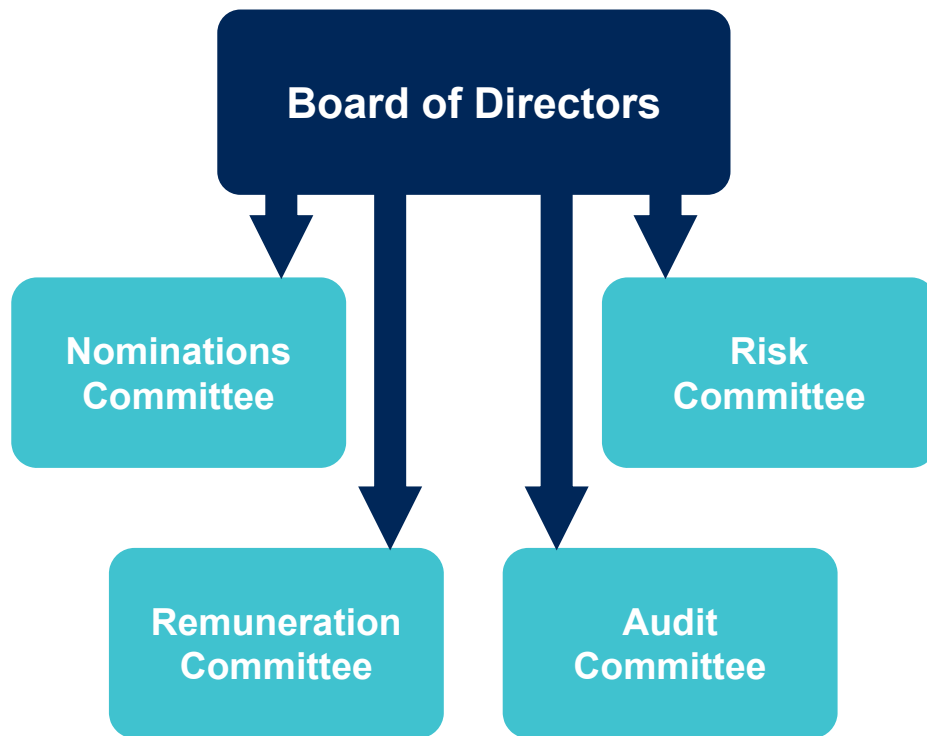
3.4 Objectives of CPD

- To ensure directors have _____ to be effective in their role
- To _____ within the business environment effectively to directors.
- To _____ and, through this,
- To _____ in their personal development.
- The overall purpose of these objectives is to provide

Notes



4 Board Committees



Notes



4.1 Importance of committees

Board sub-committees are a generally accepted part of board operations.

Positives:

- reduces board workload and enables them to _____ on other issues
- creates structures that can use _____ to improve decisions in key areas
- _____ to shareholders that directors take these issues seriously
- increase in shareholder _____
- communicates to stakeholders the importance of _____
- satisfy requirements of the UK Corporate Governance Code (2010) (or other governance requirements).

4.2 Nominations committee

The need for nominations committee is identified in many codes of best practice.

For example, the UK Corporate Governance Code (2010) requires that there should be a _____ for the appointments of new directors to the board:



Responsibilities of nominations committee

- review regularly the _____ of the board and make recommendations to the board
- consider the _____ on the board of directors
- ensure appropriate management of _____ to board composition
- provide an appropriate _____ to reduce domination in executive selection by the CEO/chairman
- evaluate the balance of _____ of the board
- full consideration to succession planning for directors
- prepare a description of the role and capabilities required for any particular board appointment including that of the chairman
- identify and nominate for the approval by the board candidates to fill board vacancies as and when they arise
- recommendations to the board concerning the standing for reappointment of directors
- be seen to operate _____ for the benefit of shareholders.

4.3 Remuneration committee



The role of the remuneration committee –

Objectives of the committee

- the committee is, and is seen to be, with access to its own external advice or consultants
- has a that is well understood and has the support of shareholders
- performance packages produced are and have
- reporting is a clear, concise view of policy payments and behind them.

Responsibilities of the remuneration committee

- determine and regularly review the framework, broad policy and specific terms for the remuneration, terms and conditions of employment of the chairman, board and executive directors
- recommend and monitor the of the remuneration of senior managers
- establish for all board members
- set for all executive directors and the chairman
- ensure that the executive directors and key management are
- the remuneration of the executive directors and key management is set by individuals with
- agree any of any executive director
- ensure that provisions regarding disclosure of remuneration, including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Code, are fulfilled.

4.4 Components of directors' remuneration package



- Basic salary –
- Performance related –
- Pension –
- Benefits in kind –

Non-executive directors' remuneration



To avoid the situation where the remuneration committee (consisting of NEDs) is solely responsible for determining the remuneration of the NEDs, the UK Corporate Governance Code (2010) states that the board and shareholders should determine the NED's remuneration within the limits set out in the company's constitution.

- NED remuneration consists of a _____ and non-executive directors may receive _____
- Equity-based remuneration to non-executive directors should be fully vested on _____ but still subject to applicable holding periods.
- Performance measures remuneration whilst advocated in executive remuneration packages is _____

(Note: Organisations such as the ICGN advocate that performance- based remuneration for non-executive directors has significant potential to _____ of shareowners

Illustrations and further practice



Notes



Questions



Chapter 12

Reporting to stakeholders



Outcome

By the end of this session you should be able to:

- discuss the factors that determine organisational policies on reporting to stakeholders, including stakeholder power and interests
- assess the role and value of integrated reporting and evaluate the issues concerning accounting for sustainability
- advise on the guiding principles, the typical content elements and the six capitals of an integrated report, and discuss the usefulness of this information to stakeholders
- describe and assess the social and environmental impacts that economic activity can have (in terms of social and environmental 'footprints' and environmental reporting)
- describe the main features of internal management systems for underpinning environmental and sustainability accounting including EMAS and ISO 14000
- examine how the audit of integrated reports can provide adequate assurance of the relevance and reliability of organisation reports to stakeholders

and answer questions relating to these areas.

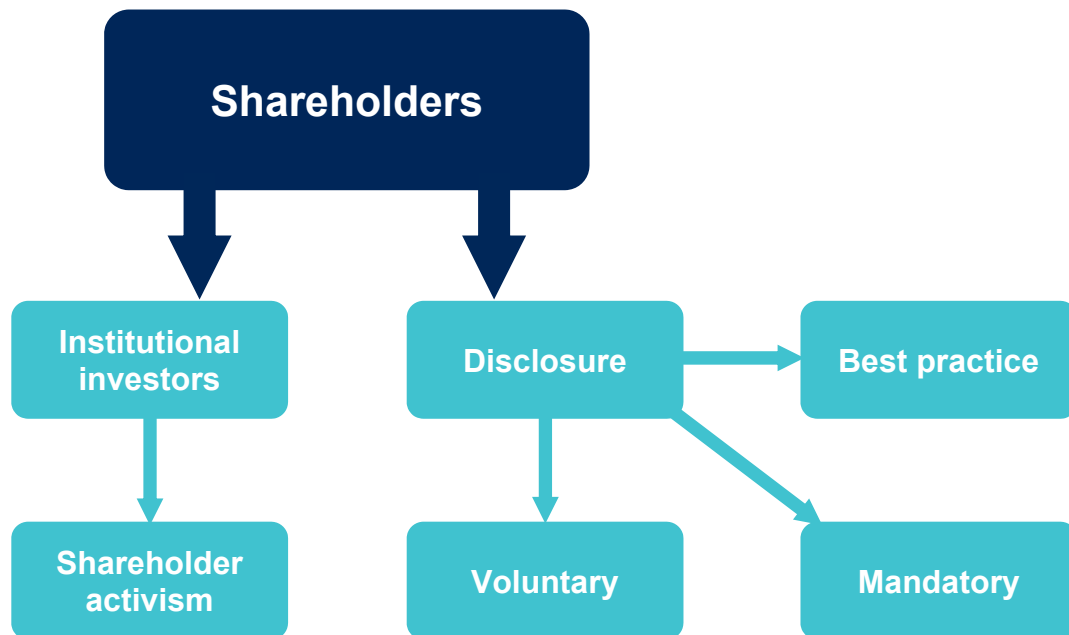


One of the PER performance objectives (PO2) is that you manage stakeholder expectations and needs, developing and maintaining productive business relationships. You listen to and engage stakeholders effectively and communicate the right information to them when they need it. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 12 of your Study Text



Overview



1 Institutional investors

1.1 Institutional Investors

Institutional investors manage funds invested by individuals.

In the UK there are four types of institutional investor:

- pension funds
- life assurance companies
- unit trust
- investment trusts.

Importance of institutional investors

- the increasing dominance of this investor class and its positive contribution to governance by concentrating power in a few hands.
- fund managers and other professionals working for the institutions have the skills and expertise to contribute towards the direction and management of a company.

Potential problems

The separation between ownership and control creates a complex web of agency relationships – for example:

- investor
- pension fund trustee
- pension fund manager
- company.

Notes



1.2 Institutional shareholder intervention



Conditions under which it would be appropriate for institutional investors to intervene:

- Strategy:
- Operational performance:
- Acquisitions and disposals:
- Remuneration policy:
- Internal controls:
- Succession planning:
- Social responsibility:

Note: Failure to comply with relevant codes: consistent and unexplained non-compliance in a principles-based country will be penalised by the market. In a rules-based country it would have been penalised as a matter of law

Illustrations and further practice

Notes

2 Disclosure

2.1 Disclosure – general principles



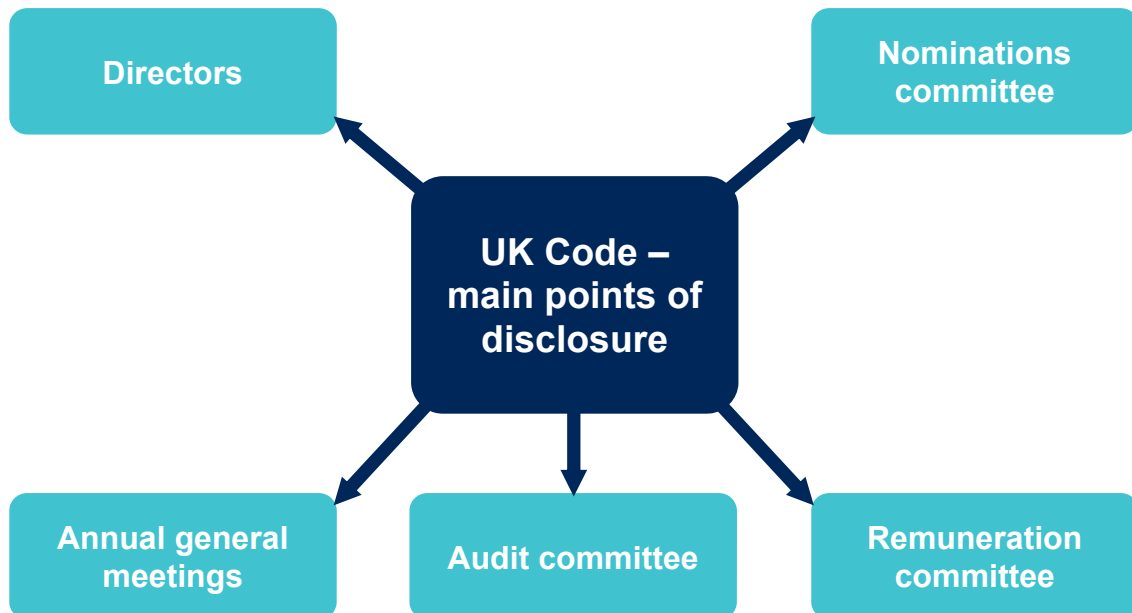
Shareholders are the legal owners of a company and therefore entitled to sufficient information to enable them to make investment decisions.

- The AGM is seen as the most important, and perhaps only, opportunity for the directors to communicate with the shareholders of the company.
- As the only legally-required disclosure to shareholders, the annual report and accounts are often the only information shareholders receive from the company.
- General principles of disclosure relate to the need to create and maintain communication channels with shareholders and other stakeholders. This disclosure becomes the mechanism through which governance is given transparency.
- Principles of mandatory disclosure discuss the target for disclosure (particularly shareholders) and the mechanism for disclosure (annual report or meetings).

Notes



2.2 Best practice corporate governance requirements



Notes



3 Mandatory and voluntary disclosure

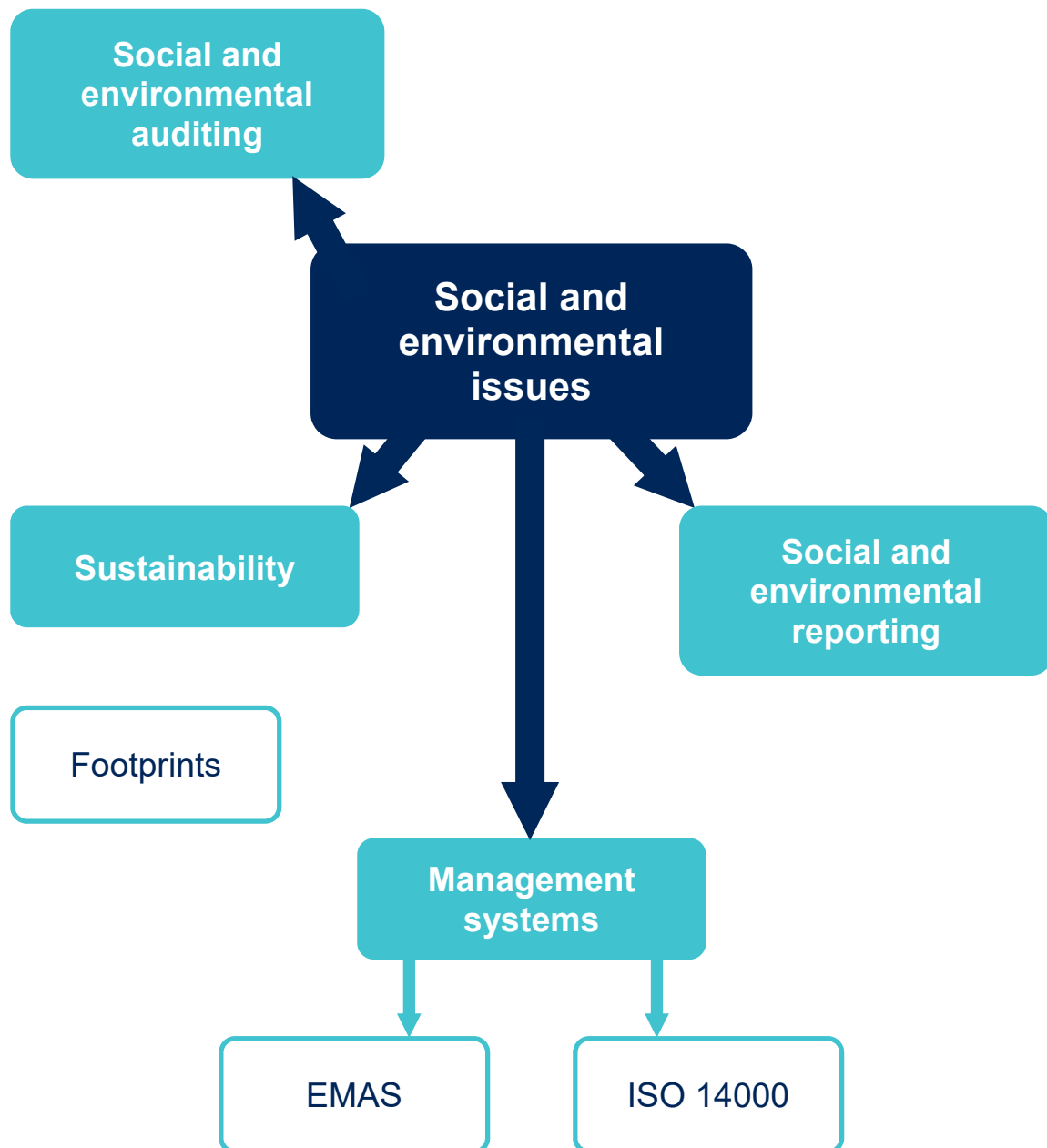


- Mandatory –
- Voluntary –

Illustrations and further practice

Notes

4 Social and environmental issues



4.1 Sustainability



- **Sustainable development** is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED 1987).
- **Sustainability** – an attempt to provide the best outcomes for the human and natural environments both now and into the indefinite future.

Illustrations and further practice



Notes



4.2 Economic activity

Economic activity is only sustainable where its impact on society and the environment is also sustainable

4.3 Environmental footprint

An attempt to evaluate the size of a company's impact on the environment in three respects:

- company's resource consumption.
- harm to the environment brought about by pollution emissions.
- measurement of the resource consumption and pollution emissions in terms of harm to the environment in either qualitative, quantitative or replacement terms.

4.4 Social footprint

Evaluates sustainability in three areas of capital:

- Human Capital –
- Social Capital –
- Constructed Capital –

Illustrations and further practice

Notes

5 Management systems

5.1 Eco-management systems

- a voluntary initiative designed to improve companies' environmental performance
- requires participating organisations to regularly produce a public environmental statement that reports on their environmental performance
- accuracy and reliability is independently checked by an environmental verifier to give credibility and recognition to that information
- requires participating organisations to implement an environmental management system (EMS).

There are four key elements of the scheme:

- Legal requirement.
- Dialogue/reporting.
- Improved environmental performance.
- Employee involvement.

5.2 ISO 14000

- a series of standards dealing with environmental management and a supporting audit programme
- the ISO formulates the specifications for an EMS
- EMAS compliance is based on ISO 14000 recognition – although many organisations comply with both standards
- focuses on internal systems although it also provides assurance to stakeholders of good environmental management
- to gain accreditation an organisation must meet a number of requirements regarding its environmental management

Notes



6 Social and environmental auditing



6.1 Social auditing

- enables an organisation to assess and demonstrate its social, economic, and environmental benefits and limitations.
- measures the extent to which an organisation achieves the shared values and objectives set out in its mission statement
- provides the process for environmental auditing.

6.2 Environmental auditing

- aims to assess the impact of the organisation on the environment.
- involves the implementation of appropriate environmental standards such as ISO 14001 and EMAS.
- provides the raw data for environmental accounting.

An environmental audit typically contains three elements:

- agreed metrics (what should be measured and how)
- performance measured against those metrics
- reporting on the levels of compliance or variance.

Notes





Social and environmental reporting



Except in some highly regulated situations (such as water), the production of a social and environmental report is voluntary. The problem, and the subject of most debate is what should be the typical contents of such a report and how do we measure it

7.1 Environmental reporting



The 'disclosure of information on environment related issues and performance by an entity'.

It typically contains details of environmental performance in areas such as:

- measures of emissions (e.g. pollution, waste and greenhouse gases)
- consumption (e.g. of energy, water and non-renewable mineral deposits).

Note: Published in either the annual report and/or as a self-standing report.

7.2 Social reporting



A significant concept underlying corporate social responsibility is that corporations should be concerned about society at large.

Social reporting is generally context specific, and typical contents will vary with industry. For examples, the following issues should be included in a company's considerations:

- human rights issues
- work place, occupational health and safety
- training and employee issues
- fair pay for employees and suppliers
- fair business practices
- minority and equity issues
- marketplace and consumer issues
- community involvement
- indigenous peoples
- social development
- charitable, political donations and sports sponsorship.

7.3 Benefits and drawbacks of social and environmental reporting

Benefits

Increasingly important to investors in investment decision

Reporting makes companies aware of potential risk to reputation

Employees use this detail in choosing employers

Influences customer buying decision

Pre-empts potential regulatory intervention

Promotes attention to good corporate governance

Positive impact on share price

Transparency of information

Drawbacks

Additional cost of reporting systems

Ambiguity of measures used

Notes



8 Integrated reporting

8.1 Integrated reporting (<IR>)



Integrated Reporting (<IR>) is seen by the International Integrated Reporting Council (IIRC) as the basis for a fundamental change in the way in which entities are managed and report to stakeholders.



The <IR> Framework sets out the purpose of an integrated report as follows:

- “The primary purpose of an integrated report is to explain to providers of financial capital how an entity creates value over time.
- An integrated report benefits all stakeholders interested in an entity’s ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policymakers.”



Objectives for integrated reporting:

- To improve the quality of information available to providers of financial capital.
- To provide a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.
- To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural).
- To support integrated thinking, decision making and actions that focus on the creation of value over the short, medium and long term.

8.2 How to prepare an integrated report

The following seven guiding principles underpin the preparation:

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability

Illustrations and further practice

Notes

Questions



Chapter 13

Management internal control systems and reporting



Outcome

By the end of this session you should be able to:

- define and explain internal management control
- evaluate the key components or features of effective internal control systems
- evaluate the qualities and characteristics of information required in internal control and risk management and monitoring
- assess the need for adequate information flows to management for the purposes of the management of internal control and risk
- evaluate the effectiveness and potential weaknesses of internal control systems.
- discuss and advise on the importance of sound internal control and compliance with legal and regulatory requirements and the consequences to an organisation of poor control and noncompliance
- recommend new internal control systems or changes to the components of existing systems to help prevent fraud, error or waste
- justify the need for reports on internal controls to shareholders
- discuss the typical contents of a report on internal control and audit
- assess how internal controls underpin and provide information for reliable financial reporting

and answer questions relating to these areas.



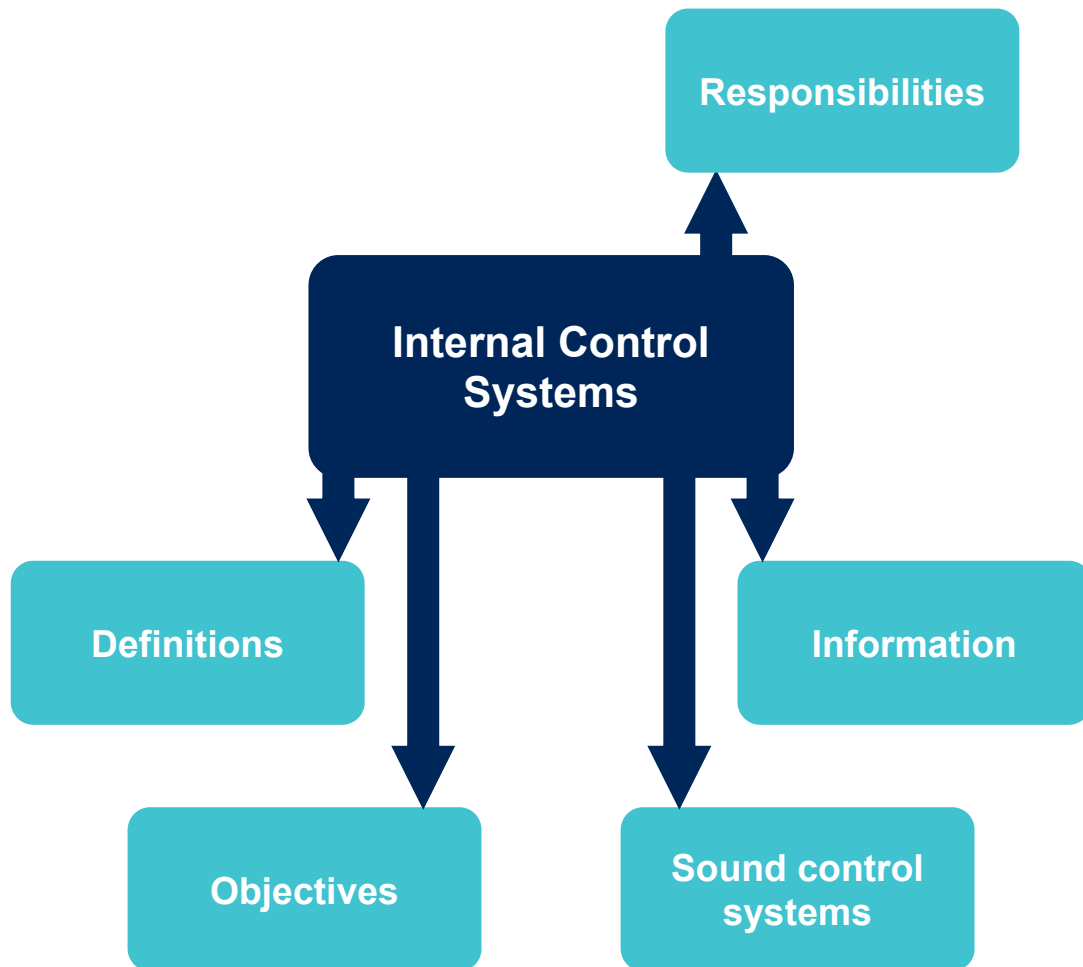
PER

One of the PER performance objectives (PO12) is that you apply different management accounting techniques in different business contexts to effectively manage and use resources. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 13 of your Study Text



Overview



1 Internal control

1.1 Internal control definitions



- Controls –
- An internal control system – network of systems established in an organisation to provide that organisational objectives will be achieved.
- Internal management control – procedures and policies in place to ensure that are achieved.

1.2 Objectives of internal control systems



An internal control system is to ensure, as far as practicable:

- the conduct of its business, including adherence to internal policies
- the of assets of the business
- the of fraud and error
- the accuracy and completeness of the accounting records
- the preparation of financial information.

Notes



1.3 Benefits of internal control systems

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

1.4 Limitations of internal control systems

- Poor judgement in decision-making.
- Human error can cause failures
- Control processes being deliberately circumvented by employees and others
- Management overriding controls
- Unforeseeable circumstances

Illustrations and further practice



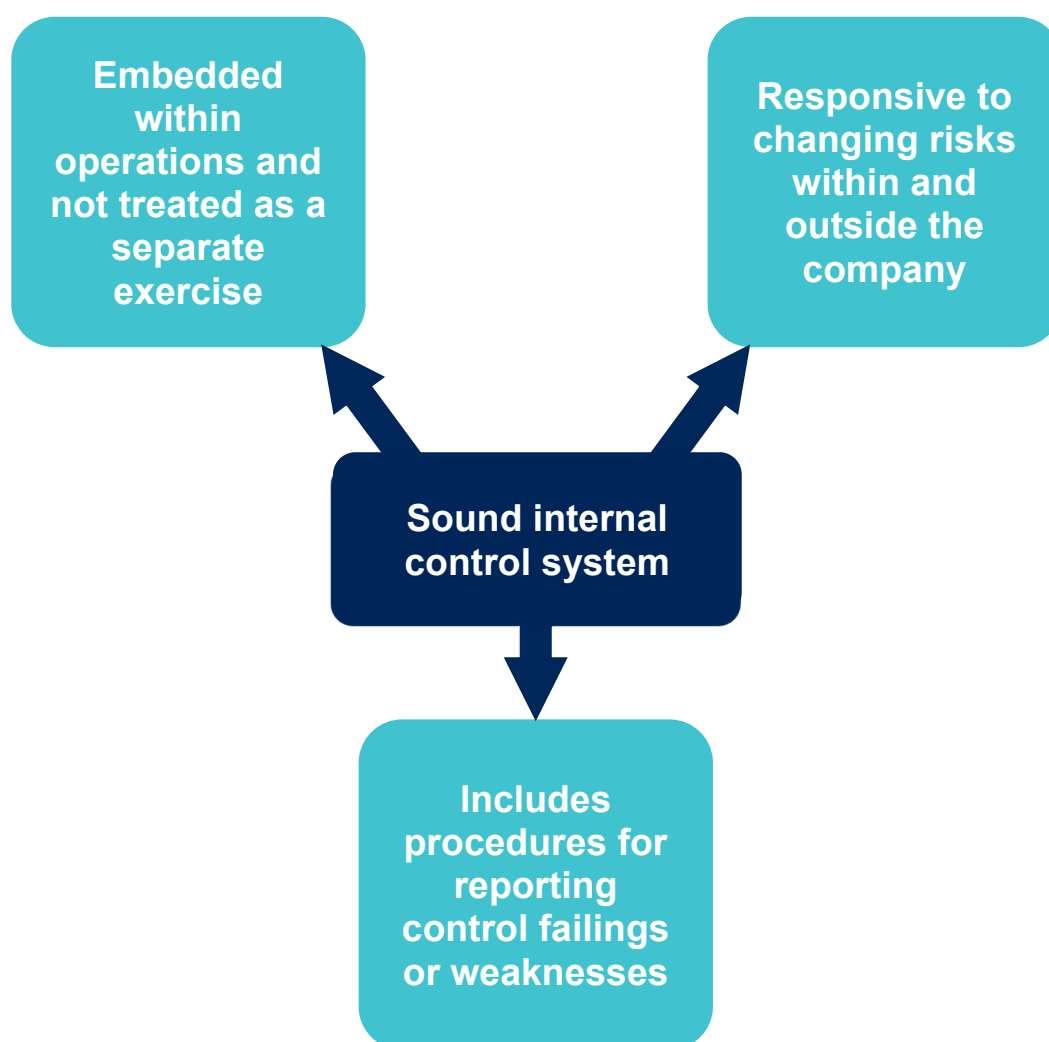
Notes



1.5 Sound control systems



The Turnbull guidance described three features of a sound internal control system.

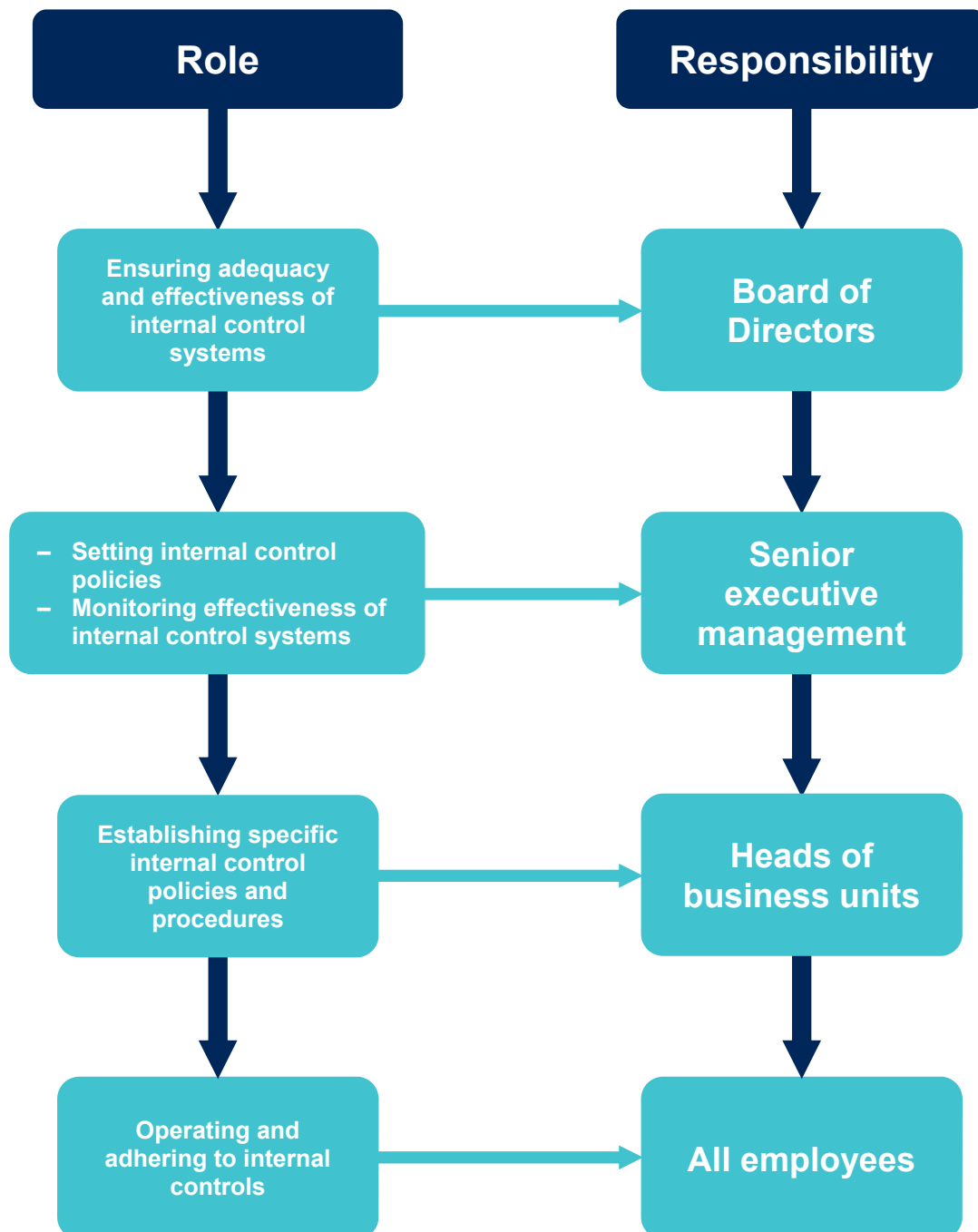


Notes



2 Roles and responsibilities

2.1 Roles in risk management and internal control



Chapter 13

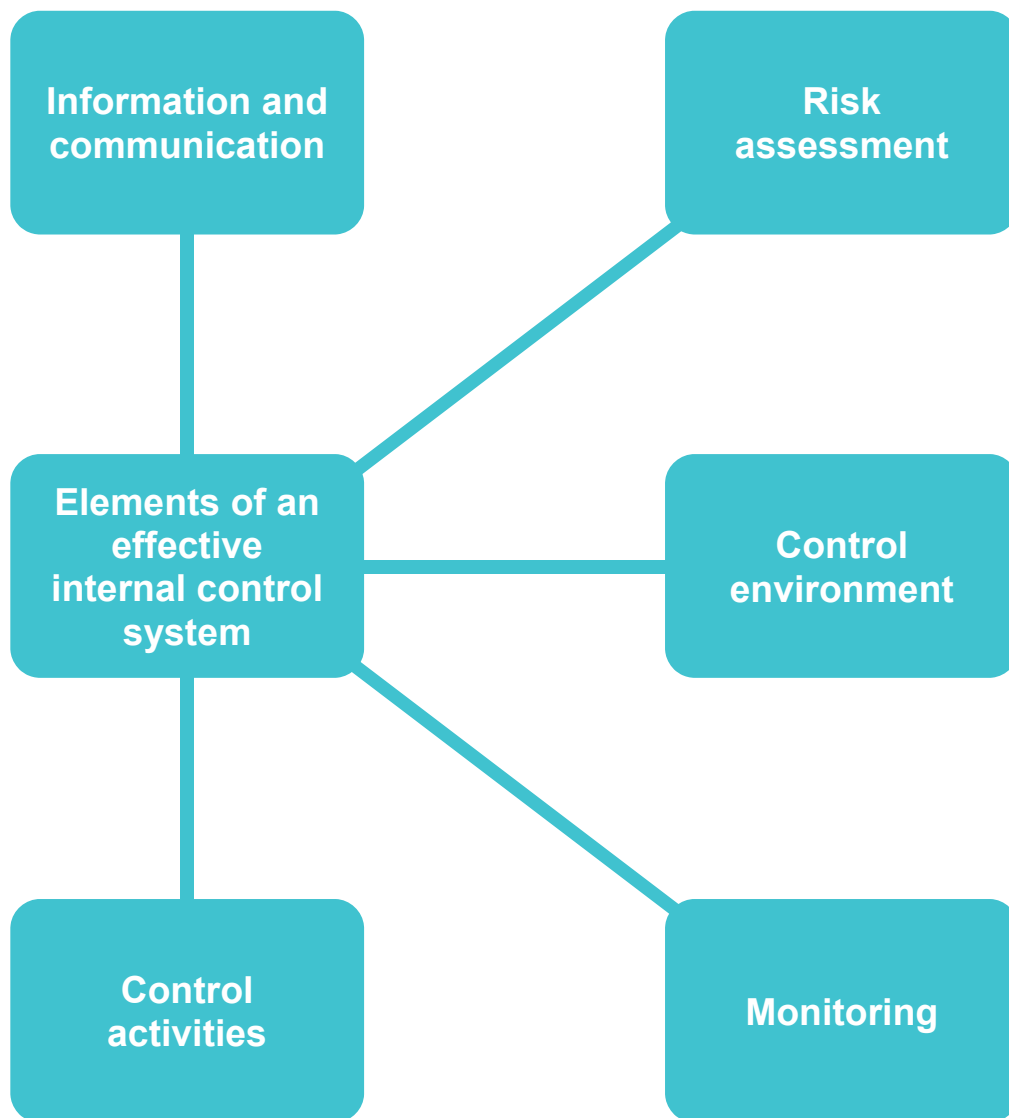
- Responsibility for internal control is
- for monitoring and maintaining internal controls.
- Roles in monitoring range from the for internal control compliance, to the external auditor, reporting on the effectiveness of the system

Notes



3 Effective internal control systems

3.1 Elements of an effective internal control system



Notes



4 Information flows for management

4.1 Information flows for management

- There should be Information flows for management within the organisation, so that all managers receive timely information that is relevant to the performance of their tasks and duties
- Information should Information flows for management to management so that they can Information flows for management with respect to efficiency, effectiveness in achieving targets, economy and quality
- Managers need both Information flows for management information to make informed business decisions and to report externally
- The actual information provided to management varies Information flows for management of management
 - Strategic – focussed on planning, predominantly external
 - Tactical – focussed on implementation of strategic plans
 - Operational – focussed on the operation of specific internal controls

Notes



4.2 Information characteristics and quality

The information received by management needs to be of a certain standard to be useful in internal control and risk management and monitoring.

There should be an adequate, integrated, information system, supplying internal financial, operational and compliance data and relevant external data.

The information should meet the criteria of 'good' information:

A

Complete

Cost-beneficial

User-targeted

R

Authoritative

Timely

E

Notes



Chapter 13

The table below shows the characteristics of information and how their quality varies depending on what is made available.

Characteristic	Strategic	→	Operational
Time period	Forecast	→	Historical
Timeliness	Delayed	→	Immediately available
Objectivity	Subjective	→	Objective
Quantifiability	Qualitative	→	Quantitative
Accuracy	Approximate	→	Accurate
Certainty	Uncertain	→	Certain
Completeness	Partial	→	Complete
Breadth	Broad	→	Specific
Detail	Little detail	→	Highly detailed

Illustrations and further practice

Notes

5 Fraud risk management strategy

In common with any other type of risk, a risk management strategy needs to be developed for fraud. This strategy should include three key elements:

- Fraud prevention
- Fraud detection
- Fraud response.

5.1 Fraud prevention



Some specific examples of fraud prevention include:

- An anti-fraud culture
- Risk awareness
- Whistleblowing
- Sound internal control systems

5.2 Fraud detection

Most frauds are discovered accidentally, or as a result of information received (whistleblowing).

Some methods of discovering fraud are:

- Performing regular checks, e.g. stocktaking and cash counts.
- Warning signals or fraud risk indicators (see previous section).
 - Failures in internal control procedures.
 - Lack of information provided to auditors.
 - Unusual behaviour by individual staff members.
 - Accounting difficulties.
- Whistleblowers.

Notes



5.3 Fraud response

- The fraud response plan sets out the arrangements for dealing with suspected cases of fraud, theft or corruption.
- It provides procedures for evidence-gathering that will enable decision making and that will subsequently be admissible in any legal action.
- The fraud response plan also has a deterrent value and can help to restrict damage and minimise losses to the organisation.

Organisations response to fraud may include:

- Internal disciplinary action, in accordance with personnel policies.
- Civil litigation for the recovery of loss
- Criminal prosecution through the police.

Note: A fraud policy statement, effective recruitment policies and good internal controls can minimise the risk of fraud.

Illustrations and further practice



Notes



Questions



Chapter 14

Audit and compliance



Outcome

By the end of this session you should be able to:

- describe the function and importance of internal audit
- explain, and discuss the importance of auditor independence in all client-auditor situations (including internal audit)
- explain and assess the nature and sources of risks to audit independence and assess the hazard of auditor capture
- explain and evaluate the importance of compliance and the role of the internal audit committee in internal control
- describe and analyse the work of the internal audit committee in overseeing the internal audit function
- explain and explore the importance and characteristics of the audit committee's relationship with external auditors
- describe and assess the need to report on internal controls to shareholders
- describe the content of a report on internal control and audit

and answer questions relating to these areas.



PER

One of the PER performance objectives (PO20) is that you complete an audit, preparing the formal documentation and reporting any control deficiencies to management. You report back to managers in a formal audit report. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 14 of your Study Text



Overview



1 Internal audit

1.1 Function and importance of internal audit



Internal audit is a management control reviewing the _____ of controls.

- It is part of the control systems of a company, with the aim of ensuring that other controls are working correctly.
- In some regimes, it is _____ to have internal audit. In others, codes of corporate governance that an internal audit department is necessary.
- The work of internal audit is varied – from reviewing financial controls through to checking _____ with legislation.
- The department is normally under the control of a _____ who reports to the audit committee.

Notes



1.2 Roles of internal audit



Illustrations and further practice

Notes

1.3 Factors affecting the need for internal audit

Factors that affect the need for internal audit:

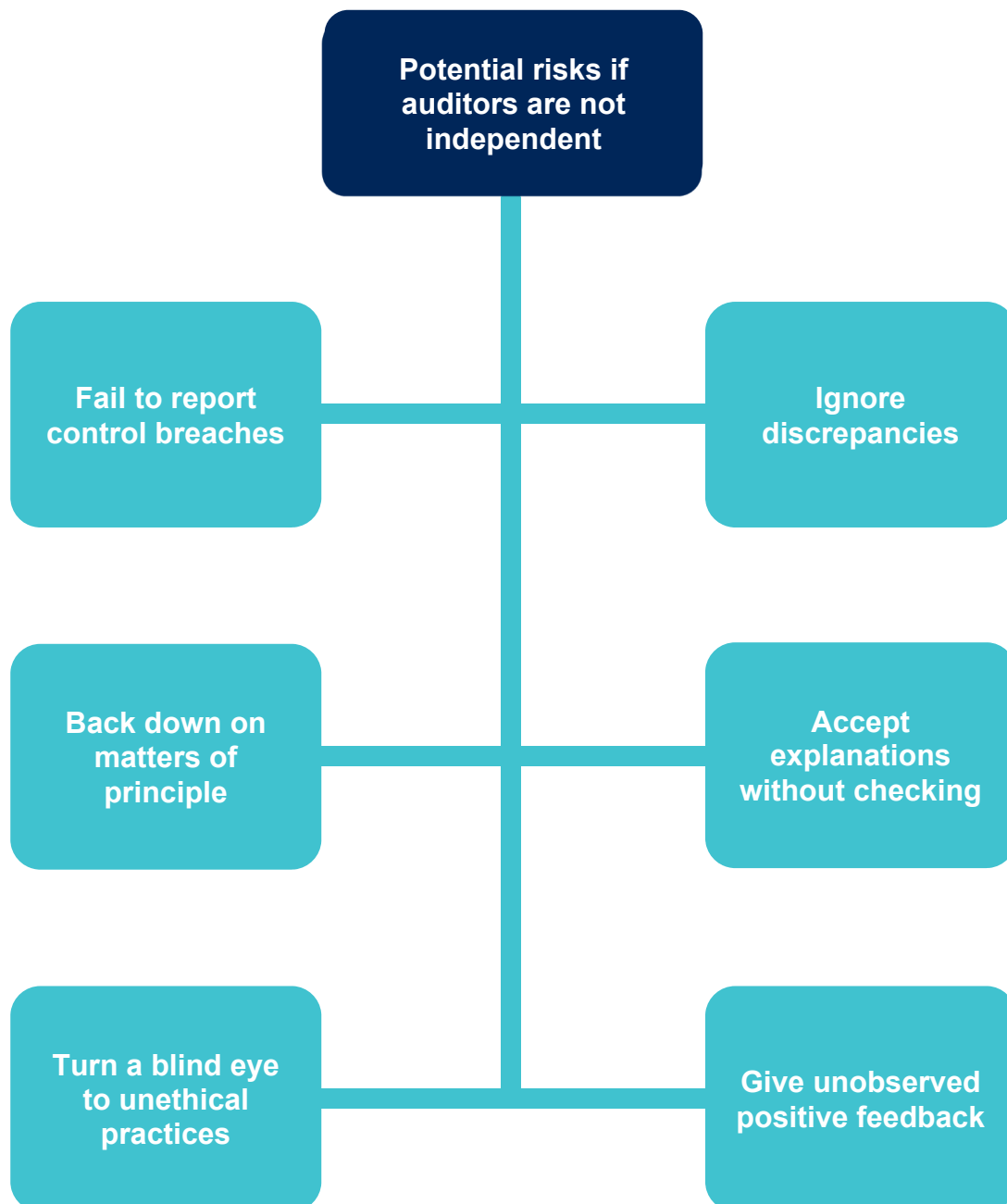
- The _____ of the company's activities.
- The number of _____
- Cost/benefit considerations.
- Changes in the _____ reporting processes or underlying information systems.
- Changes in _____ (could be internal or external in nature).
- Problems with existing _____ systems.
- An increased number of _____ events.

Notes



2 Auditor independence

2.1 Risks if auditors are not independent



2.2 Potential ethical threats



Illustrations and further practice

Notes

3 Audit committee

3.1 The audit committee



The audit committee is a committee of the board of directors consisting entirely of independent non-executive directors (NEDs) (at least three in larger companies), of whom at least one has had

The audit committees' key function is to provide evidence of increased accountability to shareholders.



It is critical that the audit committee be independent, comprised of non-executive directors and has

3.2 Roles of the audit committee

- The key roles of the audit committee are 'oversight', 'assessment' and 'review' of other functions and systems in the company.



Illustrations and further practice



Notes



Questions



Notes



Chapter 15

Identification, assessment and measurement of risk



Outcome

By the end of this session you should be able to:

- discuss the relationship between organisational strategy and risk management strategy
- develop a framework for risk management and establish risk management systems
- identify and evaluate the key risks and their impact on organisations and projects
- distinguish between strategic and operational risks
- assess attitudes towards risk and risk appetite and how this can affect risk policy
- discuss the dynamic nature of risk and the ways in which risk varies in relation to the size, structure and development of an organisation
- recognise and analyse the sector or industry specific nature of many organisation risks
- assess the severity and probability of risk events using suitable models
- explain and assess the ALARP (as low as reasonably practicable) principle in risk assessment and how this relates to severity and probability
- explain and evaluate the concepts of related and correlated risk factors

and answer questions relating to these areas.

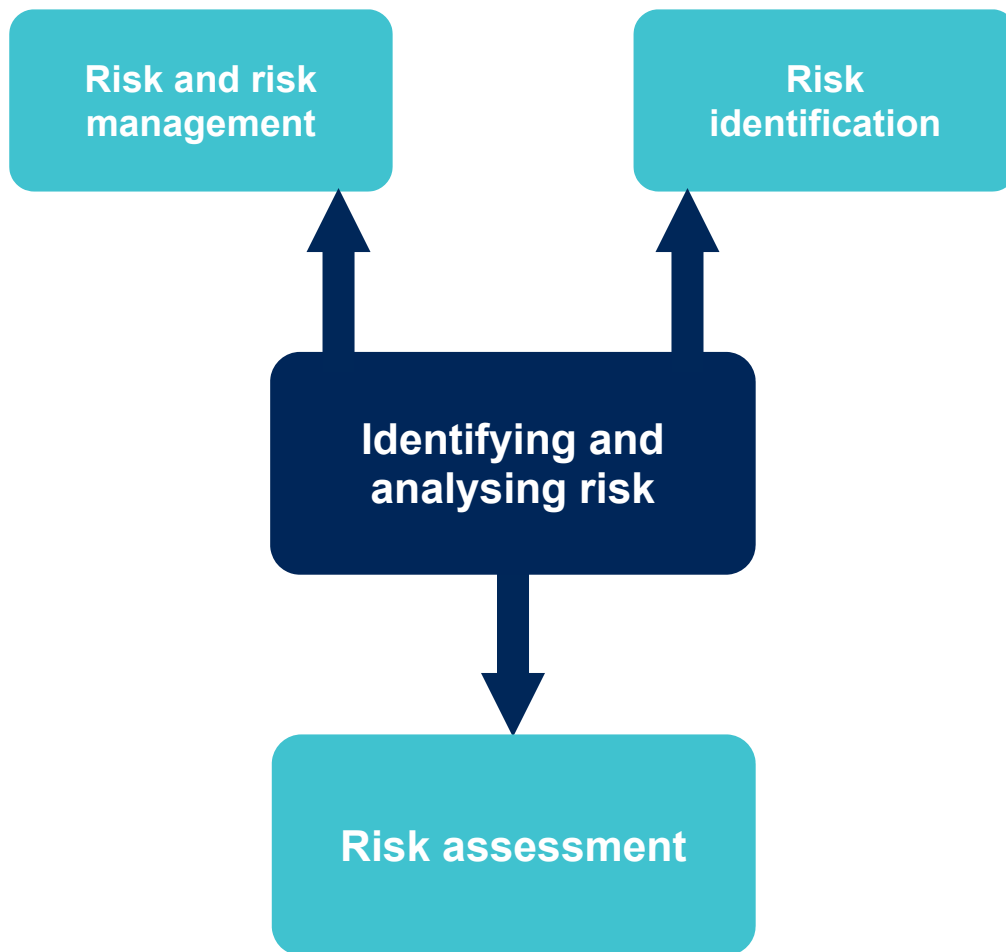


One of the PER performance objectives (PO4) is that you contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 15 of your Study Text



Overview



1 Risk

1.1 Definition



- Risk can be defined as an unrealised future loss arising from a present action or inaction.
- Risks are the opportunities and dangers associated with uncertain future events.

1.2 Positive and negative aspects of risk

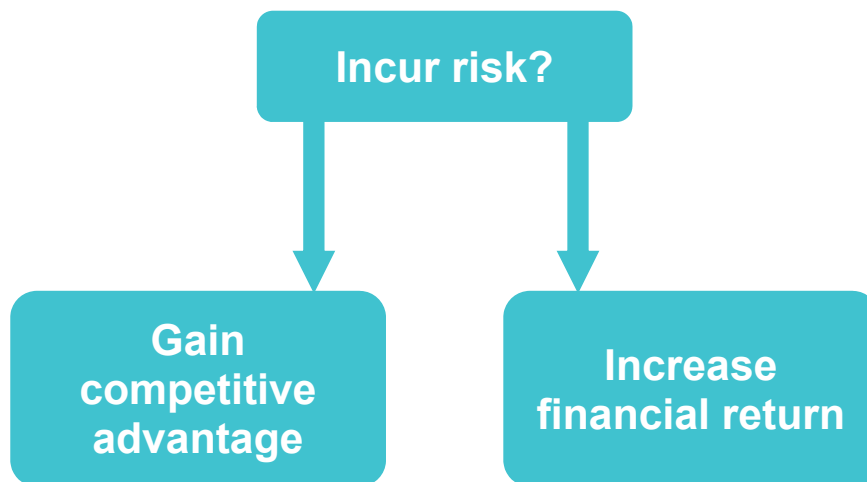


- Risks can have an adverse ('downside exposure') or favourable impact ('upside potential') on the organisation's objectives.

Notes



1.3 Why incur risk?



- To generate higher returns a business may have to take more risk in order to be competitive
- Not accepting risk tends to make a business less dynamic, and implies a 'follow the leader' strategy
- Incurring risk also implies that the returns from different activities will be higher – 'benefit' being the return for accepting risk

Benefits can be:

- financial – decreased costs
- intangible – better quality information.

In both cases, these will lead to the business being able to gain competitive advantage.

1.4 The “as low as reasonably practicable” principles (ALARP)

- The ALARP principle expresses a point at which the cost of additional risk reduction would be grossly disproportionate to the benefits achieved
- The ALARP principle is usually applied to safety critical, high integrity systems where health and safety risks cannot be eliminated e.g.

Notes



2 Risk management



Risk management is therefore the process of reducing the possibility of adverse consequences either by reducing the of an event or its or taking advantage of the upside risk.

Management are responsible for establishing a risk management system in an organisation.

2.1 Risk management process



Notes



2.2 Enterprise risk management (ERM)



'A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives'.
(COSO 2003)

2.3 Principles of ERM

- risk management in the context of business strategy
- risk management is everyone's responsibility, with the tone set from the top
- the creation of a risk aware culture
- a comprehensive and holistic approach to risk management
- consideration of a broad range of risks (strategic, financial, operational and compliance)
- a focused risk management strategy, led by the board (embedding risk within an organisation's culture).

Notes

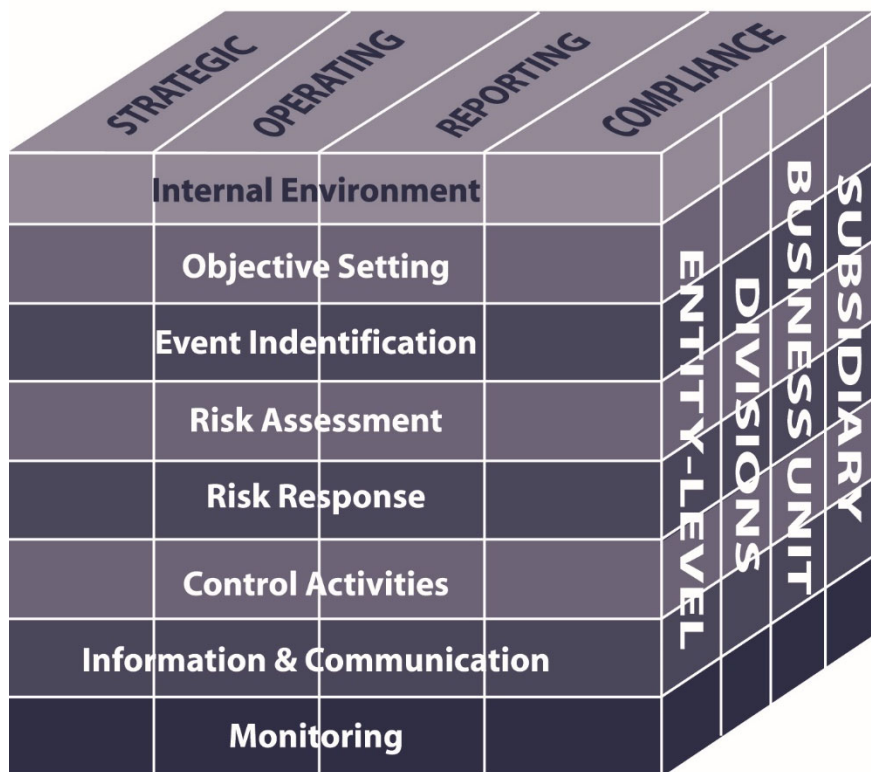


2.4 COSO ERM Framework matrix



The COSO ERM framework reflects the relationships between:

- The four objectives of a business (strategic, operations, reporting and compliance).
- The four organisational levels (subsidiary, business unit, division and entity).
- The eight components that must function effectively for risk management to be successful.



Notes



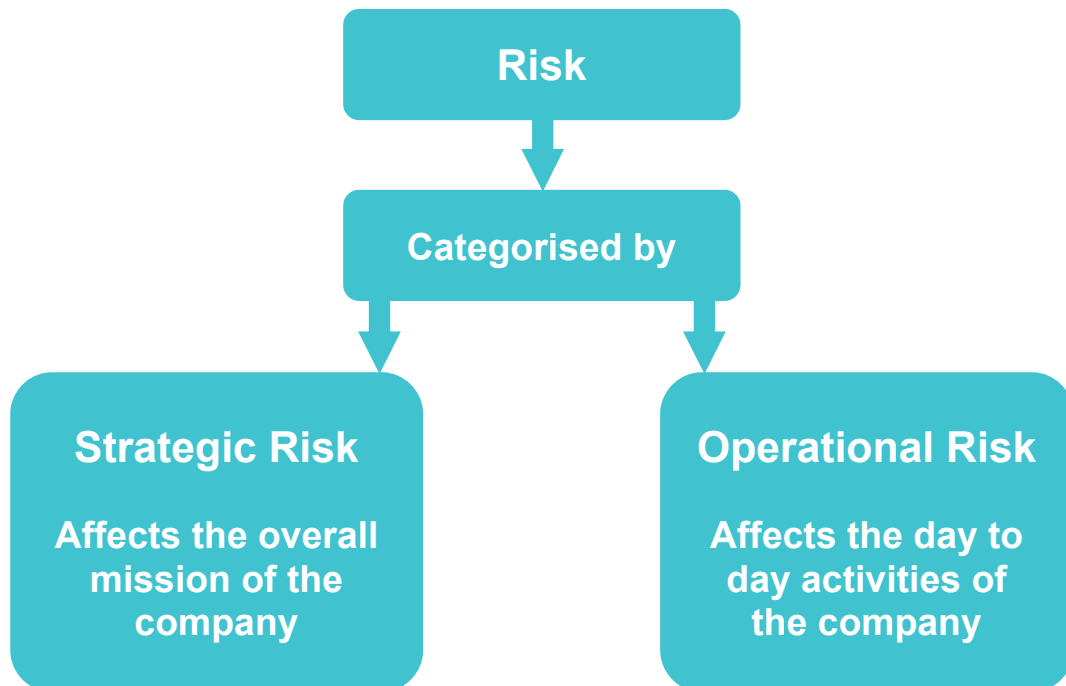
2.5 Benefits of effective ERM

- enhanced by integrating risks
- the resultant improvement in and hence shareholder value
- focus of management attention on the risks
- a common language of risk management which is the organisation
- reduced cost of finance through of risk

Illustrations and further practice

Notes

3 Risk identification



3.1 Strategic risks

- risks arising from the possible consequences of taken by the organisation
- also arise from the way that an organisation is within its environment
- should be identified and assessed at senior management and board or director level
- PESTEL and SWOT techniques can be used to identify these risks.

Notes



3.2 Operational risks

- refer to potential losses that might arise in business operations
- include risks of fraud or employee malfeasance, poor quality production or lack of inputs for production
- can be managed by internal control systems.

3.3 Categories of risks

- Business risk refers to the classic risks of the world of business such as uncertainty about demand for product (Product risk.)
- The risks businesses face will vary greatly between companies and derive from a number of different sources, including those shown below.

➤ Political risk	
➤ Legal/litigation risk	
➤ Regulatory risk	
➤ Compliance risk	
➤ Strategic risk	
➤ Product risk	
➤ Commodity price risk	
➤ Product reputation risk	
➤ Operational risk	
➤ Contractual inadequacy risk	

➤ Market risks	
— Product risk	
— Commodity price risk	
— Product reputation risk	
— Credit risk	
— Currency risk	
— Interest rate risk	
— Technology risk	
— Economic risk	

3.4 Generic or specific

Business risks can be either generic, that is the risk affects all businesses, or specific to individual business sectors.

e.g.

3.5 The concept of related risk factors

Related risks – are risks that vary because of the presence of another risk or where two risks have a common cause.

Risk correlation is a particular example of related risk.

Positively correlated – risks that are positively related in that one will fall with the reduction of the other, and increase with the rise of the other.

Negatively correlated risks are those that if one rose as the other fell.

Illustrations and further practice

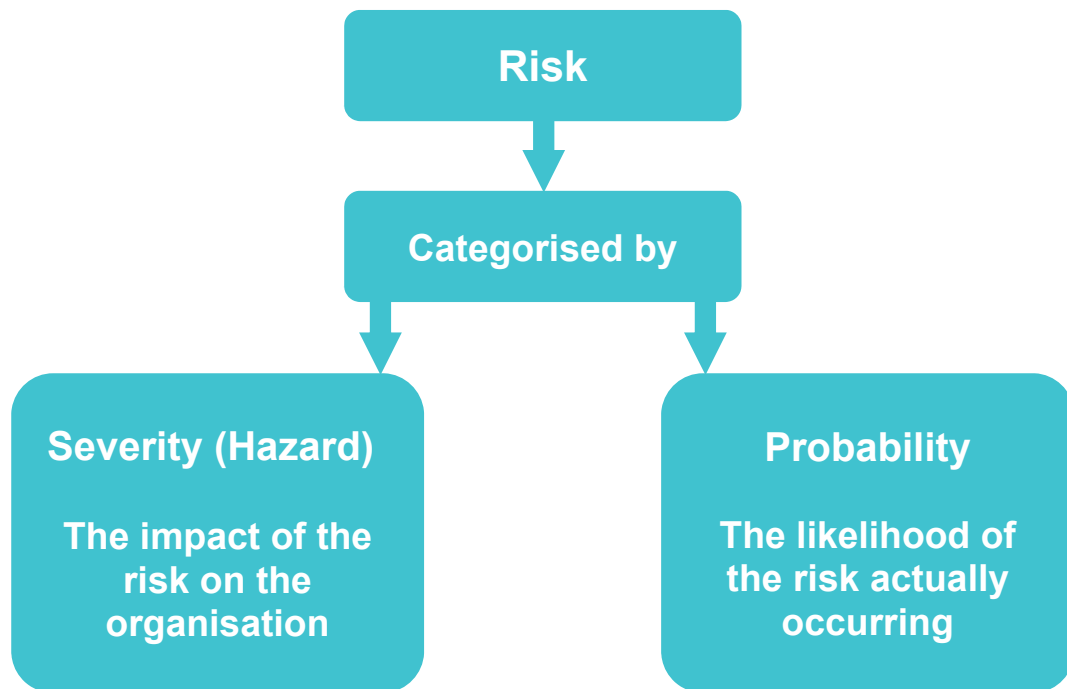


Notes



4 Risk assessment

4.1 Assessing risks

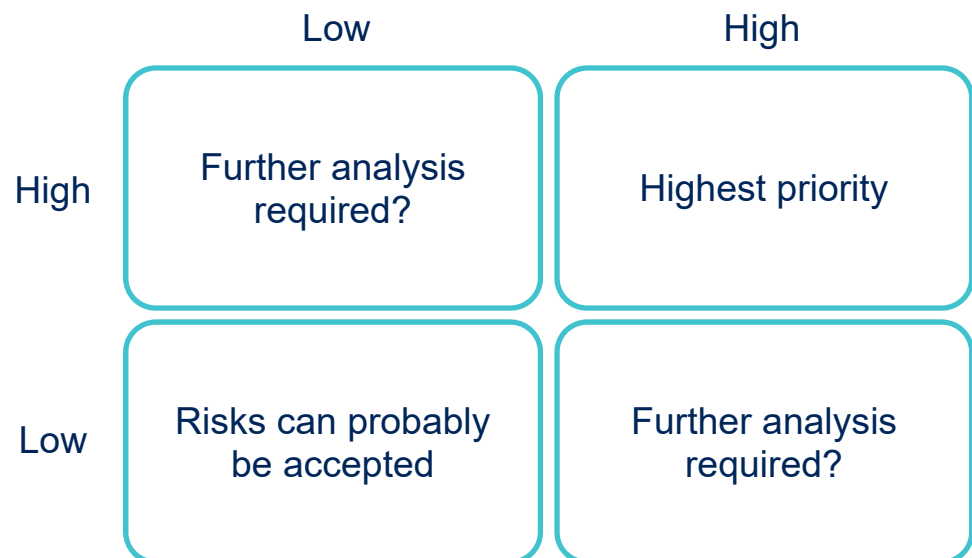


Notes



4.2 Risk mapping

A common qualitative way of assessing the significance of risk is to produce a 'risk map'. Risks can be plotted on a diagram, as shown.



Notes



Chapter 15

Or on a risk heat map:

Potential Impact	Extreme	5	10	15	20	25
	High	4	7	12	16	20
	Medium	3	6	9	12	15
	Low	2	4	6	8	10
	Negligible	1	2	3	4	5
		Remote	Unlikely	Possible	Likely	Probable
		Likelihood				
		% ranges				
		0-10%	>10-25%	25-50%	50-90%	90-100%

The risk management strategies that will be adopted depend on how risk is assessed on this map.

- Transfer
- Accept
- Reduce
- Avoid

Notes



Illustrations and further practice



Notes



Questions



Chapter 16

Managing, monitoring and mitigating risk



Outcome

By the end of this session you should be able to:

- explain and assess the role of a risk manager
- evaluate a risk register and use heat maps when identifying or monitoring risk
- describe and evaluate the concept of embedding risk in an organisation's culture and values
- explain and analyse the concepts of spreading and diversifying risk and when this would be appropriate
- explain, and assess the importance of, risk transfer, avoidance, reduction and acceptance (TARA)
- explain and assess the benefits of incurring or accepting some risk as part of competitively managing an organisation

and answer questions relating to these areas.



One of the PER performance objectives (PO4) is that you contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 16 of your Study Text



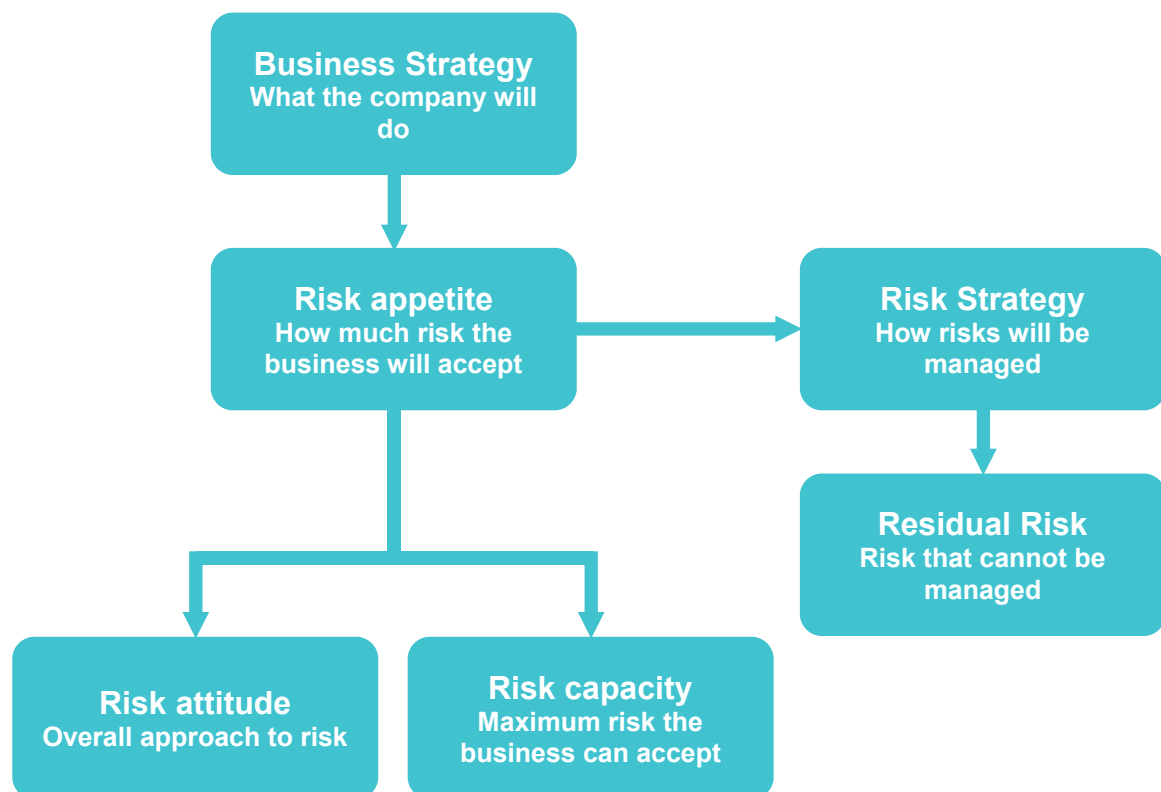
Overview



1 Roles

1.1 Role of the board

The board of an organisation plays an important role in risk management. A framework for board consideration might be:



Note: The board will generally delegate these activities to a risk committee.

Notes



1.2 Risk appetite

Risk appetite is a measure of the general attitude to accepting risk.

It can be determined by:

- **risk capacity** – the amount of risk that the organisation can bear, and
- **risk attitude** – the overall character of the board, in terms of the board being risk averse or risk seeking.

1.3 The role of the risk committee



- The committee will include both executive and non-executive directors, with the majority being NEDs.
- Executive directors are involved as they are responsible for the day-to-day operations and therefore have a more detailed understanding of the associated risks.

Notes



1.4 The role of the risk manager

- The risk manager is a member of the risk management committee, reporting directly to that committee and the board.
- The role focuses primarily on implementation of risk management policies.
- The manager is supported and monitored by the risk management committee.
- The role is more operational than strategic.
- Policy is set by the board and the risk management committee and implemented by the risk manager

Notes

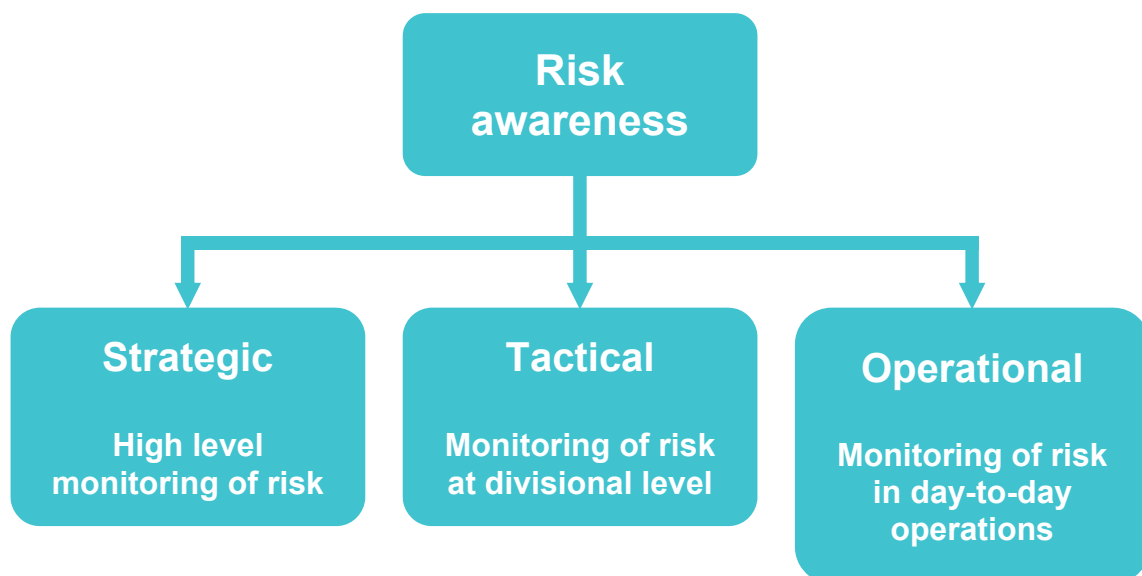


2 Risk awareness

2.1 Risk awareness

A lack of risk awareness means that an organisation has an inappropriate risk management strategy.

- Risks affecting the organisation may not have been identified meaning there will be a lack of control over that risk.
- Risks may occur and the control over that risk is not active due to lack of monitoring and awareness.
- Continued monitoring within the organisation is therefore required to ensure that risk management strategies are updated as necessary.



Notes



2.2 Embedding risk

The aim of embedding risk management is to ensure that it is 'part of the way we do business'.

Considered at two levels:

- embedding risk in systems
- embedding risk in culture.

In systems:

- ensuring that risk management is included within the control systems of an organisation
- a control system helps ensure that other systems (e.g. the accounting system) are working correctly
- not seen as a separate system
- embedding risk management needs approval and support from the board.

Note: In many jurisdictions, this is a statutory requirement (e.g. US) while in others it is a code of best practice (e.g. UK).

In culture:

- needs to be embedded into policies and procedures in an organisation
- all workers in a company (board to employees) accept the need for risk management
- embedding into culture and values therefore implies that risk management is 'normal' for the organisation.

Notes

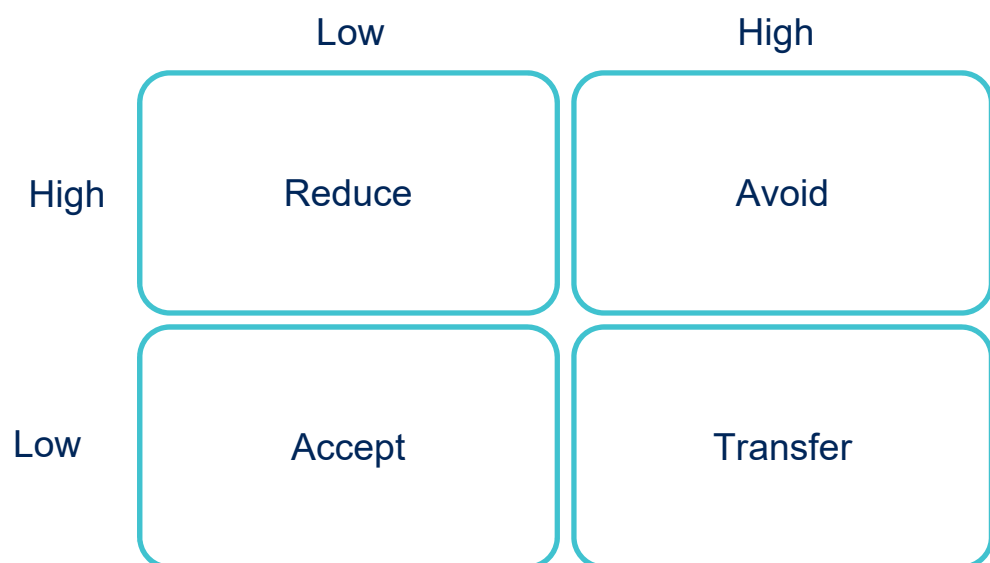


3 Risk management

3.1 Strategies for managing risks

- Transference (or Sharing)
- Avoidance
- Reduction
- Acceptance

3.2 Risk mapping and risk management strategies



Illustrations and further practice

3.3 Diversifying/spreading risk

- Risk can be reduced by diversifying into operations in different areas, such as into Industry X and Industry Y, or into Country P and Country Q.
- Poor performance in one area will be offset by good performance in another area, so diversification will reduce total risk.
- Diversification is based on the idea of 'spreading the risk'; the total risk should be reduced as the portfolio of diversified businesses gets larger.
- From your F9 studies you will remember that diversification works best where returns from different businesses are negatively correlated (i.e. a change in the business environment causes returns to move in opposite directions). It will, however, still work to a degree as long as the correlation is less than +1.0.
- Example of poor diversification – swimming costumes and ice cream – both reliant on sunny weather for sales.
- Spreading risk relates to portfolio management where an investor, or company, spreads product and market risks.

Risk can be spread by expanding the portfolio of companies held. The portfolio can be expanded by integration – linking with other companies in the supply chain, or diversification into other areas.

This is development beyond the present product and market, but still within the broad confines of the 'industry'.

- Backward integration refers to development concerned with the inputs into the organisation,
- Forward integration refers to development into activities that are concerned with the organisation's outputs
- Horizontal integration refers to development into activities that compete with, or directly complement, an organisation's present activities

Illustrations and further practice

Notes

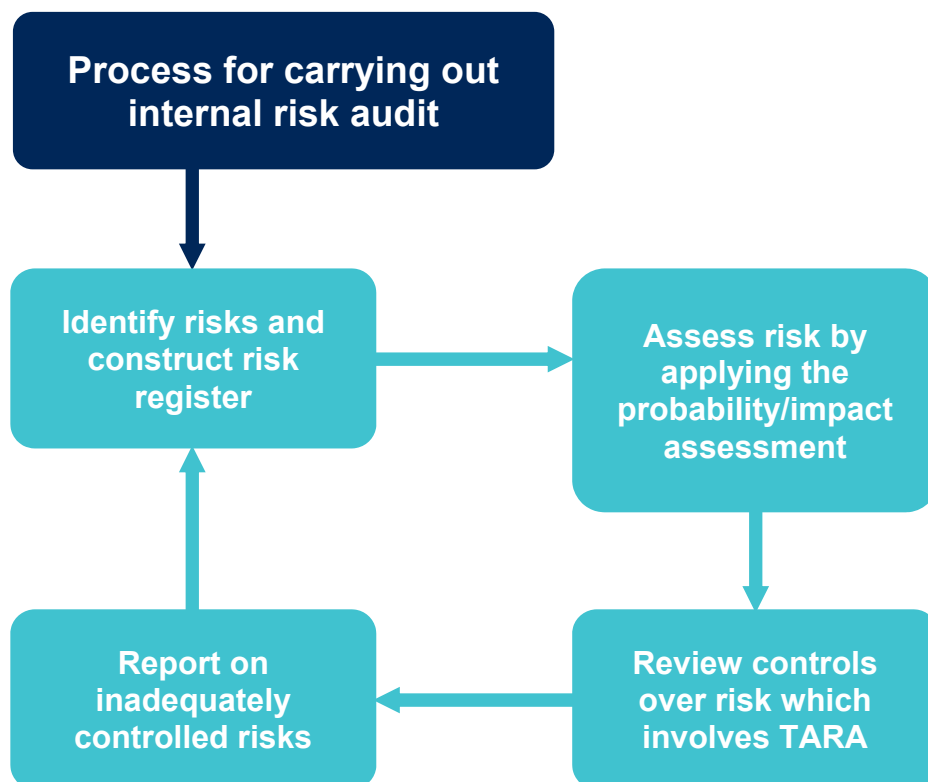


4 Risk monitoring

4.1 Risk auditing

- Risk audit is a systematic way of understanding the risks that an organisation faces.
- Unlike financial auditing, risk audit is not a mandatory requirement for all organisations but, in some highly regulated industries, a form of ongoing risk assessment and audit is compulsory in most governance jurisdictions.
- Some organisations employ internal specialists to carry out risk auditing, others utilise external consultants to perform the work.

4.2 Stages of a risk audit



Notes



Questions



Chapter 17

Professionalism, ethical codes and the public interest



Outcome

By the end of this session you should be able to:

- explain and explore the nature of a 'profession' and 'professionalism'
- describe and assess what is meant by 'the public interest'
- describe the role of, and assess the widespread influence of, accounting as a profession in the organisational context
- analyse the role of accounting as a profession in society
- recognise accounting's role as a value-laden profession capable of influencing the distribution of power and wealth in society
- describe and critically evaluate issues surrounding accounting and acting against the public interest
- describe and explore the areas of behaviour covered by corporate codes of ethics
- describe and assess the content of, and principles behind, professional codes of ethics
- describe and assess the codes of ethics relevant to accounting professionals
- describe and evaluate issues associated with conflicts of interest and ethical conflict resolution
- explain and evaluate the nature and impact of ethical threats and safeguards
- explain and explore how threats to independence can affect ethical behaviour

Chapter 17

- describe and discuss approaches to resolving ethical dilemmas encountered in professional accounting
- explain and explore 'bribery' and 'corruption' in the context of corporate governance, and assess how these can undermine confidence and trust
- describe and assess best practice measures for reducing and combating bribery and corruption, and the barriers to implementing such measures
- evaluate organisational decisions using the Tucker 5 question approach
- describe and critically evaluate the social responsibility of accountants acting in the public interest
- assess management behaviour against the codes of ethics relevant to accounting professionals including the IESBA (IFAC) or professional body codes
- analyse the reasons for and resolve conflicts of interest and ethical conflicts in organisation
- assess the nature and impacts of different ethical threats and recommend appropriate safeguards to prevent or mitigate such threats
- recommend best practice for reducing and combating fraud, bribery and corruption to create greater public confidence and trust in organisations

and answer questions relating to these areas.

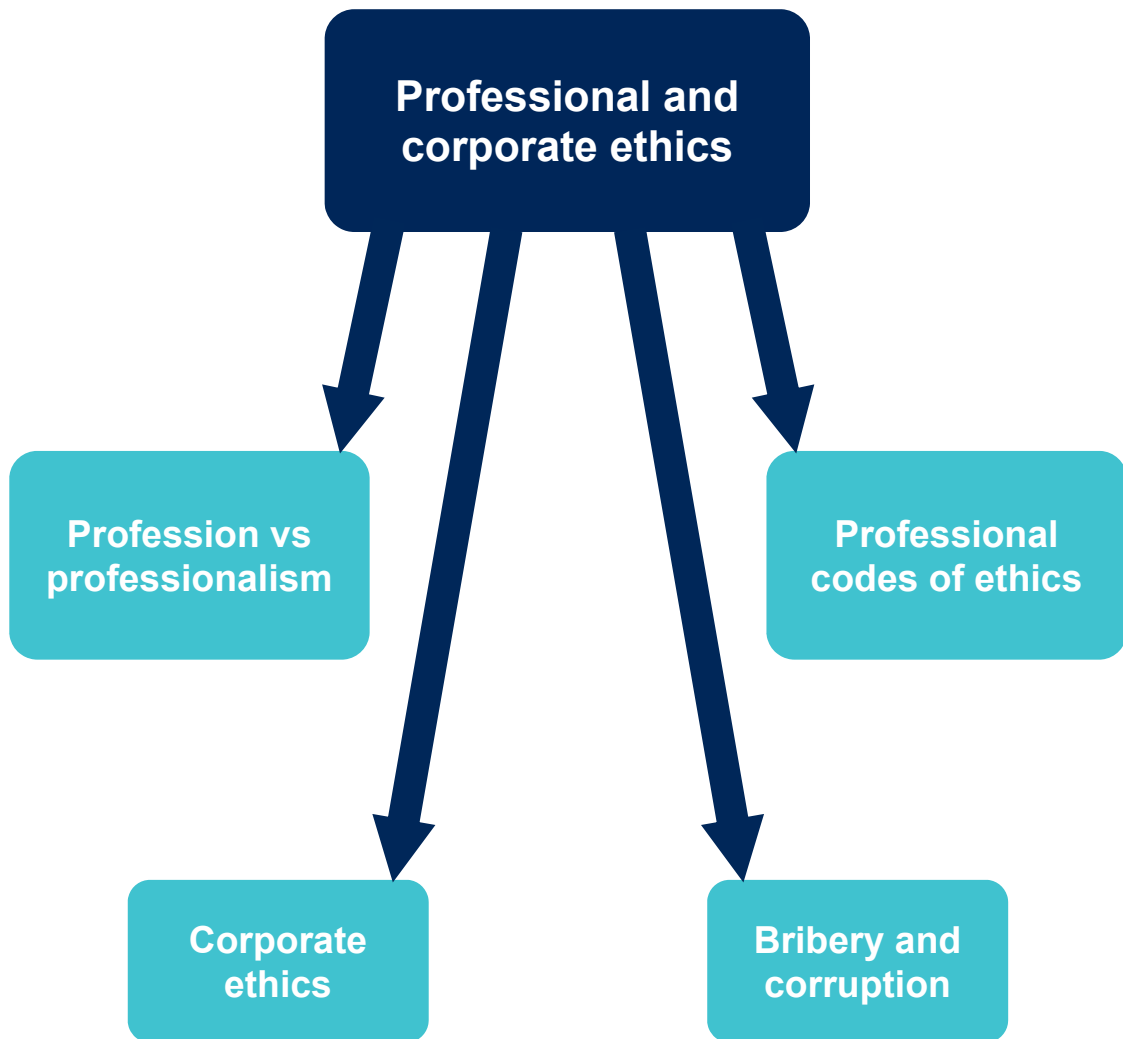


One of the PER performance objectives (PO 1) mean you should always act in the wider public interest. You need to take into account all relevant information and use professional judgement, your personal values and scepticism to evaluate data and make decisions. You should identify right from wrong and escalate anything of concern. You also need to make sure that your skills; knowledge and behaviour are up-to-date and allow you to be effective in your role. Working through this chapter should help you understand how to demonstrate that objective.

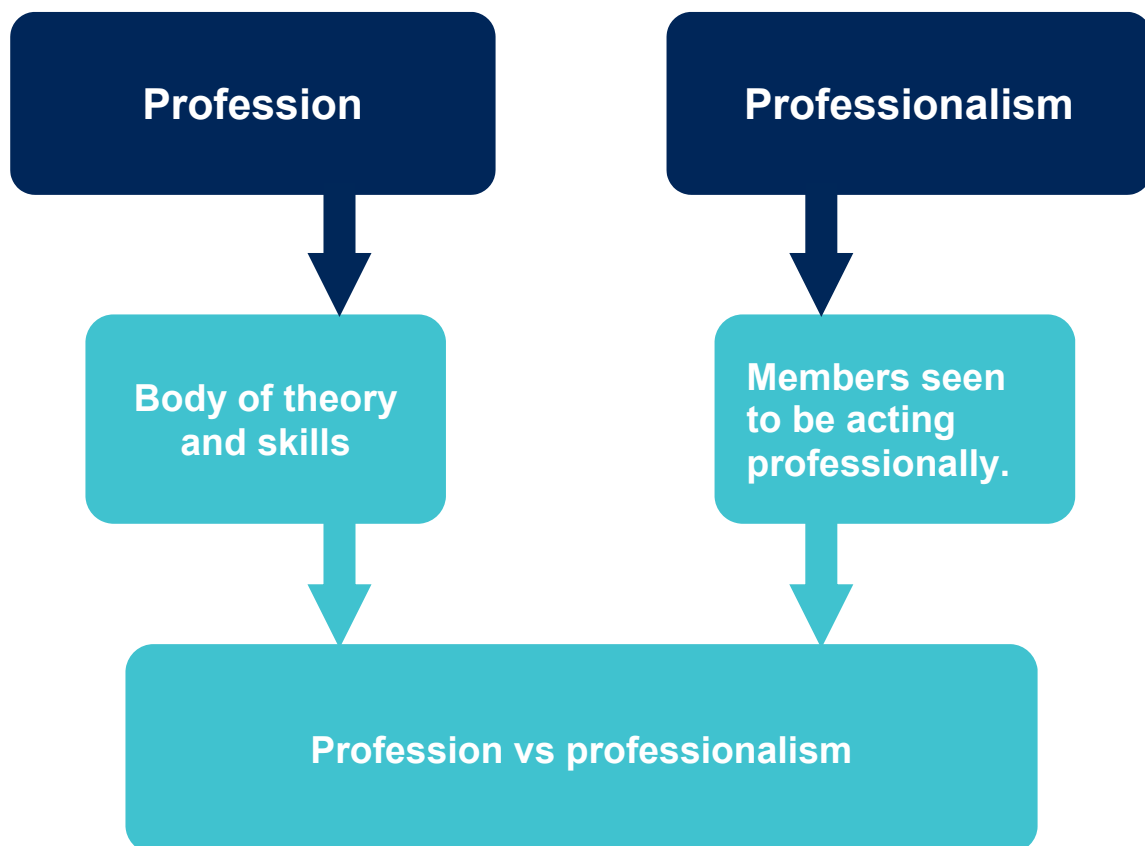
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Overview



1 Profession versus professionalism



Notes



Professionalism, ethical codes and the public interest

1.1 Key terms



Profession: a body of theory and knowledge which is used to support the public interest.

Professionalism: taking action to support the public interest.

1.2 Profession

Characteristics	Applicability to accounting profession
Body of theory and skills	<ul style="list-style-type: none">➤ technical skills➤ acquired by training and education➤ maintained by continuing professional development.
Adherence to common code of values and conduct	<ul style="list-style-type: none">➤ established by administering body➤ ethical standard applicable to all members.
Acceptance of a duty to society as a whole	<ul style="list-style-type: none">➤ professions can be trusted to act in the public interest➤ members are granted a qualification and use of a title.

Notes



1.3 Professionalism

- seen to be acting professionally, or literally having professionalism
- a state of mind, while the profession provides the rules that members of that profession must follow
- an obligation on members to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession
- complying with the ethical standards laid down by the professional body.

Illustrations and further practice



Notes



2 The public interest

2.1 What is the 'public interest'?



The public interest can be defined as that which supports the good of society as a whole (as opposed to what serves the interests of individual members of society or of specific sectional interest groups).

- The distinguishing mark of a profession is the acceptance of a responsibility to the public.

2.2 Accountants and the public interest

- Accountants do not generally act against the public interest.
- The ethical code applicable to most accountants confirms that such action is not normally appropriate.

Note: An area of particular relevance to accountants will be that of disclosure of information:

Illustrations and further practice

Notes

3 Corporate code of ethics



Corporate ethics relates to the application of ethical values to business behaviour.

- It encompasses many areas ranging from board strategies to how companies negotiate with their suppliers.
- It goes beyond legal requirements and is to some extent therefore discretionary.
- Many companies provide details of their ethical approach in a corporate and social responsibility (CSR) report.

3.1 Key areas included in a code of corporate ethics

- Purpose and value of business –
- Customer relations –
- Shareholders –
- Employees –
- Suppliers –
- Society –

Notes



3.2 Benefits and drawbacks of corporate and professional codes



Benefits	Drawbacks
Provides framework for conflict resolution	➤ It is only a code – may not fit the precise ethical issue
Provides guidelines for similar ethical disputes and methods of resolution	➤ Can be interpreted in different ways which may appear ethically incorrect to two different people
Provides boundaries across which it is ethically incorrect to pass	➤ May be no clear or effective punishment for breaching the code

Notes



4 Professional code of ethics

4.1 Principles

Behind a professional code of ethics, there are underpinning principles:

- Integrity –
- Objectivity –
- Professional competence –
- Confidentiality –
- Professional behaviour –

Illustrations and further practice

Notes

4.2 Conflicts of interests

The potential threats which may lead to conflicts of interest and lack of independence were discussed in detail in the audit and compliance chapter.

These are:

- self-interest
- self-review
- advocacy
- familiarity
- intimidation

4.3 Ethical threats and safeguards



An ethical threat is a situation where a person or corporation is tempted not to follow their code of ethics.

An ethical safeguard provides guidance or a course of action which attempts to remove the ethical threat.

Illustrations and further practice

Notes

4.4 Corruption and bribery



Corruption is bribery and any other behaviour in relation to persons entrusted with responsibilities in the public or private sector which violates their duties and is aimed at obtaining undue advantages of any kind for themselves or for others.

For example:

- bribery – including excessive hospitality
- facilitation payments
- buying votes
- illicit payments to political parties
- misappropriation of public funds.

4.5 Why is corruption wrong?

The ethical argument

- it is a misuse of power and position and has a disproportionate impact on the poor and disadvantaged
- it undermines the integrity of all involved and damages the fabric of the organisations to which they belong.

Notes



The business argument

For example:

- Legal risks – most forms of corruption illegal.
- Reputational risk – organisations whose practices do not meet high ethical standards are exposed to reputational damage e.g.
- Financial costs – adds to the cost of procurement undermining business performance.
- Pressure to repeat offend – once a bribe is paid, repeat demands are possible.
- Blackmail – security of staff and other assets are put at risk.
- Impact on staff – erodes staff loyalty and makes recruitment and retention of quality personnel difficult.
- Impact on development – undermines the world's social, economic and environmental development.

Illustrations and further practice



Notes



5 Ethical decision making

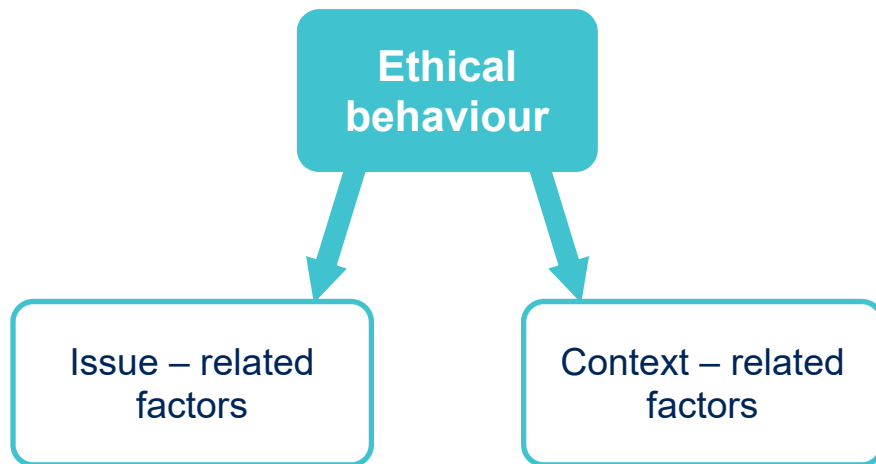
5.1 Tuckers 5 question model

- Profitable?
- Legal?
- Fair?
- Right?
- Sustainable or environmentally sound?

Illustrations and further practice

Notes

5.2 Ethical behaviour



5.3 Issue –related factors

- the nature of the ethical issue – issue-related factors
- how important the decision is to the decision maker
- the higher the intensity, the more likely it is that the decision maker will make an ethical rather than an unethical decision.

5.4 Context related factors

These factors relate to how a particular issue would be viewed within a certain context.

Key contextual factors are:

- system of reward
- authority
- bureaucracy
- work roles
- organisational group norms and culture
- national and cultural context.

Illustrations and further practice



Notes



Questions



Notes



Chapter 18

Organising for success



Outcome

By the end of this session you should be able to:

- advise how organisation structure and internal relationships can be re-organised deliver a selected strategy
 - describe Mintzberg's six organisational configurations
 - advise on the implications of collaborative working, organisation process outsourcing, shared services and global business services
 - evaluate the effectiveness of current organisational processes
 - establish and appropriate scope and focus for organisation process change using Harmon's process-strategy matrix
 - establish possible redesign options for improving the current processes of an organisation
 - assess the feasibility of possible redesign options
 - recommend an organisation process redesign methodology for an organisation
- and answer questions relating to these areas.

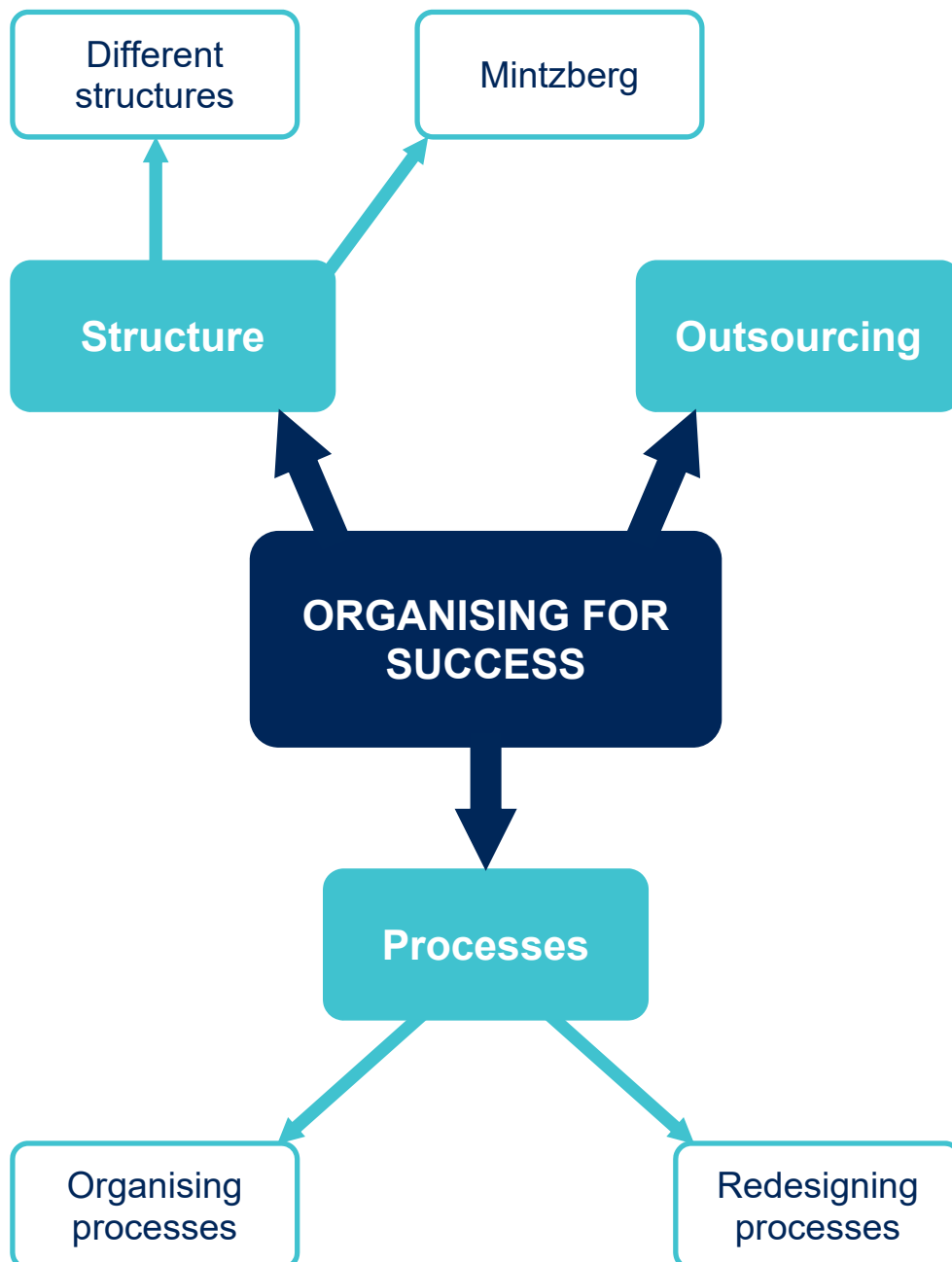


One of the PER performance objectives (PO 13) is that you plan business activities and control performance, making recommendations for improvement. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 18 of your Study Text



Overview



1 Structure and strategy

1.1 How structure changes as strategy changes

- More specialisation
- More specialists
- More levels of authority
- More bureaucracy.

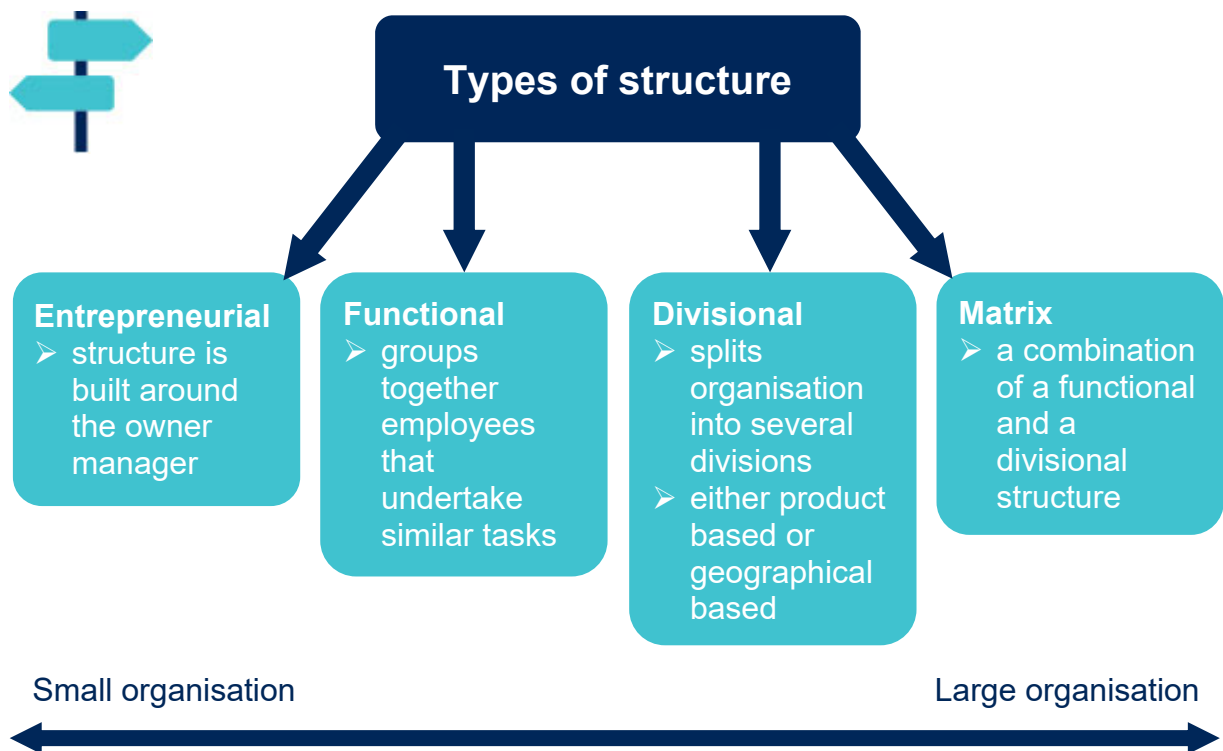
1.2 How structure can impact on strategy

- The degree of organisational flexibility.
- The level of specialist skills and associated decision making.
- The degree of innovation and knowledge management.
- Developing and supporting CSFs.
- The degree of market focus.

Notes



2 Different organisational structures



Notes



3 Mintzberg's building blocks

Building block	What they want	What they provide	Dominated structure
Strategic apex	Direction	Supervision	Simple
Technostructure	Efficiency	Procedures and standards	Machine bureaucracy
Operating core	Proficiency	Expertise and skills	Professional bureaucracy
Middle line	Concentration	Focus and control	Divisional
Support staff	Learning	Help and learning	

Illustrations and further practice

Notes

4 Outsourcing

4.1 Pros/cons



- cheaper
- better focus
- improved customer care
- can plug skills gaps
- can be more flexible



- harder to differentiate
- loss of control
- data security issues
- requires management
- may be boundaries to overcome

4.2 Barriers to growth and change

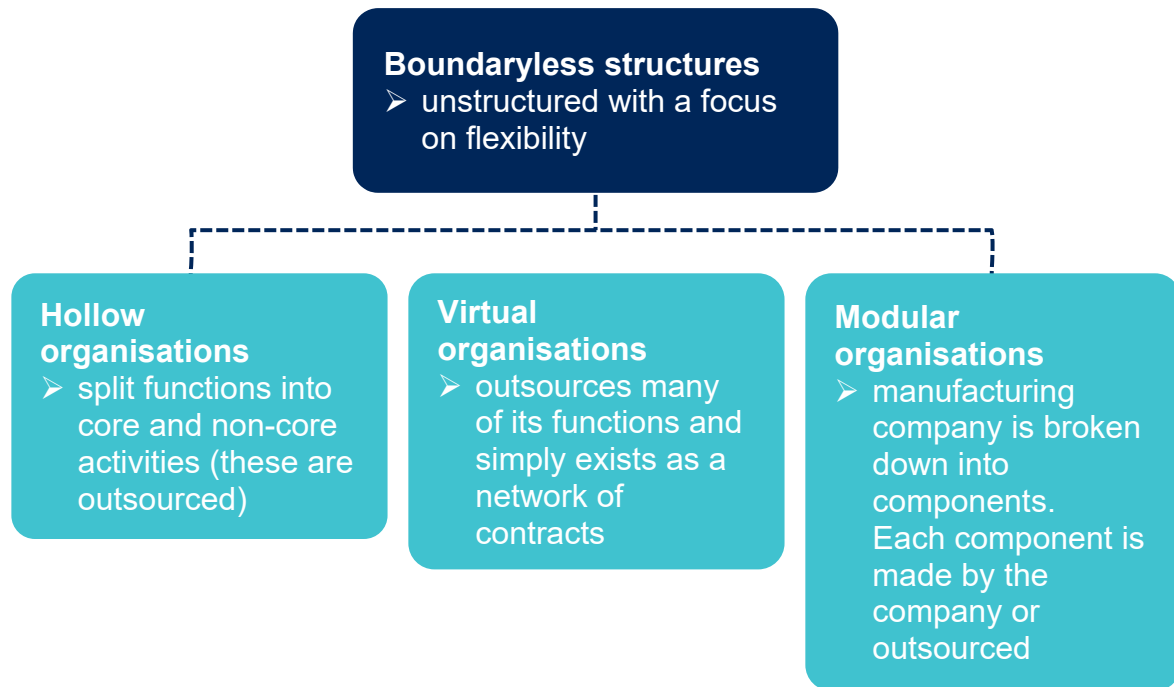
Boundaries to growth and change:

- vertical boundaries – the levels of authority through which a decision has to go through
- horizontal boundaries – the lack of goal congruence between functions/departments
- external boundaries – boundaries between the organisation and its customers/suppliers.

Notes



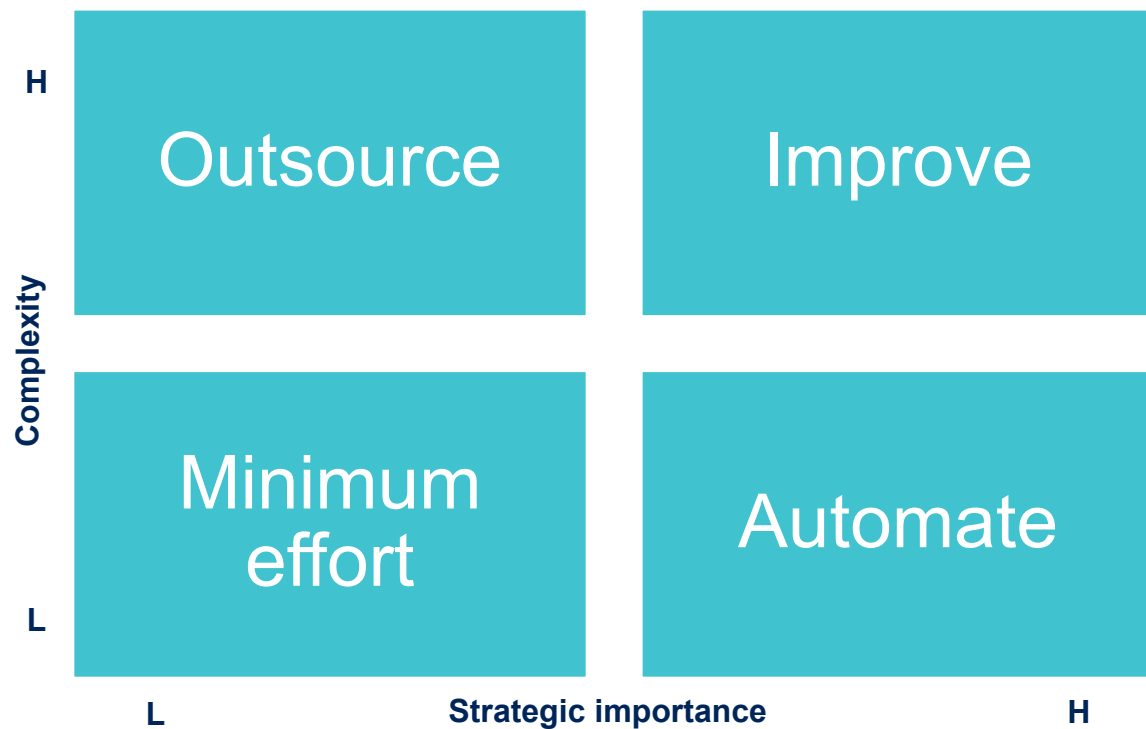
4.3 Boundaryless structures



Notes



5 Organising processes – Harmon



Illustrations and further practice

Notes

6 Redesigning processes

6.1 Typical problems

- activities are unnecessary
- activities are in the wrong order
- activities are in the wrong swim lane
- activities are missing
- activities take too long

Notes



6.2 Typical solutions

- remove unnecessary activities
- remove swim lanes
- combining activities
- combining job roles
- automation
- outsourcing
- changing the order of activities
- reducing handovers.

Illustrations and further practice



Notes



Questions



Chapter 19

e-Business



Outcome

By the end of this session you should be able to:

- discuss and evaluate the main organisation and market models for delivering e-business
- assess and advise on the potential application of information technology to support e-business
- discuss from a strategic perspective the continuing need for effective information systems control within an organisation
- assess and advise on the adequacy of information technology and systems security controls for an organisation
- evaluate and recommend ways to promote cyber security
- evaluate, and if necessary, recommend improvements or changes to controls over the safeguard of information technology assets to ensure the organisation's ability to meet business objectives

and answer questions relating to these areas.

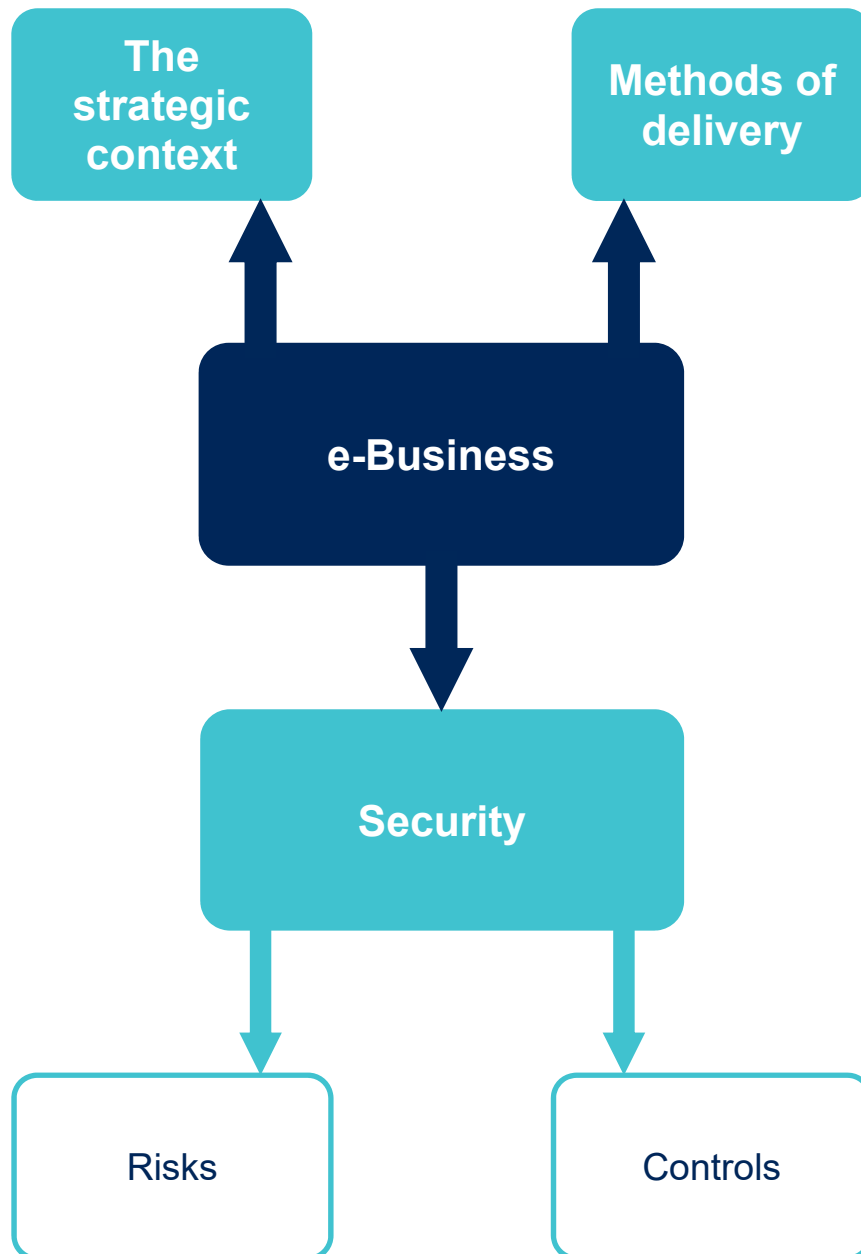


Two of the PER performance objectives (PO3) and (PO13) are that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance and plan business activities and control performance, making recommendations for improvement. Working through this chapter should help you understand how to demonstrate these objectives.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 19 of your Study Text



Overview



1 The strategic context

1.1 The impact on strategic planning

In the modern environment IT plays a role at all stages of the strategic planning process.

For example,

- Strategic analysis: IT can help create business strengths or overcome existing weaknesses
- Strategic choice: IT can help create a competitive advantage or give access to new markets
- Strategic implementation: we've already seen how IT plays a role in BPR, for example.

Notes



1.2 Industry impact

Porter suggests 3 ways IS/IT can affect industries

- New businesses might become possible.
- The industry structure can be changed.
- IS/IT can provide an organisation with competitive advantage by providing new ways of operating.

Illustrations and further practice



Notes

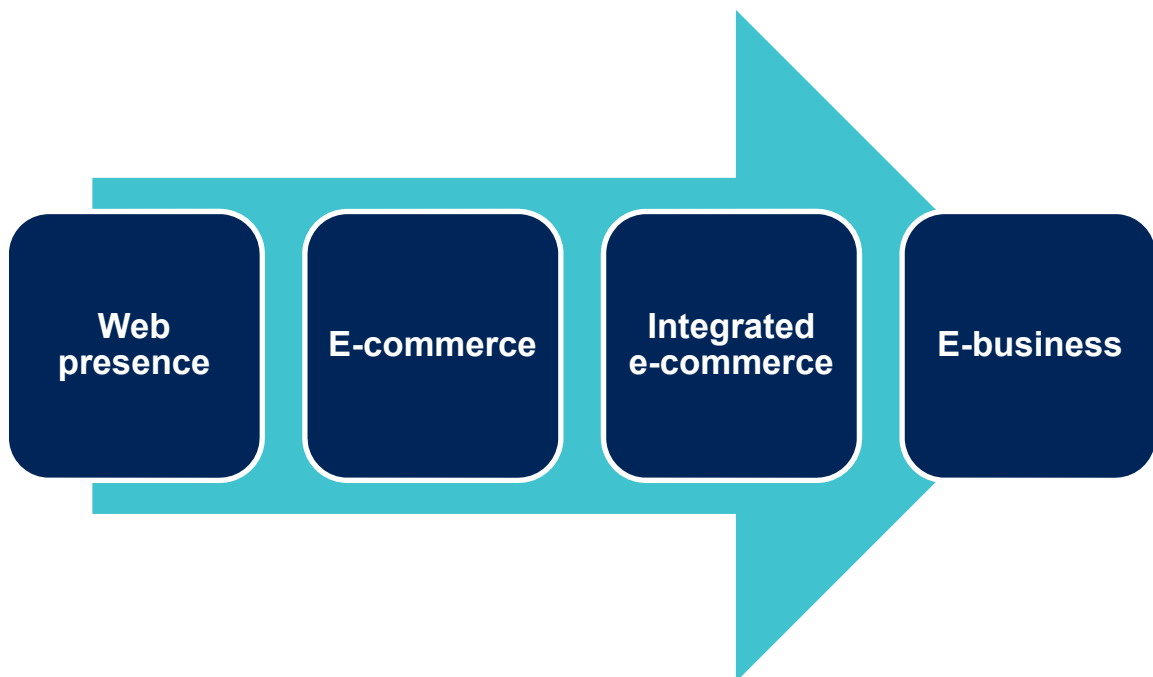


2 Methods of delivery



E-business is the conduct of business processes on the internet, including both buying and selling of products or services, processing payments, collaborating with business partners and sharing information with key stakeholders.

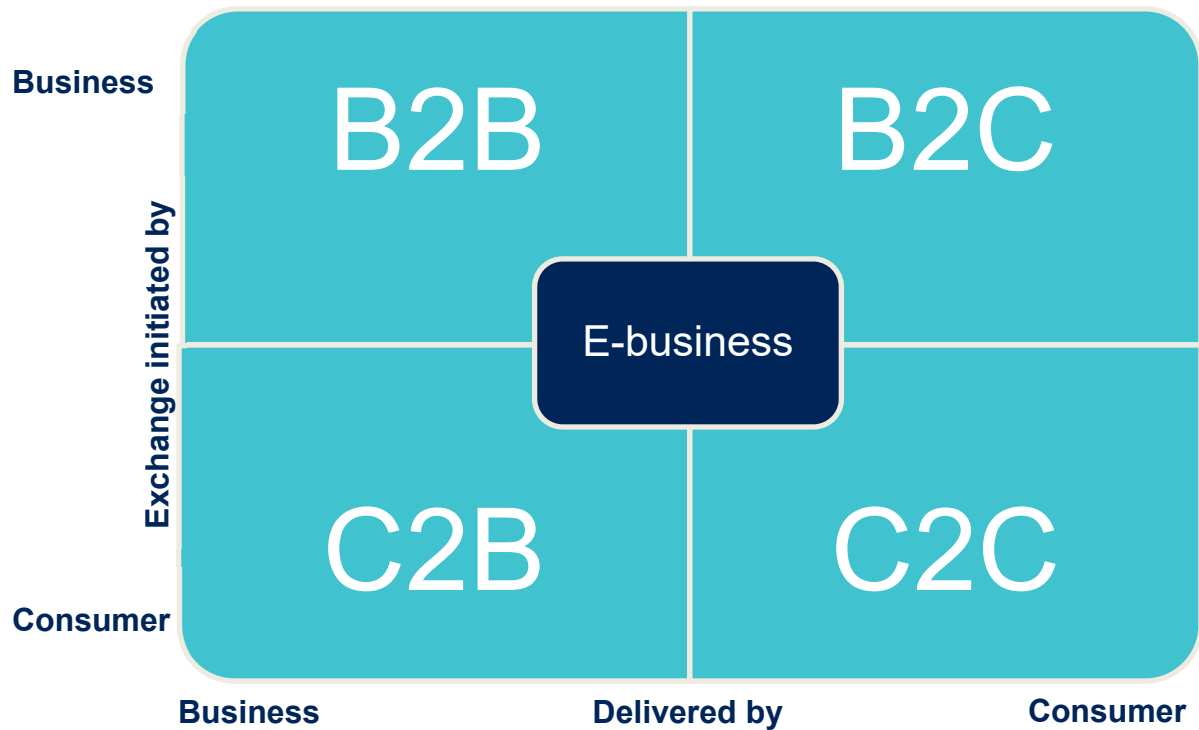
2.1 Stages of e-business



Notes



2.2 Types of e-business



Notes



2.3 Benefits and risks



- reduces operating costs
- increases revenue
- easier access to information
- increased visibility
- enhanced customer service
- improved marketing
- enhanced competitive advantage



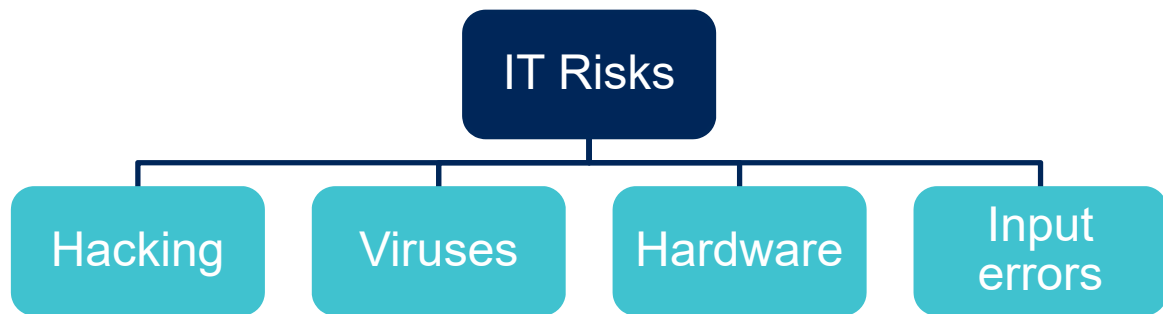
- technophobia
- security concerns
- high set-up and running costs
- requires specialist skills
- not suitable in all industries
- lose personal touch
- doesn't appeal to all market segments

Notes



3 Risks and controls in an IT system

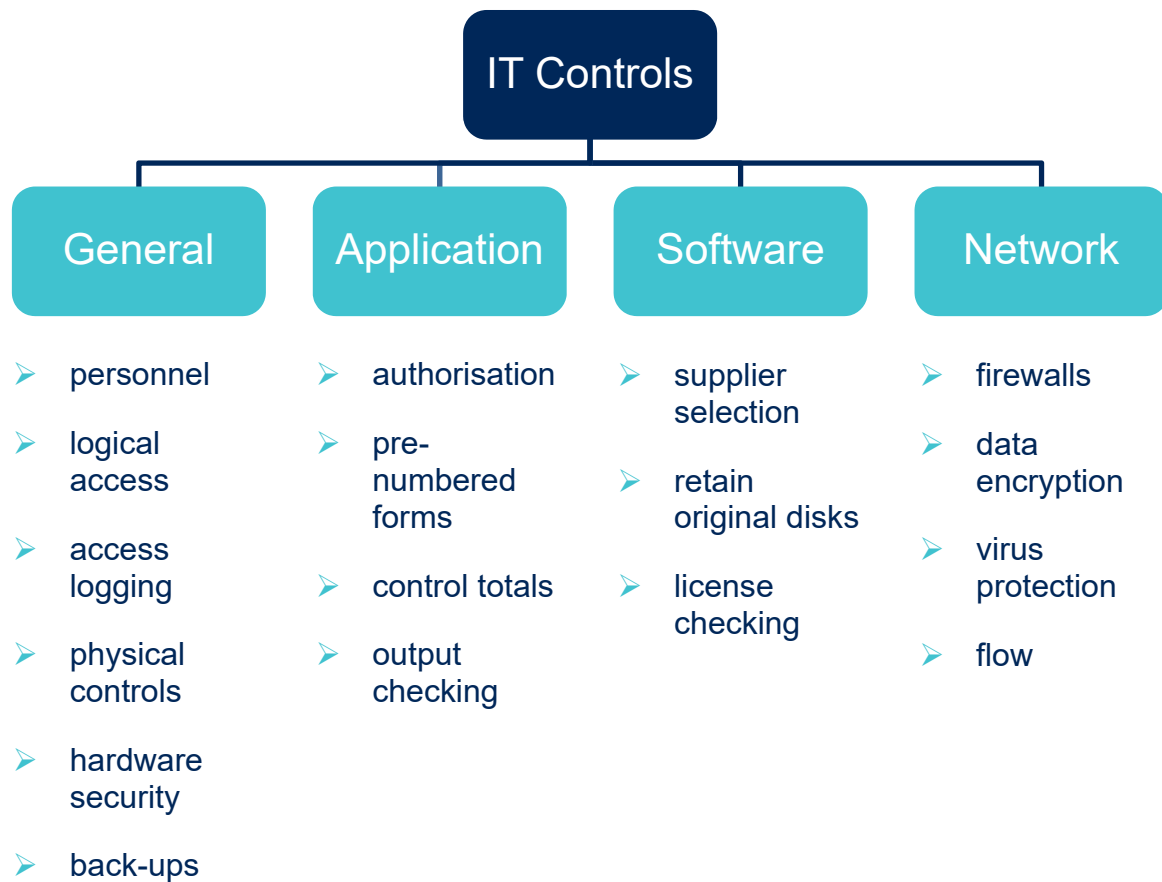
3.1 Risks



Notes



3.2 Controls



Illustrations and further practice

Notes

3.3 Promoting cyber security

The key ways in promoting cyber security to staff are:

- Having a written policy.
- Providing ongoing training and assessment.
- Having a dedicated cyber security staff.
- Limiting access.
- Limiting data.
- Automating systems.

Notes



Questions



Chapter 20

Using IT successfully



Outcome

By the end of this session you should be able to:

- explore different methods of acquiring and managing suppliers and customers through exploring e-business technologies
- discuss how information technology and data analysis can effectively be used to inform and implement organisation strategy
- describe big data and discuss the opportunities and threats big data represents to organisations
- identify and assess the potential impact of disruptive technologies such as Fintech
- discuss from a strategic perspective the need to explore opportunities for adopting new technologies such as cloud and mobile technology within an organisation
- discuss the key benefits and risks of cloud and mobile computing
- assess and advise on using the cloud as an alternative to owned hardware and software technology to support organisation information system needs

and answer questions relating to these areas.

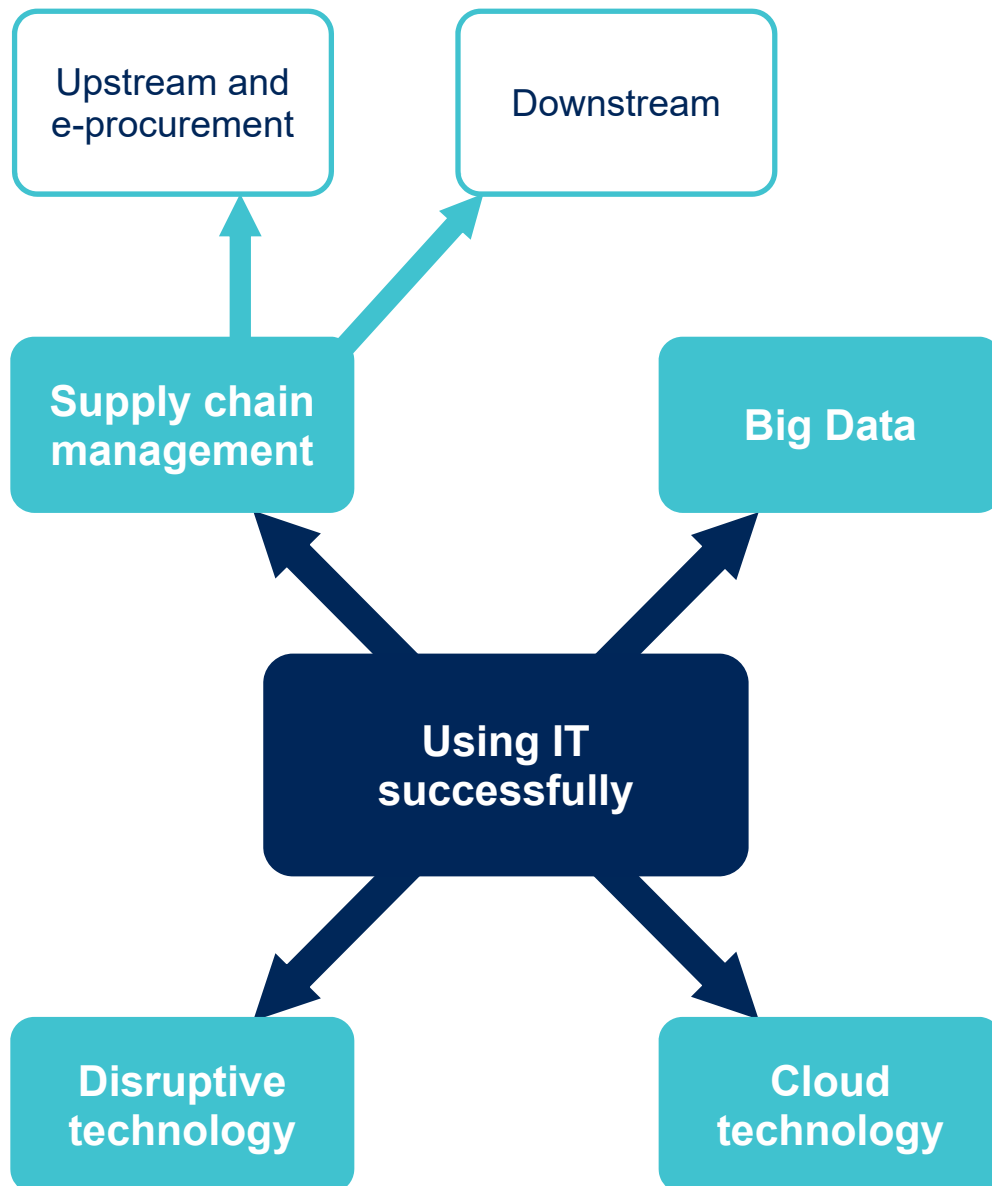


Two of the PER performance objectives (PO3) and (PO13) are that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance and plan business activities and control performance, making recommendations for improvement. Working through this chapter should help you understand how to demonstrate these objectives.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 20 of your Study Text



Overview



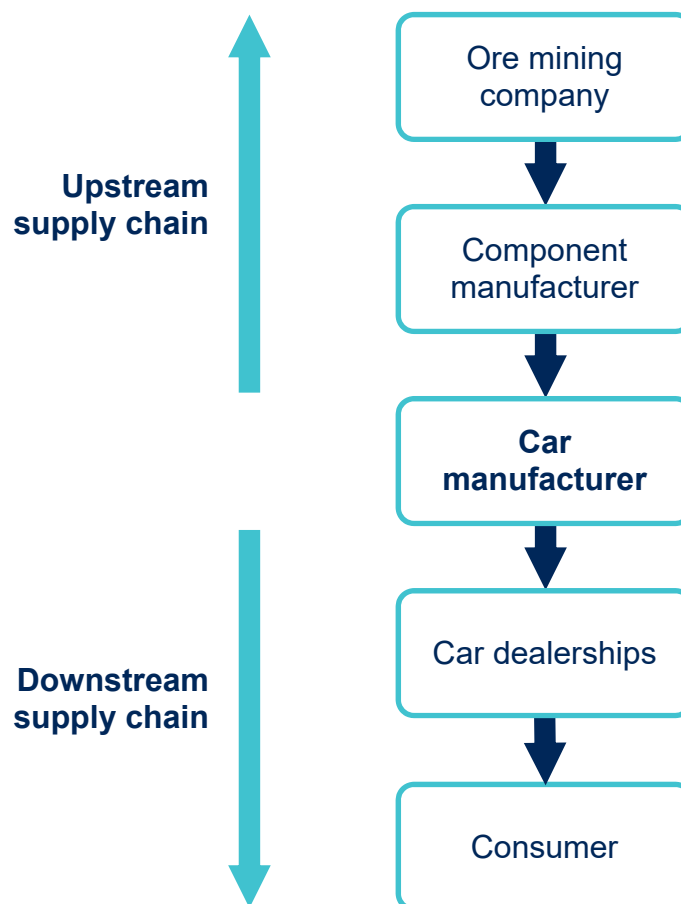
1 Supply chain management

1.1 What is a supply chain?



A supply chain encompasses all activities and information flows necessary for the transformation of goods from the origin of the raw material to when the product is finally consumed or discarded. Supply chains can be either **push** or **pull** in nature.

An example supply chain for the metal used by a car manufacturer is shown below:



Notes



1.2 Push vs pull system

Push system



-
-
-

Pull system



-
-
-
-

Illustrations and further practice



Notes



1.3 What is supply chain management (SCM)?

Supply chain management typically involves:

- reorganisation of processes
- greater use of IT systems
- providing more information to suppliers and customers
- more pull than push
- more efficient inventory replenishment
- better co-ordination of new product development
- promotional activity integrated along the supply chain
- greater use of outsourcing.

Notes



1.4 Upstream supply chain management: E-procurement



The term e-procurement is used to describe the electronic methods used in every stage of the procurement process, from the identification of the organisation's requirements through to payment.

E-procurement can therefore have several main applications:

- Electronic Data Interchange (EDI)
- Use of the internet
- Disintermediation

1.5 Other uses of IT within the upstream supply chain

- Communication
- Information gathering
- Extranets

Notes



1.6 Benefits and problems



- reduces labour costs
- lower inventories
- fewer stockouts
- better control over product development
- greater choice of supplier
- reduced admin
- enhanced competitive advantage



- increased IT risks
- staff resistance
- cost savings are not automatic
- needs to integrate with other systems
- requires specialist skills
- expensive set-up costs

Illustrations and further practice

Notes

1.7 Downstream supply chain management

IT can also be used in downstream SCM in areas such as

- Electronic data interchange (EDI)
- E-commerce
- Intelligence gathering
- Communication
- User communities
- The use of intranets and extranets

1.8 The impact of IT on the structure of the downstream supply chain

- Disintermediation
- Re-intermediation
- Countermediation

Illustrations and further practice

Notes

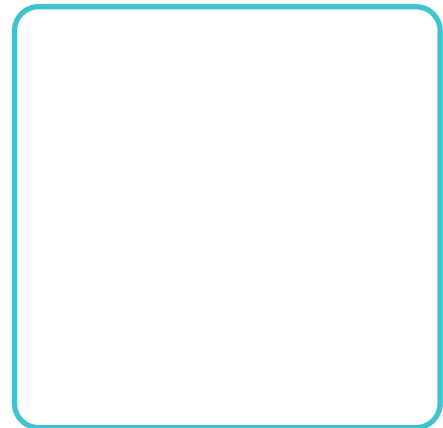
2 Big data

2.1 Characteristics of big data

- volume
- velocity
- variety

2.2 Strategic advantages from exploiting big data

- better knowledge of customers
- ability to spot trends earlier
- react before rivals
- proactively meet changing needs
- identify unsatisfied needs
- better market research and e-marketing
- better competitive advantages.



Notes



Disruptive technology



Disruptive technology relates to instances where technology is used to fundamentally change and 'disrupt' the existing business model in an industry.

3.1 Advantages of disruptive technology

- better use of data
- a frictionless customer experience
- more personalisation of products/services to individual customers
- the lack of a physical presence
- access to cheap capital to fund growth

Notes



3.2 Defences against disruptive technology

- Differentiating
- Improving flexibility
- Promoting a physical presence
- Take legal action
- Relying on technophobia
- Reacting sooner
- Launching own Fintech divisions or acquiring growing Fintech businesses.

Notes



4 Cloud technology



Cloud and mobile computing is computing based on the internet. It avoids the needs for software, applications, servers and services stored on physical computers. Instead it stores these with cloud service providers who store these things on the internet and grant access to authorised users.

4.1 Benefits of cloud computing

- Sharing data
- On-demand self-service
- Flexibility
- Collaboration
- More competitive

- Easier scaling
- Reduced maintenance
- Back-ups
- Disaster recovery
- Better security

Notes



4.2 Risks of cloud computing

- Reliance on the service provider
- Regulatory risks
- Unauthorised access of business and customer data

Notes



Questions



Chapter 21

E-marketing



Outcome

By the end of this session you should be able to:

- explain what is meant by the term 'customer relationship management' and how a suitable software package could support this
- analyse customers and markets including market segmentation
- advise on how the seven P's, including price based strategies, differentiation and lock-in can help an organisation sustain its competitive advantage
- explain the characteristics of the media of e-marketing using the '6Is'
- assess the importance to a business of on-line branding and compare it to traditional branding
- explore different methods of acquiring and managing customers through exploiting e-business technologies

and answer questions relating to these areas.



Two of the PER performance objectives (PO3) and (PO13) are that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance and plan business activities and control performance, making recommendations for improvement. Working through this chapter should help you understand how to demonstrate these objectives.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 21 of your Study Text



Overview



1 The marketing mix

1.1 The traditional marketing mix (4Ps)



- **Product:** Factors such as quality, design, range, packaging, branding and warranties.
- **Place:** Choice of retailers/partners, distribution channels, stock levels and warehouse locations.
- **Promotion:** Techniques such as personal selling, public relations, sales promotion, sponsorship and direct marketing.
- **Price:** Price level, discounts, credit policy and payment methods.

1.2 Additional 3Ps for e-business



- **People:** Making the website more interactive in order to replicate the personal experience from face to face sales.
- **Processes:** This includes areas such as payment, security and delivery processes.
- **Physical evidence:** Areas such as website layout, images used, navigation and links to other websites.

Illustrations and further practice



Notes



2 E-marketing: The 6Is model



3 E-branding



A brand is a name, symbol, term, mark or design that enables customers to identify and distinguish the products of one supplier from those offered by competitors.

3.1 Potential e-branding strategies:

- match an existing brand
- modify an existing brand
- create a new brand
- form a partnership with an existing brand

3.2 Differences from traditional branding

- The information needs to be delivered in a more efficient manner
- It requires a more visual identity
- It needs to be easier to find
- It can be more interactive
- It can more easily evolve

Notes



4 Using e-business

4.1 Acquiring customers

The following are commonly used methods use in e-business to acquire new customers:

- search engine marketing
- online PR
- online partnerships
- interactive adverts
- opt-in emails
- viral marketing
- evaluating online behaviour

Notes



4.2 Managing customers

Ensuring that customers keep returning a website relies upon:

- tangibles
- reliability
- responsiveness
- assurance
- empathy

Empathy can be improved through:

- personalisation
- opt-in emails
- supporting online communities
- storing and using past transactions

Illustrations and further practice

Notes

Questions



Chapter 22

Project management



Outcome

By the end of this session you should be able to:

- determine the distinguishing features of projects and the constraints they operate in
- discuss the implications of the triple constraint of scope, time and cost
- prepare a business case document and project initiation document
- analyse, assess and classify the costs and benefits of a project investment
- assess the importance of developing a project plan and its key elements
- establish the role and responsibilities of the project manager and the project sponsor
- monitor and formulate responses for dealing with project risks, issues, slippage and changes
- discuss the benefits of a post-implementation and a post-project review

and answer questions relating to these areas.

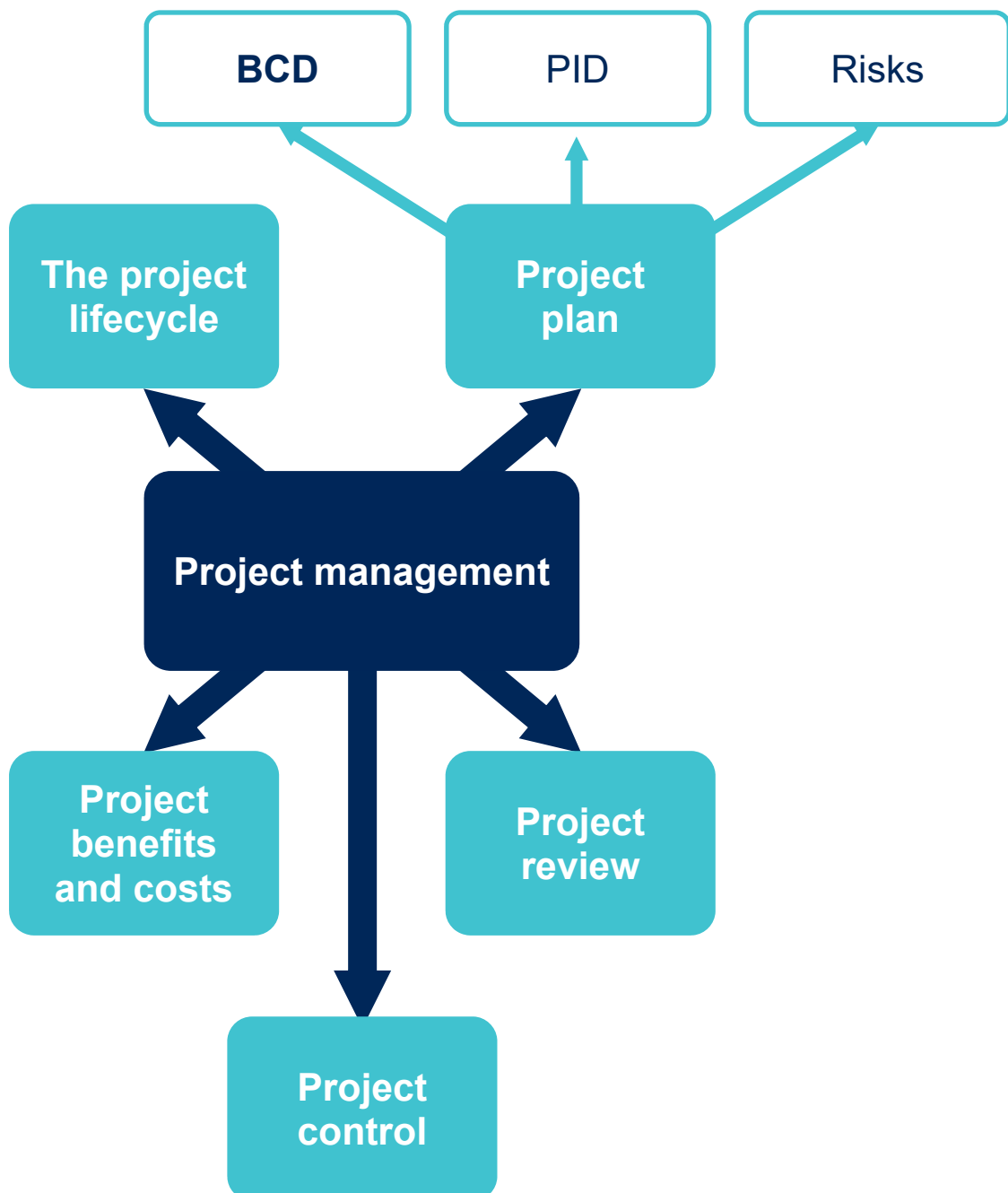


One of the PER performance objectives (PO5) is that you manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

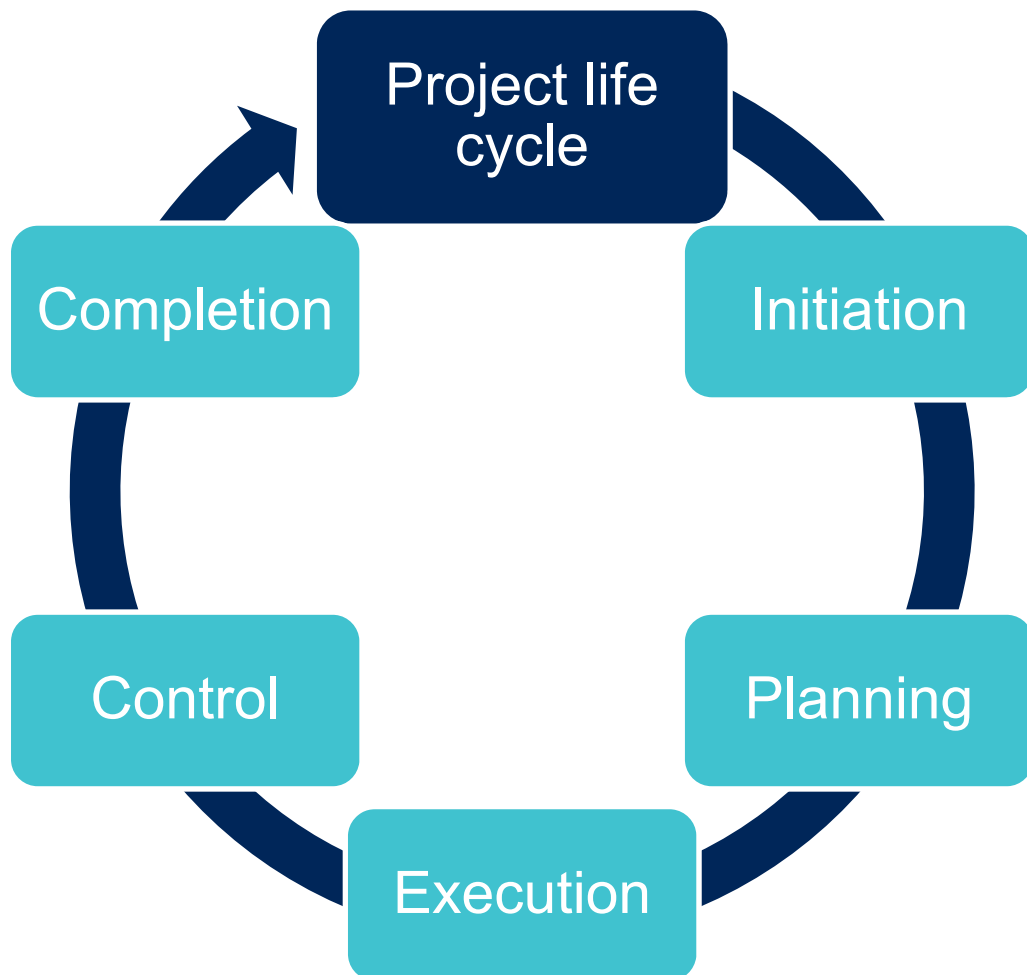
The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 22 of your Study Text



Overview



1 The project life cycle



Notes



2

The business case document

2.1 Typical contents

Content	What it contains	Benefits of having this
Strategic analysis	Analysis of the environment and the organisation's position	
Benefits and costs for the project	Details on how the project will improve the organisation This may include a formal financial evaluation of the project	
Project constraints	The likely time, cost and scope of the project	
Risk analysis	The potential likelihood and impact of key project risks	

2.2 Why have a formal document?

- to obtain funding for the project
- to compete with other projects for resources
- to improve planning
- to improve project management.

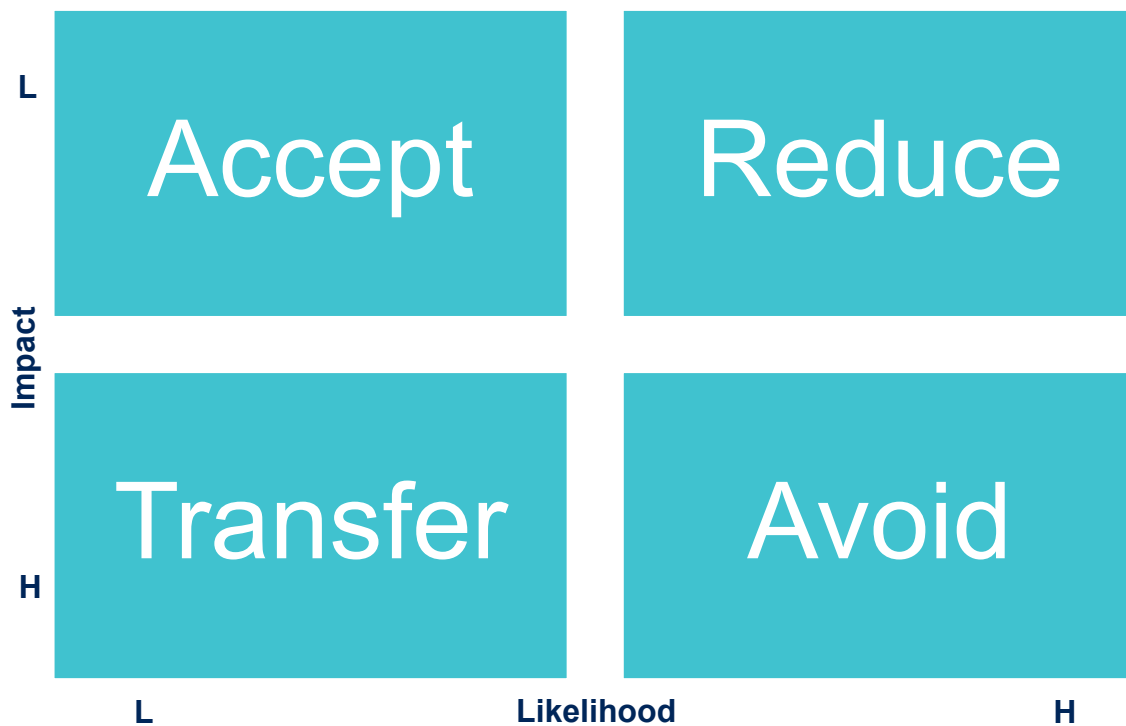
Notes



3 Risk analysis

3.1 3 stages

- Identify risks
- Assess risks
- Manage risks.



Illustrations and further practice

Notes



4 Project costs

Examples:

- capital investment costs
- development costs
- centrally allocated costs/infrastructure costs
- resource costs.

Why costs are easier to assess than benefits:

- they are often more tangible
- they are often paid early in the project's life
- they are easier to quantify
- they require less management.

Notes



5 Project benefits

Examples:

- strategic benefits
- productivity gains
- costs savings
- improved image or other intangible benefits
- emergent benefits.

The benefits scale:



Illustrations and further practice

Notes

6 The project plan



Notes



Chapter 22

6.1 The project initiation document (PID)



A Project Initiation Document is the master plan of a project and acts as the guide throughout the project. It holds all the information needed to start and deliver a project. It effectively pulls together the BCD and the detailed project plans.

What it contains	Benefits of having this
Clear responsibilities	
Detailed schedules	
Targets and measures	
Exit plans	

Notes



7 Executing the project plan

	Key roles	Key problems faced
Project sponsor	Providing resources Approving change requests Aiding risk management Communicate with the rest of the business	Ensuring the project sponsor has enough time, focus and authority for the project Understanding the organisational goals Understanding the scope of the project
Project manager	Managing and motivating project team members Executing the project plan Monitoring the project Achieving project targets Taking control actions when the project is out of control Managing project constraints	Managing staff who have other roles, other managers, a wide range of skills and who may not be fully committed to the project and who will not be there for the duration of the project Ensuring the project sponsor does not change the constraints Convincing the project sponsor to provide sufficient resources Gaining commitment from departments not involved in the project
Team members	Execute business and enabling changes Report to the project manager	Transferring relevant skills to the project Focusing on the project instead of day-to-day tasks Understanding project goals, deadlines etc.

Notes



Reasons why projects succeed:

Reasons for project failure:

The barriers to project management success are:

Notes



8 Project control

8.1 Three stages in project control

- Select performance measures and set targets for these.
- Assess performance at project gateways.
- Take corrective action if out of control.

8.2 Possible corrective action

- Fast tracking.
- Crashing.
- Adding additional resources.
- Scope reduction.
- Adopting higher risk but potentially more efficient approaches.
- Employee motivation.

Illustrations and further practice

Notes

9 Project reviews

	Focus of the review
Post project review (PPR)	The project team
Post implementation review (PPR)	The output of the project

Notes



Questions



Chapter 23

Financial decision making



Outcome

By the end of this session you should be able to:

- explain the relationship between an organisation's financial objectives and its business strategy
- discuss how advances in information technology has transformed the finance function and the role of the finance professional
- evaluate alternative structures for the finance function using business partnering, outsourcing and shared or global business services
- determine the overall investment requirements of a business
- assess the suitability, feasibility and acceptability of alternative sources of short and long term finance available to the organisation to support strategy and operations
- discuss from a strategic perspective, the continuing need for effective cost management and control systems within organisations
- evaluate strategic options using marginal and relevant costing techniques
- review and justify on decisions to select or abandon competing investments or projects applying suitable investment appraisal techniques
- justify strategic and operational decisions taking into account risk and uncertainty

Chapter 23

- assess the broad financial reporting and tax implications of taking alternative strategic or investment decisions
- evaluate methods of forecasting, budgeting, standard costing and variance analysis in support of strategic planning and decision making

and answer questions relating to these areas.

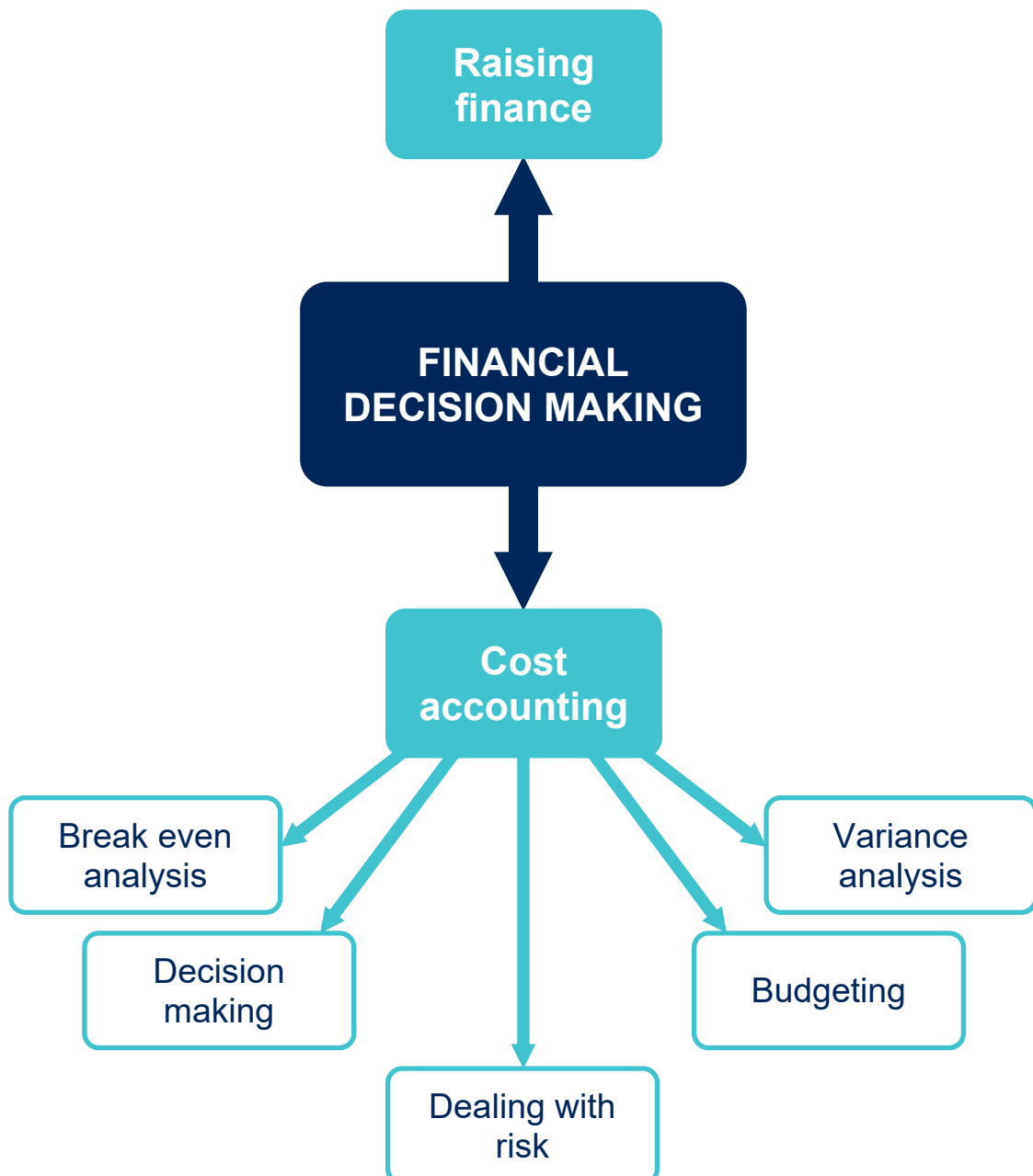


Two of the PER performance objectives (PO9 and 11) are that you advise on alternative sources of finance and evaluate and review the financial viability of investment decisions. You identify, measure, and advise on the financial risks to the organisation. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 23 of your Study Text

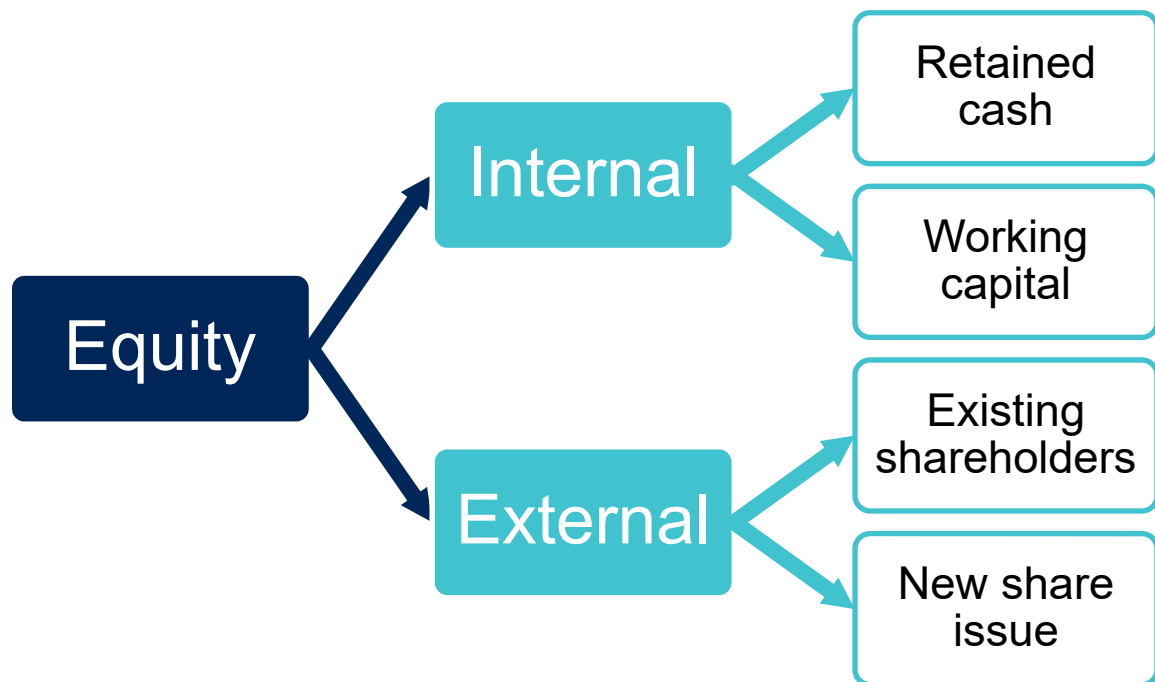


Overview



1 Raising finance

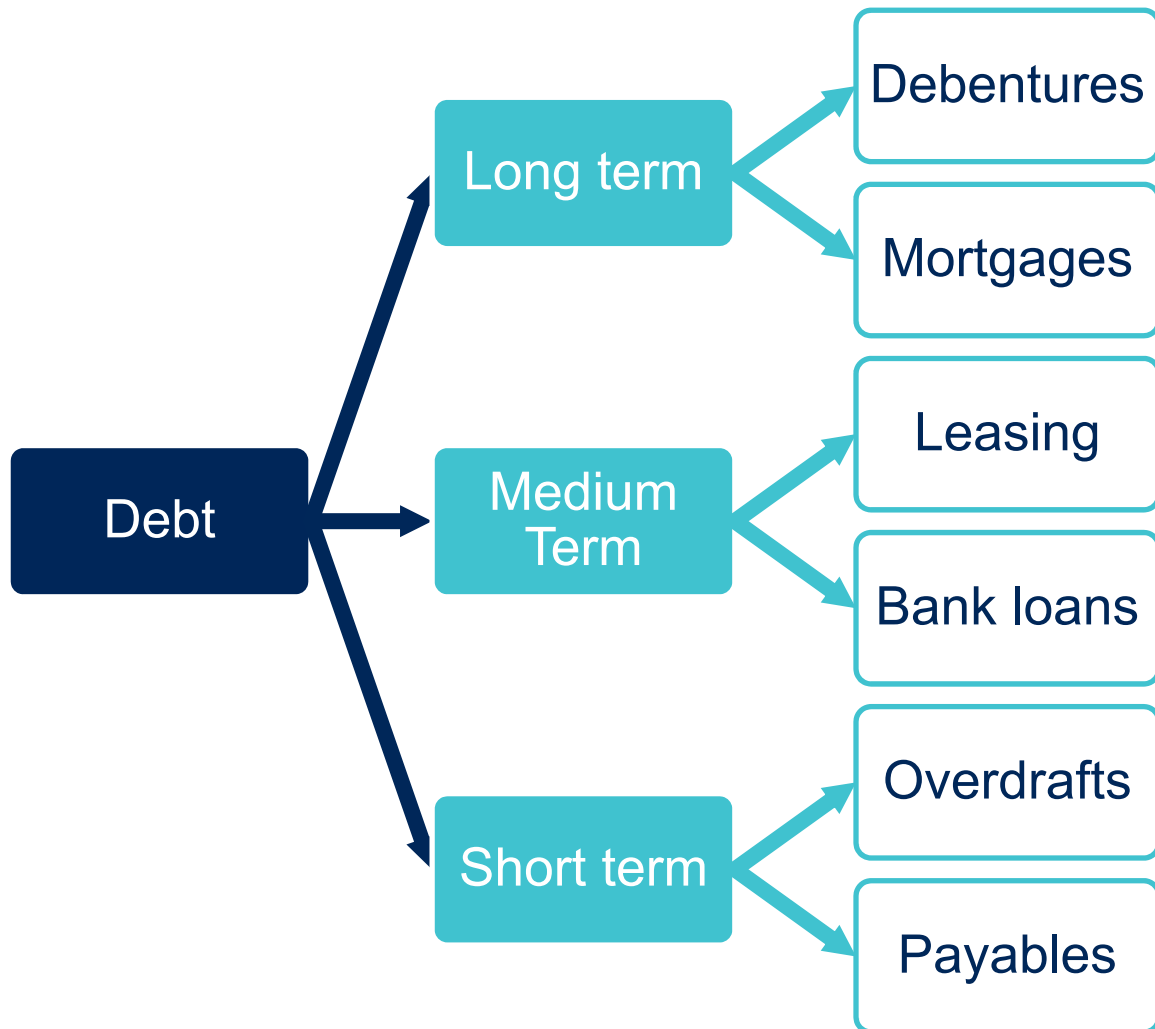
1.1 Sources of finance – equity



Notes



1.2 Sources of finance – debt



Notes



Chapter 23

1.3 Sources of finance – other sources

- Government grants
- Business angels/venture capitalists
- Selling spare assets
- Initial Coin Offerings (ICOs).

1.4 Factors to consider when choosing a source of finance

- Cost
- Availability
- Control
- Cash flow
- Security
- Gearing
- Exit routes

Illustrations and further practice

Notes

1.5 How the finance function can help

Information technology is facilitating the redesign of the finance function in that it can

- communicate information more quickly
- more easily connect different parts of the business
- reduce the cost of communicating information with business partners
- more readily identify areas for improvement
- be used to extrapolate and forecast more easily
- gather external information and alternatives more quickly and easily
- provide more information on available B2B options for elements such as outsourcing.

Notes



2 Cost accounting

2.1 The role of cost accounting

Cost accounting has many roles in a business, including:

- recording costs
- pricing products
- making decisions

2.2 Standard costing

Cost accounting will often use standard cost as its basis for calculations. However, it should be noted that standard costing may not be appropriate in the modern production environment because:

- Products are often non-standard
- Standards can become quickly outdated
- Production is highly automated
- Often an ideal standard is used
- Modern environments are more concerned with continuous improvement
- Modern managers need more detailed information
- More 'real time' performance measures are needed.

Notes



3 Break-even analysis

3.1 The break-even point

This is the point at which profits (or losses) are zero.



$$\text{Break-even units} = \frac{\text{Total fixed costs}}{\text{Contribution per unit}}$$

Or

$$\text{Break-even revenue} = \frac{\text{Total fixed costs}}{\text{Contribution ratio}}$$

Target profit

If, rather than simply break-even, the organisation has a target level of profit to achieve, this target profit is added to the fixed costs in the formulae above.

Notes



Chapter 23

3.2 The margin of safety

This is the point at which anticipated sales can fall below budget before a business makes a loss.



units = Total budgeted sales – Break-even point

Or

as a % of budgeted sales = $\frac{\text{Total budgeted sales} - \text{Break-even point}}{\text{Total budget sale}}$

3.3 Key limitations

- Assumes a constant selling price
- Ignores (dis)economies of scale
- Difficult to cope with stepped fixed costs
- Only relevant in the short term.

Illustrations and further practice

Notes

4 Decision making

4.1 Typical decisions

- Accepting one-off contracts
- Closing a division
- Abandoning a project.

4.2 Relevant costs

- future
- incremental
- cash

Illustrations and further practice

Notes

4.3 Financial reporting and tax implications of decisions

Financial reporting: short-term decisions focus on the cash impact, but the impact on profits and reported accounting measures

may be very different.

Taxation: a decision may move an organisation from one tax bracket to another; there will be timing differences as tax is based on profit not cash flows and a decision make have an impact on available tax reliefs.

These factors should be included in the decision making process before a final decision is taken.

Notes



5 Investment appraisal

5.1 Accounting rate of return



The **Accounting Rate of Return** (ARR) calculates a percentage return provided by the accounting profits of the project.



$$\text{ARR} = \frac{\text{Average annual profit}}{\text{Average value of investment}}$$

- The average annual profit is net cash flow, less depreciation
- The average value of the investment represents the average capital employed over the life of the project
- Average value of investment =

$$\frac{\text{Initial investment plus residual value}}{2}$$



- The ARR for a project may be compared with the company's target return and if higher the project should be accepted.
- Faced with a choice of mutually-exclusive investments, the project with the highest ARR should be chosen, provided it meets the company's target return.

Suitability This is best for short projects where there are clear financial accounting targets

Notes



Chapter 23

5.2 Payback period



The **payback period** is the time a project will take to pay back the money spent on it; the time which elapses until the invested capital is recovered.



$$\text{Payback period} = \frac{\text{Initial investment}}{\text{Annual cash inflow}}$$



Compare the payback period to the company's maximum return time allowed and if the payback is quicker the project should be accepted.

Faced with a choice between mutually exclusive projects, choose the project with the quickest payback, provided it meets the company's target payback period.

Suitability

This is best for short projects where there is a shortage of cash for investment.

Notes



5.3 Net present value (NPV)



The **Net Present Value** (NPV) is the net benefit or loss of benefit, in present value terms, from an investment opportunity. It represents the surplus funds (after funding the investment) earned on the project, and calculates the impact on shareholders' wealth.



Decision criteria:

- A project with a positive NPV is **viable**.
- Faced with mutually-exclusive projects, choose the project with the highest NPV.

Suitability This is best for long projects with a known costs of capital.

Notes



5.4 Internal rate of return (IRR)



The **Internal Rate of Return** (IRR) is the rate of return at which the project has an NPV of zero.



- If the IRR is greater than the cost of capital, the project should be **accepted**.



Calculate two NPVs for the project at two different costs of capital.

$$\text{IRR} = L + \frac{\text{NL}}{\text{NL} - \text{NH}} \times (\text{H} - \text{L})$$

Where L = Lower rate of interest

H = Higher rate of interest

NL = NPV at the lower rate of interest

NH = NPV at higher rate of interest



NPV vs IRR:

The advantage of NPV is that it tells us the absolute increase in shareholder wealth as a result of accepting the project, at the current cost of capital. The IRR simply tells us how far the cost of capital could increase before the project would not be worth accepting.

Suitability This is best for long projects with an unknown costs of capital.

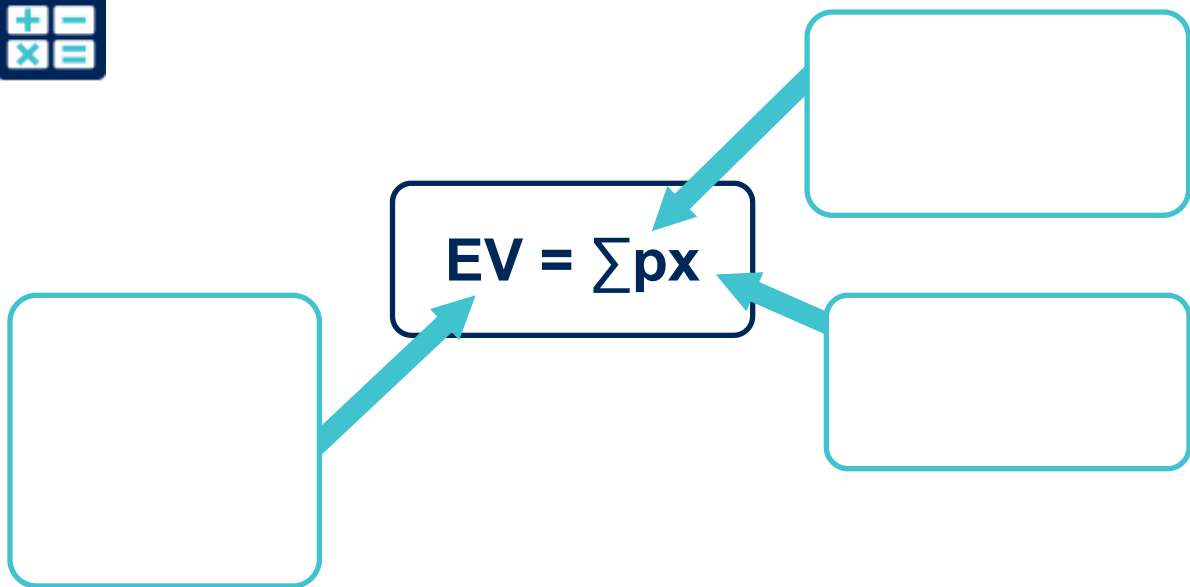
Notes



6 Dealing with risk in decision making

6.1 Expected value

An expected value summarises all the different possible outcomes by calculating a single weighted average. It is the long run average (mean).



6.2 Problems in using expected values



- Probabilities are subjective.
- Little meaning for a one-off project.
- Ignores attitudes to risk.
- The answer may not exist.

Notes



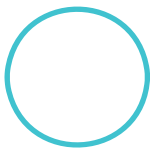
6.3 Decision trees

Decision trees force the decision maker to consider the logical sequence of events.

A complex problem is broken down into smaller, easier-to-handle sections. The financial outcomes and probabilities are shown separately, and the decision tree is 'rolled back' by calculating expected values and making decisions.



A **square** is used to represent a decision point. The value at this point will be the highest possible expected value from the options being considered.



A **circle** is used to represent a chance point. The value at this point will be the expected value (based on the probabilities) of the outcomes possible from this point forward.

Illustrations and further practice



Notes



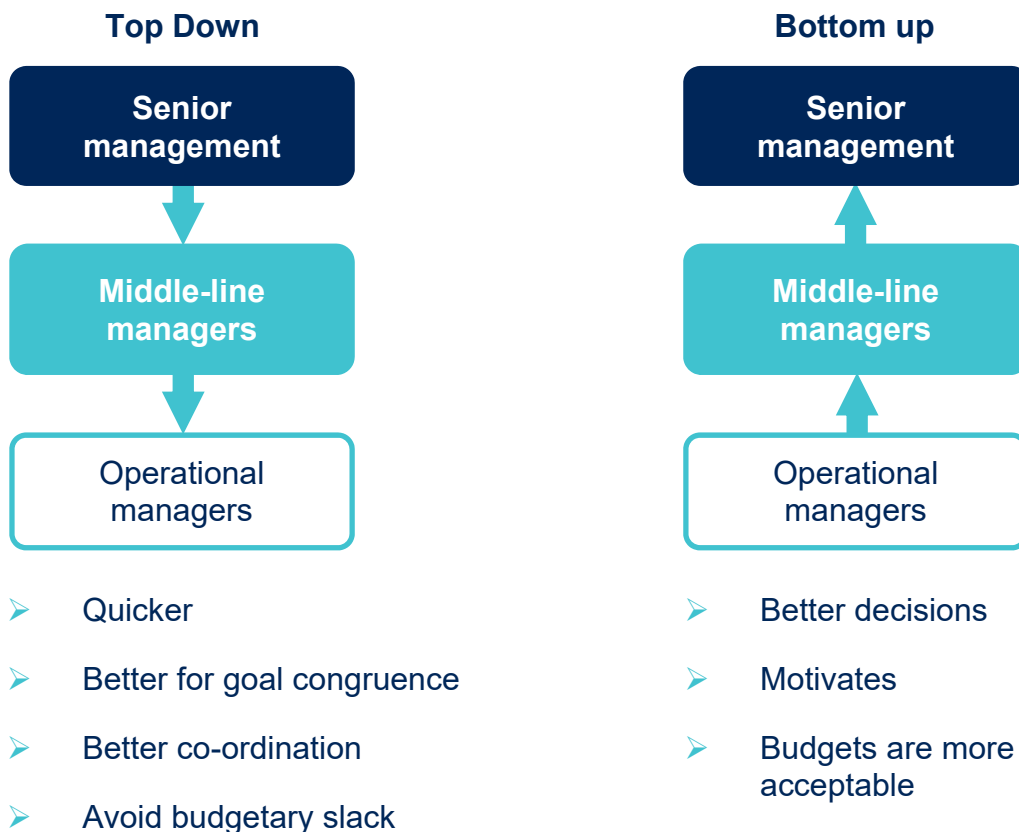
7 Budgeting

7.1 The principal budget factor

A factor which **places a limit on the activities** of an organisation. For most companies this will be the **level of sales** that they can generate.

Budget preparation should always start with a budget for the principal budgetary factor.

7.2 Top down vs bottom up



Notes



7.3 Effective budgetary control

- a serious attitude is taken to the system
- clear demarcation between areas of managerial responsibility
- budget targets that are challenging yet achievable
- established data collection, analysis and reporting techniques
- reports aimed at individual managers
- fairly short reporting periods
- timely variance reports
- action being taken to get operations back under control if they are shown to be out of control.

7.4 Forecasting in budgeting

There are a number of ways to forecast the principal budget factor:

- it may use market forecasts of expected growth and build these into the expected growth in its trend
- mathematical techniques such as linear regression (often compiled on a spreadsheet) can be used to develop an expected linear growth in the trend
- the high-low method could be used to forecast the change

Notes



8 Variance analysis

8.1 What is a variance?



A variance is the difference between actual results and the budget or standard.



Before any meaningful comparison can be made the original budget should be 'flexed' to the actual level of performance.

8.2 Key components of effective variance analysis

- allocating responsibility
- keeping up-to-date standards
- flexing budgets for variable costs
- strong procedures for determining whether to investigate
- linking causes to the variance
- including feedforward control to improve future performance
- identifying trends which can be incorporated into strategic plans.

Notes



8.3 Example causes variances

	Key roles
Sales price	<p>Higher/lower than expected discounts offered</p> <p>The effect of low price offers during a marketing campaign.</p> <p>Market conditions forcing an industrywide price change.</p> <p>Changes to product quality or design.</p>
Sales volume	<p>Successful or unsuccessful marketing efforts.</p> <p>Unexpected changes in customer needs and buying habits.</p> <p>Failure to satisfy demand due to production difficulties.</p> <p>A change in selling prices</p> <p>Changes to the level or nature of competition.</p> <p>Changes to product quality or design.</p>
Materials price	<p>Using a different supplier.</p> <p>Changes to volume leading to achieving/losing bulk discounts.</p> <p>Market shortages of materials.</p> <p>Unexpected buying costs, such as high delivery charges.</p> <p>Efficient or inefficient buying procedures.</p> <p>A change in material quality, resulting in either higher or lower purchase prices.</p>
Materials usage	<p>Using a different quality of material could affect the wastage rate.</p> <p>Defective materials.</p> <p>Better/worse quality control.</p> <p>More/less efficient work procedures.</p> <p>Changes to production methods or product design.</p> <p>Changing the materials mix to obtain a more/less expensive mix than the standard.</p>
Labour rate	<p>An unexpected increase in basic rates of pay.</p> <p>Payments of bonuses, where these are recorded as direct labour costs.</p> <p>Changes to the labour mix resulting in using labour that is more or less experienced (and so more or less expensive) than the 'standard'.</p> <p>Labour shortages.</p>

	Key roles
Labour efficiency	<p>Changes to labour motivation.</p> <p>Changes to the labour mix resulting in using labour that is more or less experienced (and so more or less efficient) than the 'standard'.</p> <p>Improved working methods.</p> <p>Industrial action by the work force.</p> <p>Poor supervision.</p> <p>A 'learning effect' amongst the work force.</p>
Variable overhead expenditure	<p>Expenditure variances are often caused by changes in machine running costs (for example, if electricity rates have changed).</p> <p>Efficiency variances have similar causes to those for a direct labour efficiency variance.</p>
Fixed overhead expenditure	<p>Expenditure variances are caused by spending in excess of the budget. A more detailed analysis would be needed.</p> <p>Volume, capacity and efficiency variances have similar causes to those for a sales volume variance</p>

Illustrations and further practice

Notes

Questions



Chapter 24

Managing strategic change



Outcome

By the end of this session you should be able to:

- explore different types of strategic change and their implications
- analyse the culture of an organisation using Balogun and Hope Hailey's contextual features
- manage change in an organisation using Lewin's three stage model
- assess the value of the four view (POPIT) model to the successful implementation of organisation change

and answer questions relating to these areas.



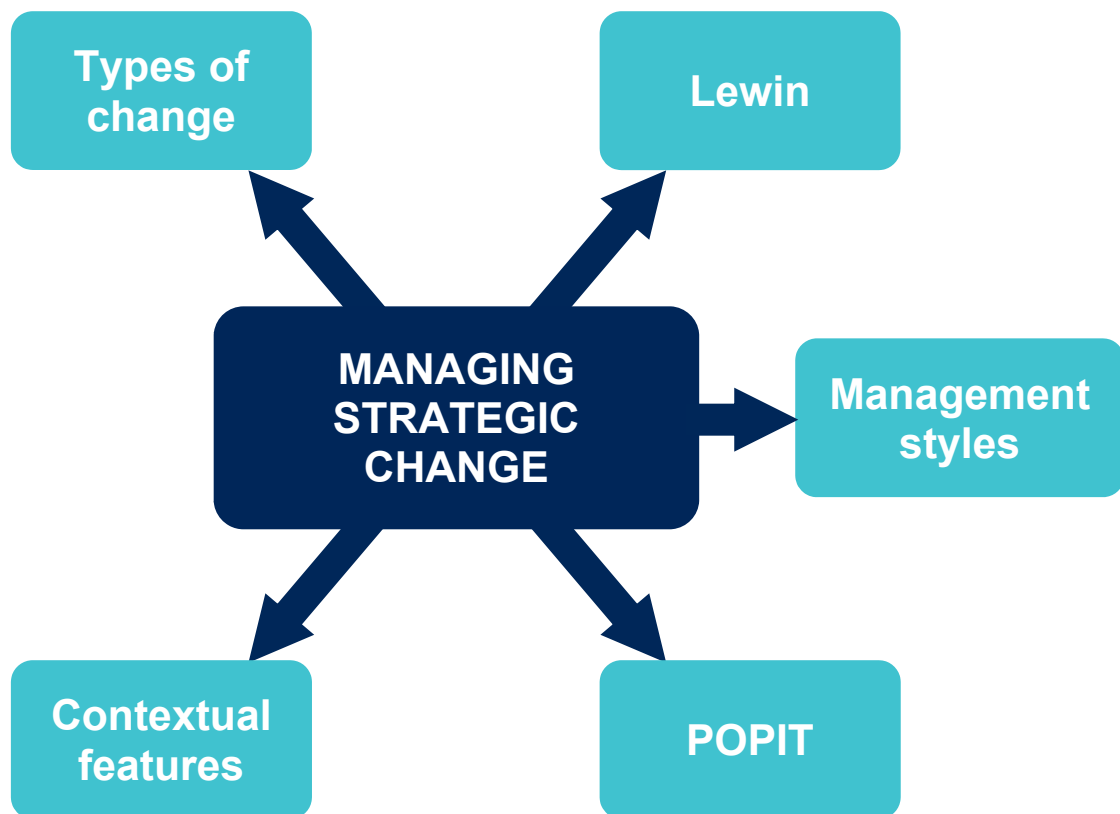
PER

One of the PER performance objectives (PO3) is that you contribute to the wider business strategy of your organisation through your personal and team objectives. You identify innovative ways to improve organisational performance – which may include making or recommending business process changes and improvements. Working through this chapter should help you understand how to demonstrate that objective.

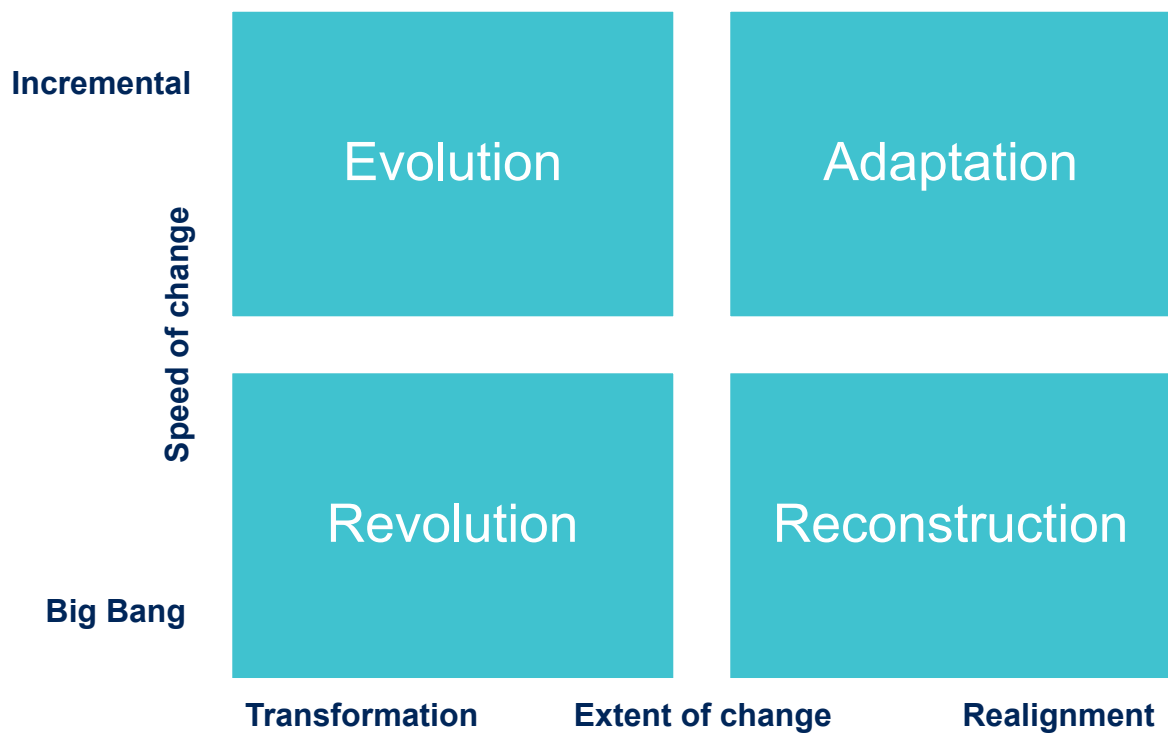
The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 24 of your Study Text



Overview



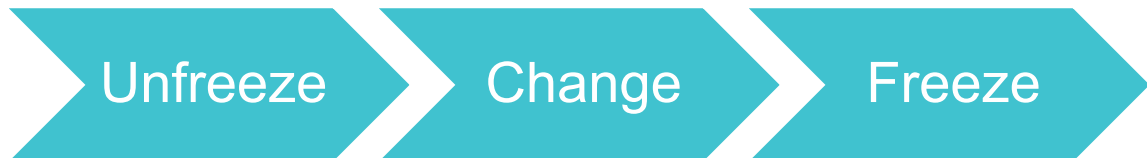
1 Types of change



Notes



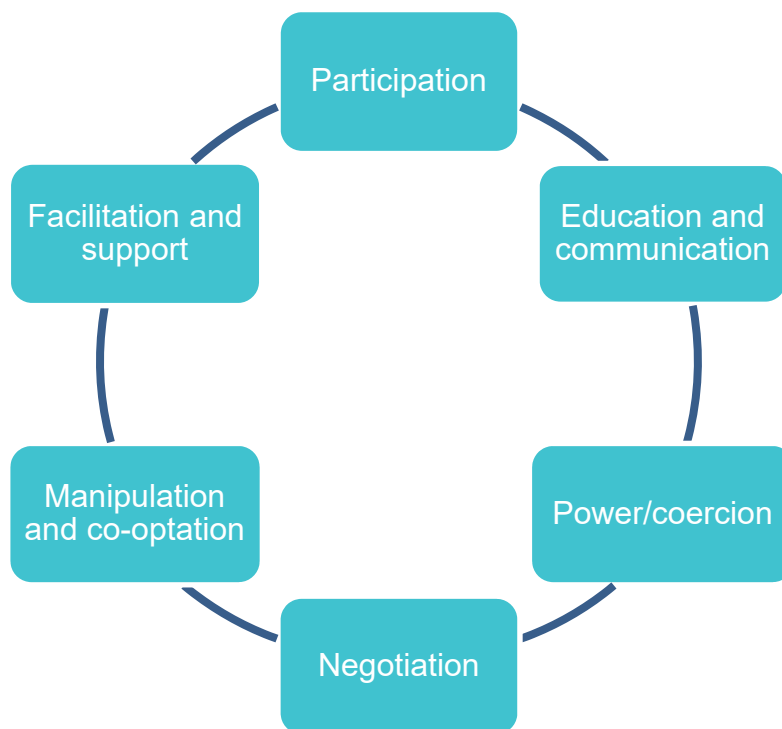
2 Preparing for change – Lewin



Illustrations and further practice

Notes

3 Change management styles



Illustrations and further practice

Notes

4 The contextual features of change

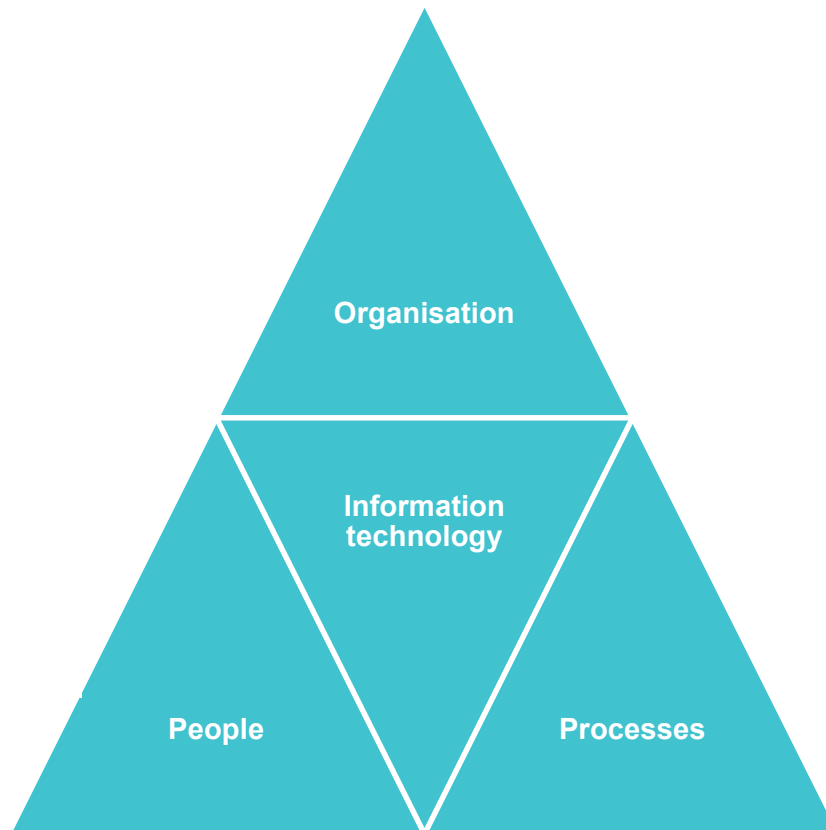
Contextual feature

- time
- scope
- preservation
- diversity
- capability
- capacity
- readiness
- power

Notes



5 The POPIT model



The business system can only be a success if all these elements work together and changes are co-ordinated.

Illustrations and further practice

Notes

Questions

