ACCA

Strategic Business Leader (SBL)

Pocket Notes

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Contents

Syllabus

Aim

To demonstrate organisational leadership and senior consultancy or advisory capabilities and relevant professional skills, through the context of an integrated case study.

Main Capabilities

On successful completion of this paper, candidates should be able to:

A   Apply excellent leadership and ethical skills to set the 'tone from the top' and promote a positive culture within the organisation, adopting a whole organisation perspective in managing performance and value creation.

B   Evaluate the effectiveness of the governance and agency system of an organisation and recognise the responsibility of the board or other agents towards their stakeholders, including the organisation's social responsibilities and the reporting implications.

C   Evaluate the strategic position of the organisation against the external environment and the availability of internal resources, to identify feasible strategic options.

D   Analyse the risk profile of the organisation and of any strategic options identified, within a culture of responsible risk management.

E   Select and apply appropriate information technologies and data analytics, to analyse factors affecting the organisation's value chain to identify strategic opportunities and implement strategic options within a framework of robust IT security controls.

F   Evaluate management reporting and internal control and audit systems to ensure compliance and the achievement of organisation's objectives and the safeguarding of organisational assets.

G   Apply high level financial techniques from Skills exams in the planning, implementation and evaluation of strategic options and actions.

H   Enable success through innovative thinking, applying best in class strategies and disruptive technologies in the management of change; initiating, leading and organising projects, while effectively managing talent and other business resources.

I   Apply a range of Professional Skills in addressing requirements within the Strategic Business Leader examination and in preparation for, or to support, current work experience.

The Examination

The examination is based on an integrated case study containing a number of assignments which will vary at each examination.

These assignments or tasks may require the candidate to take on different roles, depending on the situation. The number of marks allocated to all these assignments or the sub-parts of these will add up to 100 in total.

Within the total marks available, there are 20 Professional Skills marks. Usually each task will contain some professional skills marks which may vary by examination, depending on the requirements. All tasks must be completed.

The examination is of 4 hours duration, but this includes Reading, Planning and Reflection time (RPRT). This time can be used flexibly at any time during the exam.

Number of marks 100

Varying number of tasks

Total time allowed: 4 hours

NB More detail on exam guidance in Chapter 1

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1

Introduction to the SBL exam

In this chapter

- Overview.
- Being a leader.
- Thinking strategically.
- Communication.
- Commercial acumen.
- Analysis.
- Scepticism.
- Evaluation.

Overview

```
Being a leader          Thinking strategically

            The Strategic Leader

        INTRODUCTION TO THE SBL EXAM

            Professional skills

Communication    Commercial acumen    Analysis

        Scepticism         Evaluation
```

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'.

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.**

Communication

Syllabus spec

(a) **Inform** concisely, objectively, and unambiguously, while being sensitive to cultural differences, using appropriate media and technology.

(b) **Persuade** using compelling and logical arguments demonstrating the ability to counter argue when appropriate.

(c) **Clarify** and simplify complex issues to convey relevant information in a way that adopts an appropriate tone and is easily understood by the intended audience.

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.

Commercial acumen

Syllabus spec

(a) **Demonstrate awareness** of organisational and wider external factors affecting the work of an individual or a team in contributing to the wider organisational objectives.

(b) **Use judgement** to identify key issues in determining how to address or resolve problems and in proposing and recommending the solutions to be implemented.

(c) **Show insight and perception** in understanding work-related and organisational issues, including the management of conflict, demonstrating acumen in arriving at appropriate solutions or outcomes.

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.

Analysis

Syllabus spec

(a) **Investigate** relevant information from a wide range of sources, using a variety of analytical techniques to establish the reasons and causes of problems, or to identify opportunities or solutions.

(b) **Enquire** of individuals or analyse appropriate data sources to obtain suitable evidence to corroborate or dispute existing beliefs or opinion and come to appropriate conclusions.

(c) **Consider** information, evidence and findings carefully, reflecting on their implications and how they can be used in the interests of the department and wider organisational goals.

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.

Scepticism

Syllabus spec

(a) **Probe** deeply into the underlying reasons for issues and problems, beyond what is immediately apparent from the usual sources and opinions available.

(b) **Question** facts, opinions and assertions, by seeking justifications and obtaining sufficient evidence for their support and acceptance.

(c) **Challenge** information presented or decisions made, where this is clearly justified, in a professional and courteous manner; in the wider professional, ethical, organisational, or public interest.

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.

Evaluation

Syllabus spec

(a) **Assess and use professional judgement** when considering organisational issues, problems or when making decisions; taking into account the implications of such decisions on the organisation and those affected.

(b) **Estimate** trends or make reasoned forecasts of the implications of external and internal factors on the organisation, or of the outcomes of decisions available to the organisation.

(c) **Appraise** facts, opinions and findings objectively, with a view to balancing the costs, risks, benefits and opportunities, before making or recommending solutions or decisions.

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.

chapter

2

Concepts of strategy

In this chapter

- Strategic planning.
- The strategic planning process.
- Strategic drift.

Strategic planning

Benefits of strategic planning	Disadvantages of strategic planning
• Improves fit with the environment	• Time consuming
• Makes best use of scarce resources	• Becomes a straightjacket
• Provides direction	• Creates bureaucracy
• Ensures goals are met	• Less relevant in a crisis
• Can create competitive advantage	
• Ensures plans are properly implemented	

The strategic planning process

The 3 stage planning model (Johnson, Scholes & Whittington)

Strategic analysis
- External analysis to identify opportunities and threats
- Internal analysis to identify strengths and weaknesses
- Stakeholder analysis to identify key objectives and to assess the power and interest of different groups
- Gap analysis to identify the difference between desired and expected performance.

Strategic choice
- Strategies are required to 'close the gap'
- Competitive strategy – for each business unit
- Directions for growth – which markets/ products should be invested in
- Whether expansion should be achieved by organic growth, acquisition or some form of joint arrangement.

Strategy into action (implementation)
- Structuring
- Enabling
- Change

Strategic drift
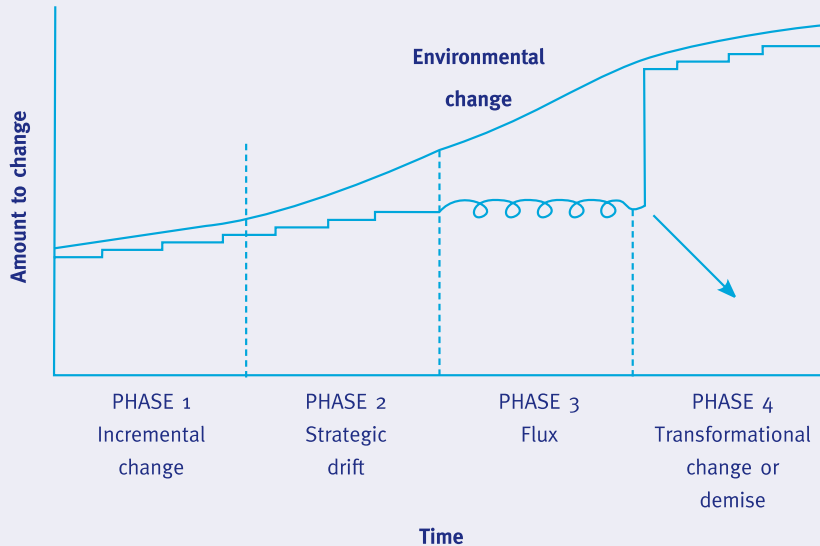
To avoid strategic drift:

- assess the environment for changes
- have flexible systems
- break down barriers to change
- have clear understanding of the mission and objectives
- have strong leaders

3

Strategic analysis

In this chapter

- PESTEL analysis.
- 5 forces analysis.
- Porter's diamond.
- Strategic capabilities.
- Value chain analysis.
- SWOT analysis.

PESTEL analysis

Key strategic use: to analyse potential impacts on future growth

Area of the model	Key factors to consider
Political	Changes to government policy
Economic	Booms or recessions
Social	Changes to taste/fashion
Technological	New hardware/software capabilities
Environmental	Geographic location or use of resources
Legal	Restrictions or extra regulations

5 Forces analysis

Key strategic use: to analyse potential impacts on future margins

Porter's diamond

Key strategic use: to analyse potential new foreign markets for expansion

Factor conditions
- Basic factors: e.g. weather, local raw materials
- Advanced factors: e.g. telecommunications, education system

Demand conditions
e.g. very demanding customers

Related and supporting industries
e.g. world class suppliers

Firm structure, strategy and rivalry
e.g. ownership, intense rivalry
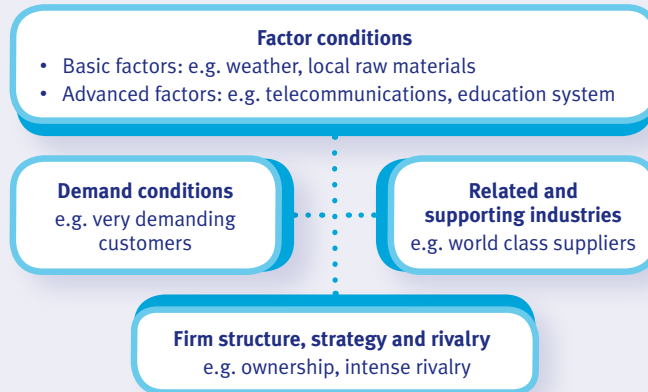
Strategic capabilities

Key strategic use: to analyse the ability to cope with changes in the external environment

	Resources	Competencies
Threshold capabilities • Common with rivals	Threshold resources	Threshold competencies
Capabilities for competitive advantage • CSFs, hard to copy	Unique resources	Core competencies

Value chain analysis

Key strategic use: to determine the source of competitive (dis)advantage

Support activities	Infrastructure					Profit
	Technology					
	HRM					
	Procurement					
	Inbound logistics	Operations	Outbound logistics	Marketing and sales	Service	
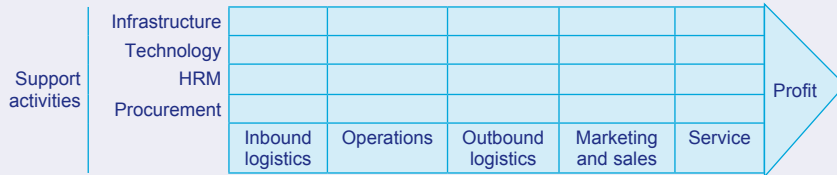
SWOT Analysis

Key strategic use: to bring together the internal and external analysis in order to understand overall strategic position
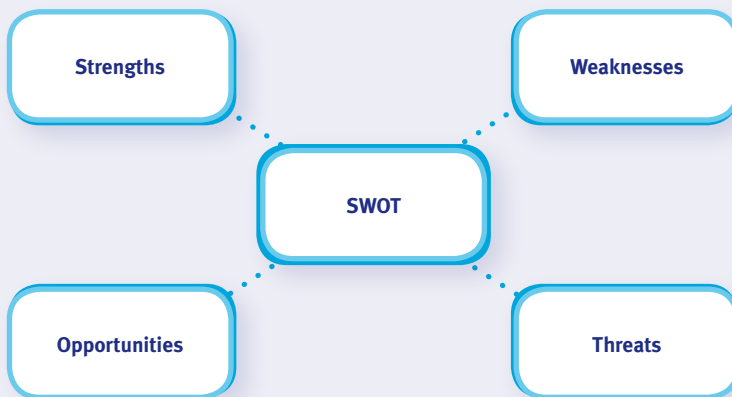
4

Performance analysis

In this chapter

- Quantitative analysis.
- Benchmarking.
- Baldrige performance excellence.

Quantitative analysis

The quantitative information will typically include:

Financial Data

Specific marks will be available for interpreting financial ratios that can be calculated from the financial data. The questions will never ask for specific ratios, but there will always be enough information to calculate and interpret several financial ratios. The key will be to choose 3/4 key ratios and explain the cause of any changes and the effect that these changes might have on the organisation.

Non-financial data

Non-financial information will also be provided in tables, and candidates will be expected to use and interpret this information. Such tables will supplement, and to some extent replace, information traditionally given in the narrative scenario.

Benchmarking

- determines where improvements are required
- analyses how high performance is achieved
- uses this information to improve performace levels in processes

Types:

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

Baldrige performance excellence

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Strategic choice

In this chapter

- Competitive strategies.
- Growth strategies.
- Strategy evaluation.

Competitive strategies

A range of possible competitive positions is provided in the strategy clock:
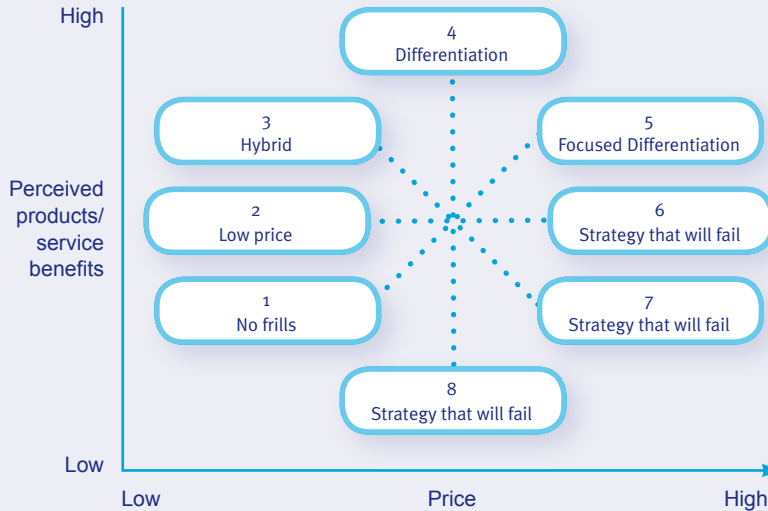
Key elements of successful competitive strategies:

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

Failing strategies fail because they are beaten by competitive rivals.

Growth strategies

These can be derived from the Ansoff matrix:

	Existing product	**New product**
Existing market	**Market penetration** – Introduce a new or improved competitive strategy – Best used when market is growing **Risks** – Competitors will react – Can lead to stagnation	**Product development** – Create new or improved products – Or copy rivals **Risks** – Unknown demand – Can harm existing products
New market	**Market development** – Target a new market segment – Strategic alliances are often used to reduce risks **Risks** – Puts a strain on capabilities – Need new external analysis	**Diversification** – New products and markets – Can be forward, backward, horizontal or conglomerate **Risks** – Very different CSFs – Need new external analysis – Can reduce flexibility

Strategy evaluation

Johnson, Scholes, Whittington

- **Suitability** – is the strategy consistent, both externally and internally?
    - Does it give the firm a better fit with the environment?
    - Portfolio analysis – how do new products fit with existing ones?
    - Are their synergies with other parts of the business?
    - Is the timing right?
- **Acceptability** – is the strategy acceptable to the stakeholders?
    - Is the risk acceptable?
    - Is it ethical?
    - How will other stakeholders react?

- **Feasibility** – is the strategy within the resources and capability of the organisation?
    - Is the time-scale achievable?
    - Do we have the critical success factors necessary to implement the strategy?

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Methods of strategic development

In this chapter

- Main methods of development.
- Portfolio analysis.

Main methods of development

Options

Organic growth	Acquisition	Joint venture Strategic Alliance Partnering	Franchise

Organic growth
Start from a zero base alone

Slow, but risky

Acquisition
Buy an existing business

Quick but expensive

Joint venture / Strategic Alliance / Partnering
Do it with a partner

Share skills and costs, but difficult to agree

Franchise
Allow others to use the brand

Low cost, but lose control

Portfolio analysis

BCG matrix

Market growth

		Low	High
Market share	**High**	**Cash-cow** • Strong position in a low growth (therefore unattractive) market • Little threat from rivals • Just keep the product ticking over and collect the cash	**Star** • Attractive market so have to reinvest heavily to defend market share and grow • Little cash surplus
	Low	**Dog** • Too small to benefit from economies of scale • Market does not justify further investment • Divest	**Problem-child** • Attractive market but too small to capitalise on it. • Either invest heavily to gain market share or get out • 'Double or quit'

The public sector portfolio matrix

This adapts the BCG idea to public sector organisations and the axis are "public need and funding effectiveness" and "value for money".

Ashridge portfolio display

This model looks at the strategic fit between a parent company and the strategic business units it manages.

	Low	High	
Feel	Ballast	Heartland	High
	Alien territory	Value trap	Low
	Benefit		
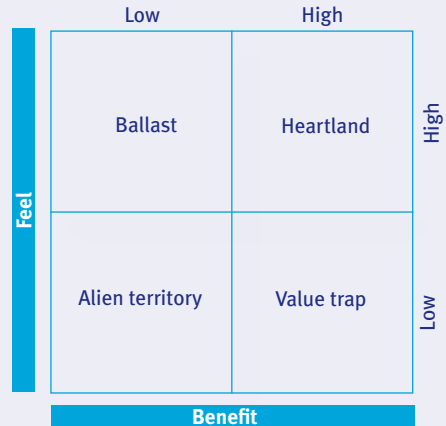
7

Governance general principles

In this chapter

- Overview of corporate governance.
- Company ownership and control.
- Coverage of governance.
- Key concepts.
- Purpose and scope of governance.
- Agency Theory.
- Key concepts of Agency Theory.
- Stakeholder Theory.
- Stakeholder claim.

Overview of Corporate Governance


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Purpose  ←······  Definition  ······→  Objectives

                     ↑
                     ·
                     ·
               Corporate
               Governance
               ·         ·
               ·         ·
               ↓         ↓
        Key Concepts   Agency Theory
               ·
               ·
               ↓
          Stakeholders
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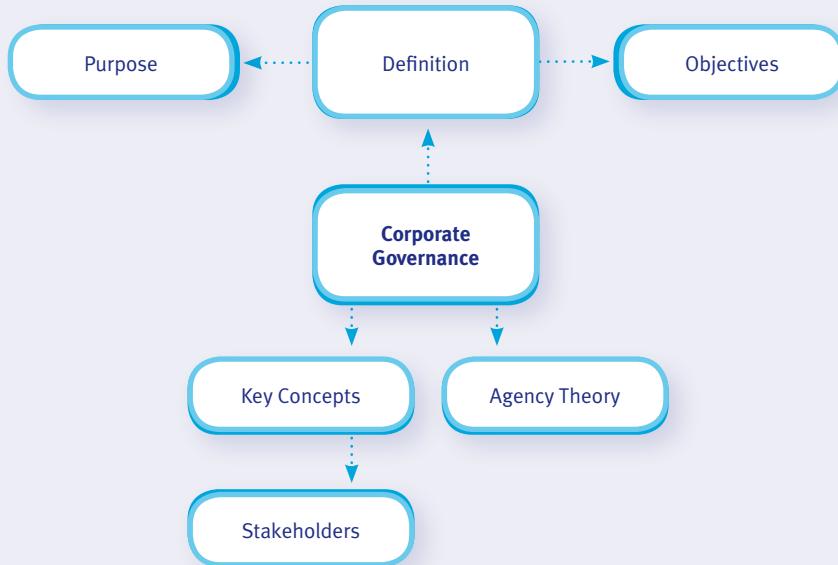
Company ownership and control?

- Corporate governance is the system by which companies are directed and controlled in the interests of shareholders and other stakeholders.

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   │ Shareholders │ ·······▶ │  Directors   │
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Coverage of governance

Key Concepts

Transparency
Open and honest relations with shareholders/ clear decision making

Probity/honesty
Culture of honesty and clear sense of ethical stance

Independence
No conflict of interests for all directors (exec. and non-exec.)

Reputation
Develop and maintain personal reputation and moral stance

Fairness
Even and ethical dealing with all stakeholders

Key concepts in governance

Integrity
Adherence to strict moral and ethical code

Innovation
- Innovation and experimentation in reporting
- The business moves away from rigid compliance towards the better communication of its individual value creation story for its providers of financial capital

Accountability
Provision of complete information to all stakeholders and effective risk management

Scepticism
- Scepticism(often referred to as professional scepticism) is an attitude which includes a questioning mind
- To provide a critical assessment of evidence
- For example, non-executive directors apply scepticism in order to challenge and scrutinise management effectively

Responsibility
- Acceptance of responsibility for governance decisions
- Clarity or roles and responsibilities

Judgement
Ability to make correct decision from many conflicting inputs

Purpose and scope of governance

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.

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 economy, efficiency and effectiveness

The three elements of value for money are:

- Economy = a measure of inputs to achieve a certain service or level of service.
- Effectiveness = a measure of outputs, i.e. services/facilities.
- Efficiency = measure of outputs over inputs.

Agency Theory

Agency theory is a group of concepts describing the nature of the agency relationship deriving from the separation between ownership and control.

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                    ┌─────────────────┐
                    │   Principal     │
              ┌────▶│  (Shareholders) │◀┄┄┄┄┄┄┐
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                    │  the company)   │
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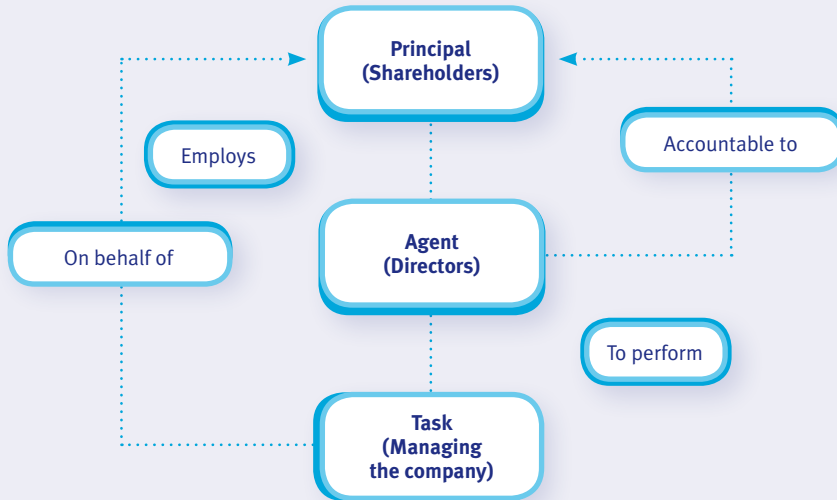
Key concepts of Agency Theory

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 their agent.
- Agency costs are incurred by principals in monitoring agency behaviour because of a lack of trust in the good faith of agents.
- By accepting to undertake a task on their behalf, an agent becomes accountable to the principal by whom they are employed.
- Directors (agents) have a fiduciary responsibility 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 affect or 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 external audit fee, attending meetings and reading both annual reports and analyst's reports.

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.

	Management	
Shareholders		Customers
Employees	**Stakeholders**	Suppliers
Future generations		Government
	Community	

Stakeholder claim

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

There are:

• Direct claims – made by stakeholders directly with the organisation and are unambiguous e.g. trade unions, they have their own voice.

• Indirect claims – where the stakeholder is "voiceless", e.g. an individual customer of a large retail organisation or the environment with the inevitable problem of interpretation.

Approaches to governance

In this chapter

- Rules and principles based approaches to corporate governance.
- Family structures.
- Insider-dominated structures.

Rules and principles based approaches to corporate governance

- A rules-based approach instils the code into law with appropriate penalties 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 comply with the code or explain why it has not through reports to the appropriate body and its shareholders.

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.

Comply or explain

A principles-based code requires the company to state that it has complied with the requirements of the code or to explain why it could not do so in its annual report. This will leave shareholders to draw their own conclusions regarding the governance of the company.

Family structures

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

Benefits

- Fewer agency costs – since the family is directly involved.

- Ethics – threats to reputation are threats to family honour, increases the likely level of ethical behaviour.

- Fewer short-term decisions – wealth already inherent in such families suggest long-term growth is a bigger issue.

Problems

- Gene pool – the gene pool of expertise in owner managers must be questionable over generations.

- Feuds – families fight, and this is an added element of cultural complexity.

- Separation – families separate and this could be costly in terms of buying out shareholding and restructuring.

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 – i.e. establish links with owners and managers.
- Greater access to and potentially lower cost of capital i.e. smaller base of shareholders.
- Smaller base of shareholders willing to take a long term strategic 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 lack of transparency in reporting.
- Misuse of power i.e. reluctance to employ outsiders in influential positions and NED's.
- 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.

9

Stakeholders and corporate social responsibility

In this chapter

- Social responsibility.
- Social responsiveness.
- Stakeholder theory.
- Managing stakeholder relations.
- Corporate citizenship.

Social responsibility

- Corporation is separate legal entity therefore has responsibilities to others.
- Work on principle of 'enlightened self-interest' – if make positive contribution to society this also benefits company.
- Corporate social responsiblity (CSR) refers to organisations considering and managing their impact on a variety of stakeholders.

CSR Strategy

A suggested approach to develop and pursue CSR strategy is as follows:

- The board, must make an authentic, firm, and public commitment to CSR.
- Determine the critical business objectives and priorities of the company.
- Develop a CSR strategy that will contribute to the achievement of those objectives.
- Align CSR strategy with the firm's core competencies.
- Integrate CSR into the culture, governance and strategy development of the company.

Social responsiveness

This refers to the capacity of the corporation to respond to social pressure, and the manner in which it does so.

Carroll suggested four strategies:

Strategy	Explanation
Reaction	The corporation denies any responsibility for social issues.
Defence	The corporation admits responsibility but fights it.
Accommodation	The corporation accepts responsibility and does what is demanded of it.
Proaction	The corporation seeks to go beyond industry norms.

Stakeholder theory

Stakeholder = any person or group that can affect or be affected by the policies or activities of an organisation.

Who are stakeholders?

- The capitalist view 'Customers, suppliers, shareholders and employees'.
- Stakeholder model view adds 'Government, civil society and competitors'.

Stakeholder claims = demands that the stakeholder makes of an organisation.

Managing Stakeholder relations

Mendelow's stakeholder mapping matrix

- Classifies stakeholders according to their level of power and interest in the organisation.
- Matrix used to determine company's action regarding each group.

- Company focus on key players, then those to keep satisfied to ensure they do not become key players.

		Low	High
Power	**Low**	Minimal effort	Keep informed
	High	Keep satisfied	Key players
		Low	**High**
		Level of interest	
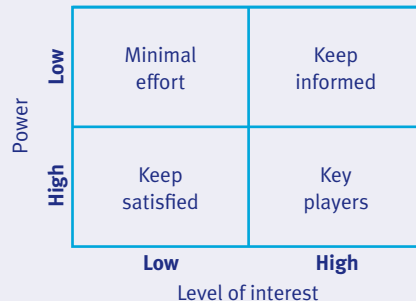
Corporate citizenship

The organisation as a corporate citizen

Corporate citizen = expanded view of corporation in society. Implies corporate accountability.

Corporate accountability = whether the organisation is in some way answerable for the consequences of its actions beyond its relationship with shareholders.

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          │  Reasons for viewing company as corporate citizen  │
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          │ Government failure │          │  Corporate power   │
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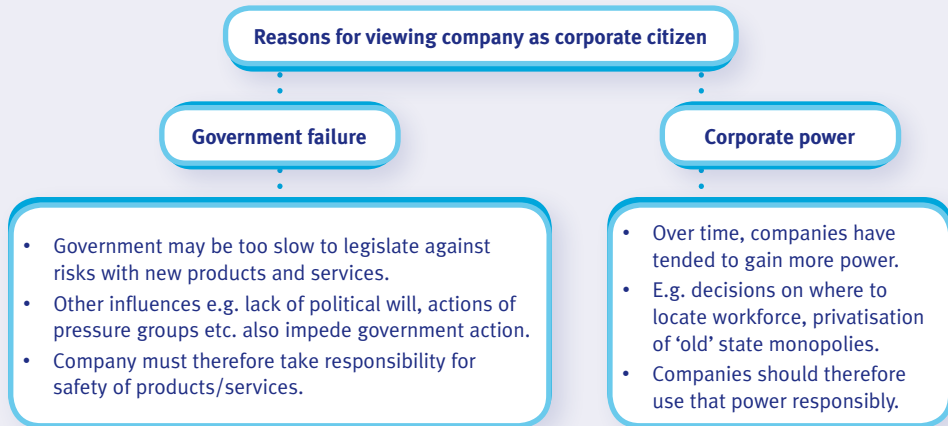
- Government may be too slow to legislate against risks with new products and services.
- Other influences e.g. lack of political will, actions of pressure groups etc. also impede government action.
- Company must therefore take responsibility for safety of products/services.

- Over time, companies have tended to gain more power.
- E.g. decisions on where to locate workforce, privatisation of 'old' state monopolies.
- Companies should therefore use that power responsibly.

10

Effective leadership

In this chapter

- The nature and importance of leadership.
- What makes an effective leader?
- Leadership and management.
- Leadership and culture.
- Entre and Intrapreneurship.

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 – means between persons. Thus, a leader has more than one person (group) to lead.
- Influence – is the power to affect others.
- Goal – is the end one strives to attain.

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.

What makes an effective leader?

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.

Problems with trait theories:

- There will always be counter arguments - one theorist will say a leader should always be courteous whereas another will say that a rude and effective leader was identified.

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.

There are four main management styles:

- Tells (autocratic) – the manager makes all the decisions and issues instructions which are to be obeyed without question.
- Sells (persuasive) – the manager still makes all the decisions, but believes that team members must be motivated to accept them in order to carry them out properly.
- Consults (participative) – the manager confers with the team and takes their views into account, although still retains the final say.
- Joins (democratic) – the leader and the team members make the decision together on the basis of consensus.

Problems with behavioural theories:

- 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.

Contingency/contextual theories

- 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.

Leadership and 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.
- Leadership deals with the interpersonal aspects of a manager's job, whereas planning, organising, and controlling deal with the administrative aspects.
- Differentiating between leadership and management - employees willingly follow leaders because they want to, not because they have to.

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.

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

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.

11

The board of directors

In this chapter

- Board of directors.
- Non-executive directors.
- NEDs on the board.
- Chairman and CEO.
- Board committees.
- Remuneration committee.
- Components of directors' remuneration package.
- Non-executive directors' remuneration.

Board of directors

Roles and Responsibilities

- provide entrepreneurial leadership of the company
- represent company view and account to the public
- decide on a formal schedule of matters to be reserved for board decision
- determine the company's mission and purpose (strategic aims)
- select and appoint the CEO, chairman and other board members
- set the company's values and standards
- ensure that the company's management is performing its job correctly
- establish appropriate internal controls that enable risk to be assessed and managed
- ensure that the necessary financial and human resources are in place for the company to meet its objectives
- ensure that its obligations to its shareholders and other stakeholders are understood and met
- meet regularly to discharge 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.

NB All directors in FTSE 350 companies should be put forward for re-election every year.

Non-executive directors

Roles and Responsibilities

- Strategy role – challenging strategy, offering advice and contributing toward strategic success.
- Scrutinising role – hold executive directors to account for decisions taken and results obtained.
- Risk role – ensure adequate system of internal controls and system of risk management in place.
- People role – oversee the appointment and remuneration of executive directors.

NEDs on the board

Advantages	Disadvantages
• monitoring role	• unity of the board
• additional expertise	• quality of NEDs
• enhanced perception of company	• liability of the role
• communication with stakeholders	
• discipline over strategy	

Chairman and CEO

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

Chairman's responsibilities

Responsibility of the chairman:

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

CEO's responsibilities

Responsibility of the CEO:

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

Reasons for splitting the role

- Representation: the chairman is clearly and solely a representative of shareholders with no conflict of interest.
- Accountability: provides a clear path of accountability for the CEO and the management team.
- Temptation: reduces the temptation to act more in self-interest rather than purely in the interest of shareholders.

Reasons against splitting the role

Unity: the separation of the role creates two leaders rather than the unity provided by a single leader.

- 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 be conflict between two high- powered executive offices.

Board Committees

Importance of committees

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

Positives:

- reduces board workload and enables them to improve focus on other issues.
- creates structures that can use inherent expertise to improve decisions in key areas.
- communicates to shareholders that directors take these issues seriously.
- increase in shareholder confidence.
- communicates to stakeholders the importance of remuneration and risk.
- satisfy requirements of the UK Corporate Governance Code (2018) (or other governance requirements).

Nominations committee

Responsibilities of nominations committee:

- review regularly the structure, size and composition of the board and make recommendations to the board.
- consider the balance between executives and NEDs on the board of directors.
- ensure appropriate management of diversity to board composition.
- provide an appropriate balance of power to reduce domination in executive selection by the CEO/Chairman.
- evaluate the balance of skills, knowledge and experience 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 independently for the benefit of shareholders.

Remuneration committee

The role of the remuneration committee – to have an appropriate reward policy that attracts, retains and motivates directors to achieve the long-term interests of shareholders.

Determine/ review company remuneration policy

Set remuneration for all executive directors and chairman

Main activities

Ensure remuneration is correctly disclosed in annual report

Demonstrate that remuneration is set objectively
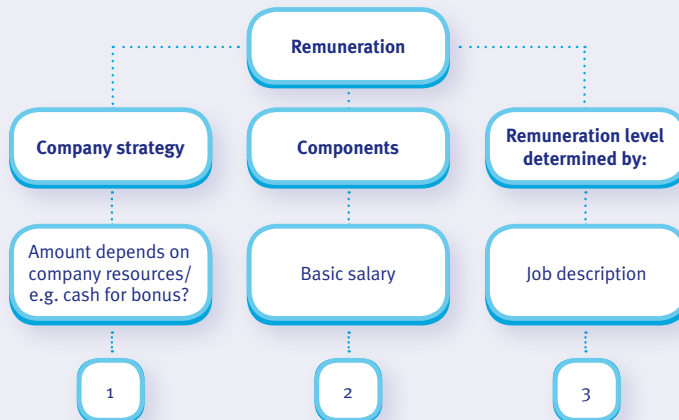
Ensure remuneration reflects performance
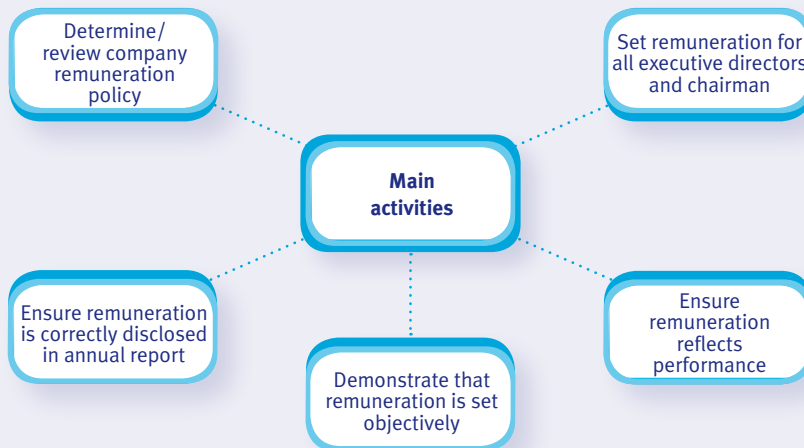
Responsibilities of the remuneration committee

- 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 – including design of targets and any bonus scheme payments

- recommend and monitor the level and structure of the remuneration of senior managers

- establish pension provision policy for all board members

- set detailed remuneration for all executive directors and the chairman

- ensure that the executive directors and key management are fairly rewarded

- the remuneration of the executive directors and key management is set by individuals with no personal interest

- agree any compensation for loss of office of any executive director.

Components of directors' remuneration package

- Basic salary – e.g. based on the skills required to do the job, individual's performance and market rates
- Performance related – e.g. dependent on the achievement of performance measurement criteria
- Pension – only basic salary is pensionable
- Benefits in kind – e.g. non-wage compensations in addition to their normal wage and salaries

```
                        Remuneration
                             |
         ┌───────────────────┼───────────────────┐
  Company strategy       Components      Remuneration level
                                          determined by:
         |                   |                    |
  Amount depends on     Basic salary        Job description
  company resources/
  e.g. cash for bonus?
         |                   |                    |
         1                   2                    3
```

1

Judge where to position remuneration compared to other companies

Be aware of remuneration levels in comparable companies

Be aware of pay and conditions throughout the company

2

Performance related pay – linked to company success – short-term bonus – share options

Pension contributions

Benefits in kind

3

Not too small – could lead to lack of motivation/ underachievement

Not too easily earned to ensure that directors to improve performance

Significant proportion based on performance related elements

To attract and possibly motivate if increase with performance

Non-executive directors' remuneration

- NED remuneration consists of a basic salary and non-executive directors may receive share awards.

- Equity-based remuneration to non-executive directors should be fully vested on the grant date, but still subject to applicable holding periods.

- Performance measures remuneration whilst advocated in executive remuneration packages is not generally supported for non-executive remuneration.

12

Reporting to stakeholders

In this chapter

- Institutional investors.
- Institutional shareholder intervention.
- Disclosure – general principles.
- Sustainability.
- Social and environmental reporting.
- Benefits and drawbacks of social and environmental reporting.
- Integrated reporting.
- Objectives for integrated reporting.
- How to prepare an integrated report.
- Value creation process.

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.

Institutional shareholder intervention

- Strategy: in terms of products sold, markets serviced, expansion pursued or any other aspect of strategic positioning.

- Operational performance: in terms of divisions within the corporate structure that have persistently under-performed.

- Acquisitions and disposals: this might be in terms of executive decisions that have been inadequately challenged by NEDs.

- Remuneration policy: this might relate to a failure of the remuneration committee to curtail extreme or self-serving executive rewards.

- Internal controls: failure in health and safety, quality control, budgetary control or IT projects.

- Succession planning: a failure to adequately balance board composition or recommendation of replacement executives without adequate consideration of the quality of the candidate.

- Social responsibility: a failure to adequately protect or respond to instances of environmental contamination or other areas of public concern.

Disclosure – general principles

- 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 (e.g. annual report or meetings).

Sustainability

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

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.

Social footprint – evaluates sustainability in three areas of capital

- Human Capital – personal health, knowledge, skills, experience that individuals have and use to take effective action.
- Social Capital – networks of people and the mutually-held knowledge and skills they have and use in order to take effective action.
- Constructed Capital – material things, such as tools, technologies, roads, utilities, infrastructures, etc., that people produce and use in order to take effective action.

Social and environmental reporting

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).

Social reporting

Social reporting is generally context specific, and typical contents will vary with industry. For example, 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.

Benefits and drawbacks of social and environmental reporting

Benefits	Drawbacks
Increasingly important to investors in investment decision	Additional cost of reporting systems
Reporting makes companies aware of potential risk to reputation	Ambiguity of measures used
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	

Integrated reporting (<IR>)

Integrated reporting

Integrated Reporting demonstrates the linkages between an organisation's strategy, governance and financial performance and the social, environmental and economic context within which it operates.

Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing.

An Integrated Report should be a single report which is the organisation's primary report in most jurisdictions the Annual Report or equivalent.

Central to Integrated Reporting is the challenge facing organisations to create and sustain value inthe short, medium and longer term.

An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

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 activities.
- 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.

Five other types of sustainable capital

These are:

Manufactured capital
Material goods, or fixed assets which contribute to the production process rather than being the output itself – e.g. tools, machines and buildings.

Intellectual capital
This form of capital can be described as the value of a company or organisation's employee knowledge, business training and any proprietary information that may provide the company with a competitive advantage.

(NB: Some of the subsets of intellectual capital include human capital, information capital, brand awareness and instructional capital.)

Human capital
This can be described as consisting of people's health, knowledge, skills and motivation. Enhancing human capital through education and training is central.

Social capital
This can be described as being concerned with the institutions that help us maintain and develop human capital in partnership with others; e.g. families, communities, businesses.
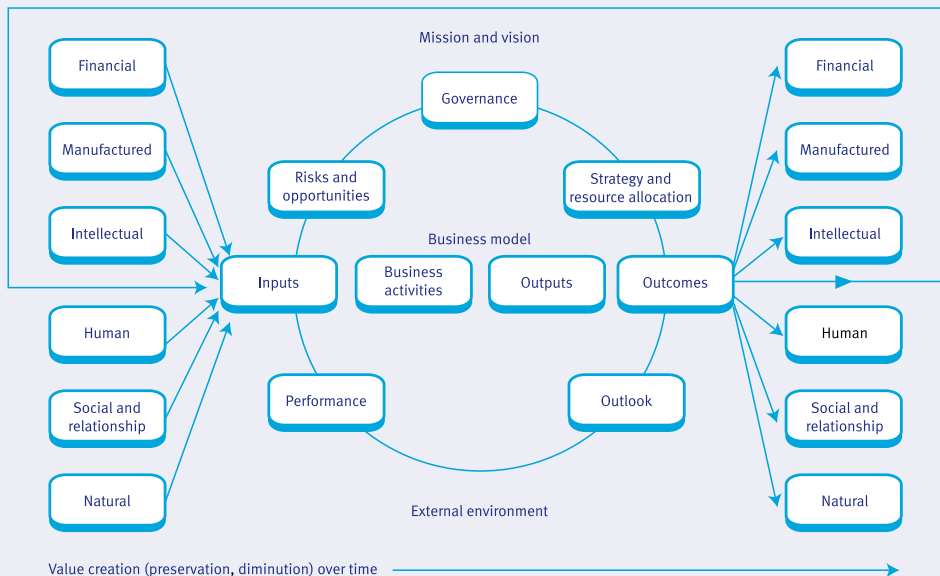
Natural capital
This can be described as any stock or flow of energy and material within the environment that produces goods and services e.g. climate regulation, climate change, CO_2 emissions.

How to prepare an integrated report

The following seven guiding principles underpin the preparation:

- Strategic focus and future orientation – highlighting significant risks, opportunities and dependencies flowing from the organisation's market position and business model, and giving the management's view of how the organisation balances short, medium and long term interests.

- Connectivity of information – show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organisation's ability to create value over time.

- Stakeholder relationships – should provide insight into the nature and quality of the organisation's relationships with its key stakeholders

- Materiality – Identifying relevant matters based on their ability to affect value creation

- Conciseness – should give sufficient context to understand the organisation's strategy, governance and prospects without being burdened by less relevant information

- Reliability and completeness – should include all material matters, both positive and negative, in a balanced way and without material error

Value creation process

Value creation process diagram showing the business model flow. On the left, six inputs feed into the central business model: Financial, Manufactured, Intellectual, Human, Social and relationship, Natural. The central circle contains the Business model with Inputs, Business activities, Outputs, Outcomes, surrounded by Governance, Risks and opportunities, Strategy and resource allocation, Performance, and Outlook. On the right, six outcomes flow out: Financial, Manufactured, Intellectual, Human, Social and relationship, Natural. The diagram is framed by Mission and vision (top), External environment (bottom), and Value creation (preservation, diminution) over time (bottom arrow).
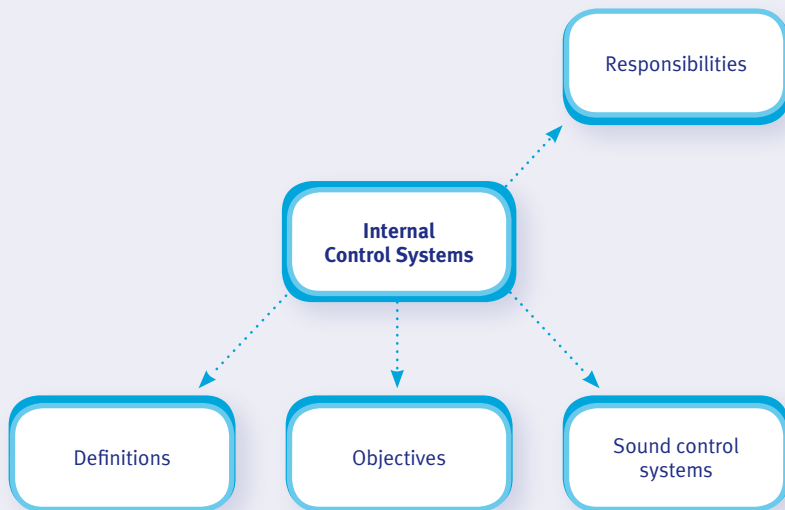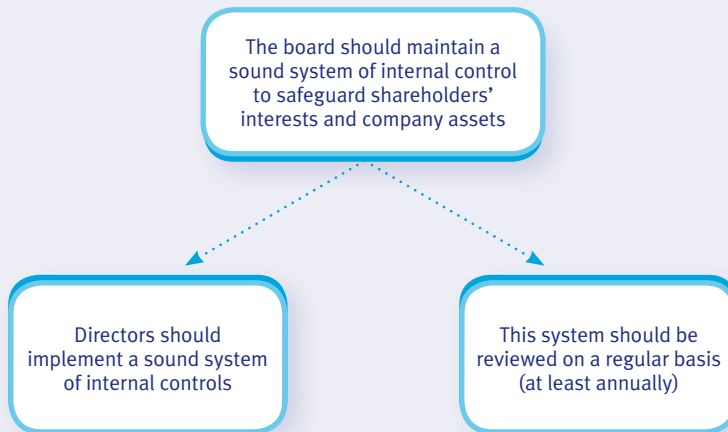
Management internal control systems and reporting

In this chapter

- Internal control systems.
- Internal control roles and responsibilities.
- Roles and responsibilities in risk management and internal control.
- Internal control definitions.
- Internal control objectives and benefits.
- Sound control systems.
- Effective internal control systems.
- Information flows for management.
- Information characteristics and quality.
- Fraud risk management strategy.

Internal control systems

Internal control roles and responsibilities

The board should maintain a sound system of internal control to safeguard shareholders' interests and company assets

Directors should implement a sound system of internal controls

This system should be reviewed on a regular basis (at least annually)

Roles and responsibilities in risk management and internal control

Many stakeholders involved – not just directors.

Role	**CEO**	**Board of directors**	**Risk committee**	**Executive management**
Responsibility	Ultimate responsibility for internal control system	• Ensuring adequacy and effectiveness of internal control system • Set corporate governance policy	Assists board in risk management obligations	Setting internal control policies, and monitoring effectiveness of those systems

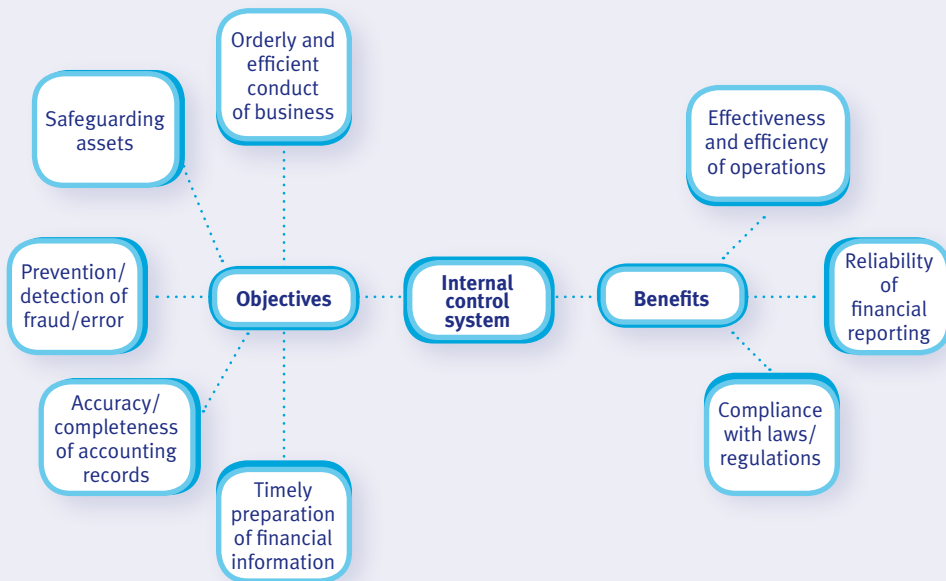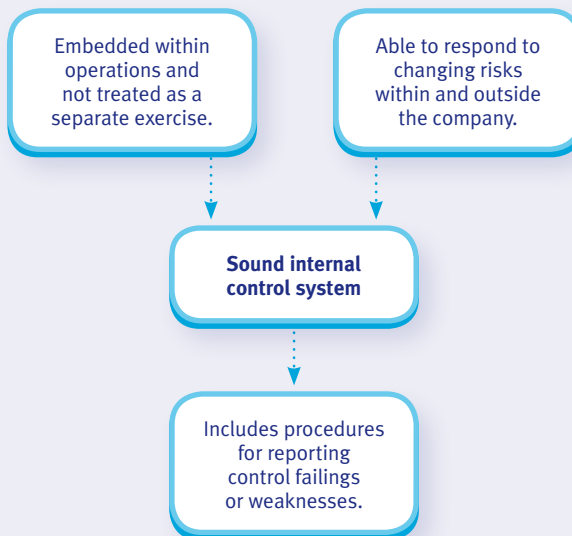| Role	**Internal auditors**	**Heads of business units**	**All employees**	**External auditors**
Responsibility	• Evaluate the effectiveness of internal controls • Recommend improvements	Establish specific internal control procedures and policies for their units	Operating and adhering to internal control procedures	Advice on establishing and monitoring internal controls

Internal control definitions

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

Internal control objectives and benefits

Orderly and efficient conduct of business

Safeguarding assets

Effectiveness and efficiency of operations

Prevention/ detection of fraud/error

Objectives

Internal control system

Benefits

Reliability of financial reporting

Accuracy/ completeness of accounting records

Timely preparation of financial information

Compliance with laws/ regulations

Sound control systems

Embedded within operations and not treated as a separate exercise.

Able to respond to changing risks within and outside the company.

Sound internal control system

Includes procedures for reporting control failings or weaknesses.

Effective internal control systems

Reviewing effectiveness of an internal control system (COSO)

Elements of an internal control system

1 Control environment
- 'Tone at the top' or the ethics and culture of the organisation. Set by management philosophy and style

2 Risk assessment
- Set objectives of organisation
- Then for each objective, identify and assess the risks affecting that objective
- Consider internal and external risks
- Distinguish between controllable and uncontrollable risks

COSO classification

3 Control activities
- Policies and procedures ensuring decisions and instructions of management carried out
- Occur at all levels in an organisation

4 Information & communication
- Communicate correct information to correct people so they can carry out their responsibilities
- Need quality information systems providing internal and external information

5 Monitoring
- Control system must be monitored – normally by internal audit
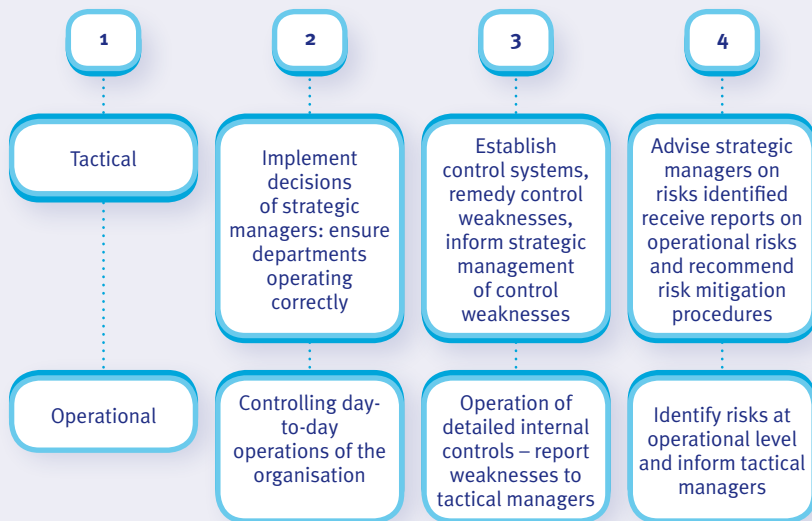
Information flows for management

Three management levels recognised in company.

Each level has responsibilities for internal controls and risk.

Information systems available to provide required information for each level.

Management level	Activity	Internal control responsibilities	Risk responsibilities
Strategic	Monitoring and controlling organisation as a whole	Reviewing internal control systems to ensure they are effective	Assess the risk outcomes of different decisions – also advised by the risk committee
1	2	3	4
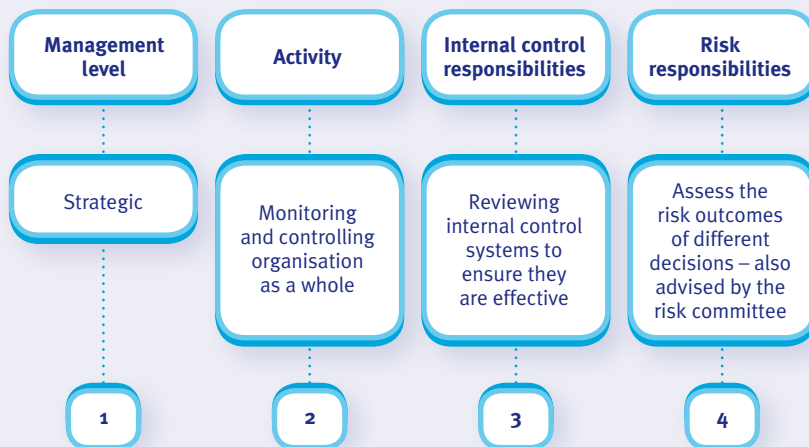
Information flows for management – (continued)

	1	2	3	4
Tactical		Implement decisions of strategic managers: ensure departments operating correctly	Establish control systems, remedy control weaknesses, inform strategic management of control weaknesses	Advise strategic managers on risks identified receive reports on operational risks and recommend risk mitigation procedures
Operational		Controlling day-to-day operations of the organisation	Operation of detailed internal controls – report weaknesses to tactical managers	Identify risks at operational level and inform tactical managers

Information characteristics and quality

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

Fraud risk management strategy

A risk management strategy needs to be developed for fraud.

This strategy should include three key elements:

• Fraud prevention

For example:

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

• Fraud detection

For example: performing regular checks, e.g. stocktaking and cash counts.

• Fraud response

For example: Dealing with suspected cases of fraud, theft or corruption via procedures for evidence-gathering to assist decision making and subsequently admissible in any legal action.

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.

14

Audit and compliance

In this chapter

- The function and importance of internal audit.
- Factors affecting the need for internal audit.
- Auditor independence.
- Potential ethical threats.
- Audit committee roles.
- Audit committee internal controls.
- Audit committee and internal audit.
- Audit committee and external auditors.
- Reporting on internal controls to shareholders.

Function and importance of internal audit

Internal audit = an independent appraisal activity established within an organisation as a service to it.

Main roles/functions of internal audit:

Reviewing accounting and internal control systems

Examining financial and operating information

Assisting with the identification of significant risks

Special investigations, e.g. into suspected fraud

Roles of internal audit department

Reviewing compliance with laws and other external regulations

Reviewing the economy, efficiency and effectiveness of operations

Factors affecting the need for internal audit

Scale, diversity and complexity of company activities

Number of employees (more employees increases need)

Increase in unacceptable events

Problems with internal control systems

Need for internal audit

Amount of change in information systems

Cost-benefit of department

Changes in key risks

Auditor independence

Internal auditor independence necessary to ensure work carried out objectively.

Factors protecting independence

- Internal auditor independent of executive management.
- Chief internal auditor reports to audit committee.
- Chief internal auditor has access to Chairman.
- Audit committee approve appointment and termination of chief internal auditor.

Potential ethical threats

= threats (real or perceived) to ability of auditor to provide independent opinion.

Apply to both internal and external audit.

Self-interest
Auditor could benefit from financial interest in client

Familiarity
Auditor becomes too 'friendly' with client by working for client for a number of years

Advocacy
Auditor promotes an audit client's position or opinion

Threats to auditor independence

Self-review
Auditor in position of reviewing work they have been responsible for

Intimidation
Auditor is subjected to intimidation

Audit committee roles

- Most of the board objectives relating to internal controls will be delegated to the audit committee.
- Consists entirely of NEDs – one with recent financial experience.

Review of internal control systems		Oversee work of internal audit
	Roles	
Monitor integrity of financial statements		Review work of external audit

Audit committee and internal controls

```
                Review company          Review company's
                strategy and risk        internal financial
                    appetite                  controls

  Implement
  internal audit
  recommendations                                              Review company's
  re internal                                                  internal control/
  controls            Objectives of       Objectives of        risk management
                    board of directors   audit committee           systems
                        regarding        regarding internal
                    internal controls        controls

  Discuss with                                                      Approve
  management                                                     statements in
  effectiveness of                                              annual report re
  internal controls                                             internal controls
                     Review assessments/   Receive reports from
                    effectiveness of internal   internal audit on tests
                       control system         of internal controls
```

Audit committee and internal audit

Audit committee responsible for overseeing work of internal audit function.

```
                    ┌─────────────────────┐        ┌─────────────────────┐
                    │  Monitor and assess │        │   Review and assess │
                    │     effectiveness   │        │  the annual internal│
                    │                     │        │   audit work plan   │
                    └─────────────────────┘        └─────────────────────┘

┌─────────────────────┐     ┌─────────────────────┐     ┌─────────────────────┐
│ Ensure accountable to│     │ Audit committee role│     │ Approve the appointment│
│  the audit committee │     │ in overseeing internal│    │ or termination of head of│
│                      │     │   audit function    │     │    internal audit    │
└─────────────────────┘     └─────────────────────┘     └─────────────────────┘

┌─────────────────────┐     ┌─────────────────────┐     ┌─────────────────────┐
│Ensure recommendations│     │   Check efficiency  │     │ Preserve independence│
│    are actioned     │     │                     │     │                     │
└─────────────────────┘     └─────────────────────┘     └─────────────────────┘
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Audit committee and external auditors

Audit committee responsible for oversight of company relations with external auditors.

The UK Corporate Governance Code provides recommendations regarding the work of audit committee and company's external auditors:

Reporting on internal controls to shareholders

Important points regarding reporting to shareholders:

Chair of audit committee available at AGM for shareholder questions

Shareholders right to know whether internal controls sufficient to safeguard their investment

Sarbanes Oxley more detailed legal reporting requirements

Audit committee and shareholders

Annual report explains work of audit committee

To provide shareholders with necessary information board should conduct an annual review of internal control systems

Review covers all material controls and risk management systems

15

Identification, assessment and measurement of risk

In this chapter

- Risk definition.
- Why incur and manage risk?
- Risk management and the "as low as reasonably practicable" principles.
- Enterprise risk management.
- COSO ERM framework matrix.
- Risk identification: strategic and operational risks.
- Risk identification: Business risks.
- The concept of related risk factors.
- Risk assessment.
- Risk heat map.

Risk 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.

Why incur and manage risk?

Why incur risk?

Incur risk to

Gain competitive advantage

Increase financial return
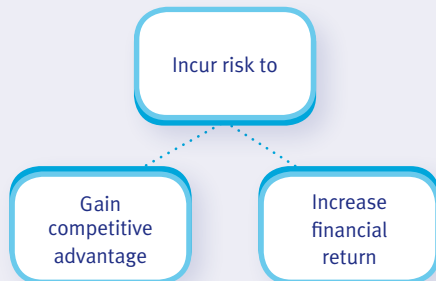
Why manage risk?

- Downside risks managed to identify new risks and changes in existing risks.
- Upside risks identified to make best use of opportunities.

Risk management and the "as low as reasonably practicable" principles

Risk management

Risk management = process of reducing adverse consequences by reducing likelihood of event or its impact.

- Responsibility for risk management system rests with management.

The As Low As Reasonably Practicable Principle (ALARP)

- Expresses a point at which the cost of additional risk reduction would be grossly disproportionate to the benefits achieved.

- Usually applied to safety critical, high integrity systems e.g. oil rig.

Process of risk management

Risk identification ····· List of potential risks

Risk assessment ····· Prioritised risk list

Risk planning ····· Risk avoidance and contingency plans

Risk monitoring ····· Risk audit

Enterprise risk management (ERM)

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).

COSO ERM Framework matrix
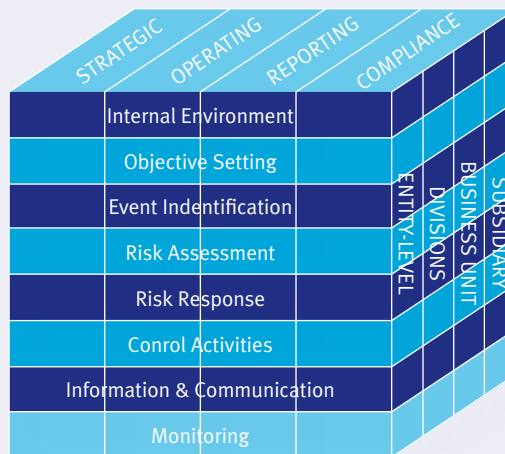
Risk identification: strategic and operational risks

Strategic risks	Operational risks
Risks arising from consequences of strategic decisions	Losses arising from business operations
Arise from strategic positioning of company in its environment	Arise from inadequate or failed internal processes
Risks include not enhancing old products and producing 'incorrect' new products	Risks include fraud, quality control failures and lack of production
Identified and assessed at senior management level. Managed by risk management strategy	Identified at operational level. Managed by internal control systems

Risk identification: Business risks

Definition

Business risks are strategic risks that threaten the health and survival of the whole business.

Risks per ACCA study guide	**Market**	**Credit**
	Sector trading in	Inability to obtain funds required

Health and safety, environment		**Financial**
Lack of compliance relevant laws	Liquidity	Gearing

Legal	**Technological**	**Reputation**	**Business probity**	**Derivatives**	Insufficient cash to run business	High amounts of borrowing
Does not follow relevant legislation	Products not incorporate latest technology	'Image' of company suffers	Company appears to act incorrectly	Use of financial instruments to improve accounts		

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.

Risk assessment

Risks assessed using 'risk map'

- For each risk, shows impact on organisation and likelihood of risk occurring
- Allows risks to be prioritised
- Risks with high impact and likelihood of occurrence need urgent attention

Note on terminology:

- Impact = severity = hazard
- Likelihood = probability
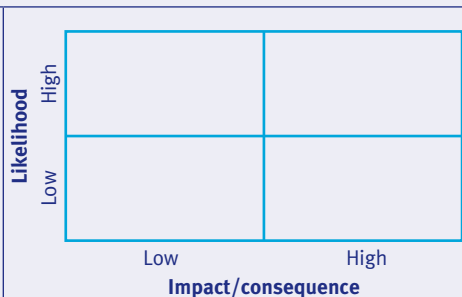
Risk heat map

Potential Impact	Remote	Unlikely	Possible	Likely	Probable
Extreme	5	10	15	20	25
High	4	8	12	16	20
Medium	3	6	9	12	15
Low	2	4	6	8	10
Negligiable	1	2	3	4	5

Likelihood

% ranges	0-10%	>10-25%	>25-50%	>50-90%	>90-100%

16

Managing, monitoring and mitigating risk

In this chapter

- The role of the board in risk management.
- The role of a risk manager.
- The role of the risk committee.
- Embedding risk.
- Embedding risk in systems.
- Embedding risk in culture.
- Risk mapping.
- Risk management strategies.
- Diversifying risk.
- Risk monitoring.

The role of the board in risk management

Main role	Framework for board consideration of risk
Main role	**Framework for board consideration of risk**

Main role
- Considering risk at strategic level and defining organisation's appetite and approach to risk.

Other roles
- Setting risk appetite in terms of attitude and capacity.
- Communicating risk strategy to company.
- Monitoring risk management plans.
- Determining residual risk based on cost-benefit approach.

Framework for board consideration of risk

Business strategy
What the company will do

Risk appetite
How much risk the business will accept

Risk strategy
How risks will be managed

Risk attitude
Overall approach to risk

Risk capacity
Maximum risk business can accept

Residual risk
Risk that cannot be managed

The role of the risk manager

Risk manager

Risk manager = member of risk management committee who reports direct to the board.

Primary role = implementation of risk management policies.

Identify and evaluate risks facing company

Work with risk committee and board of company

Implement/ monitor risk mitigation strategies

Risk manager other activities

Develop and implement risk management programmes

Assisting external auditors with their risk appraisal activities

Improve risk management practices

The role of the risk committee

Risk committee

Main aims:

- Raise awareness of risk.
- Ensure processes in place to identify, report and monitor risks.
- Update company's risk profile.

Risk committee

| Raise risk awareness | Establish policies for risk management | Implement processes to monitor and report risk | Update company risk profile and appetite |

- The committee will include both executive and non-executive directors, with the majority being NEDs.

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 systems

- = ensuring risk management is included within control systems of an organisation
- Not a separate system – part of overall control system
- May be statutory requirement (USA) or code of practice (UK)

Process of embedding risk:

1	Identify controls already operating in organisation
2	Monitor controls to ensure they work
3	Improve/refine controls as required
4	Document how controls recorded and tested (e.g. performance metrics)
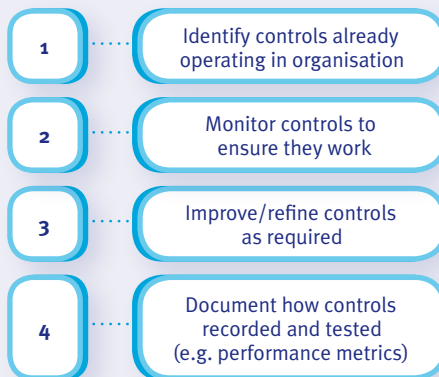
Embedding risk in culture

- Risk awareness is a capability of an organisation to be able to recognise risks when they arise, from whatever source they may come.

Embedding risk awareness

- Risk management being considered 'normal' for organisation therefore all employees follow risk management policies.
- Risk management culture starts at 'top' of company – provides open culture/better risk management.

Align individual and organisational goals

Inform staff of need for risk management

Not having a 'blame' culture

How to embed risk management in culture

Publish success stories – show benefit of risk policies

Include risk management responsibilities in job description

Use metrics to provide early warning of risks

Risk mapping

Impact/consequence

	Low	High
High	Reduce	Avoid
Low	Accept	Transfer

Probability / likelihood

Risk management strategies

- Strategies for managing risk = TARA

Transference (or sharing)	...	Transfer risk to third party e.g. use of insurance
Avoidance	...	Risk decreased to zero by avoiding risky areas e.g. withdrawing from business area. However, risk may be unavoidable – so strategy has limited use
Reduction	...	Limit exposure to risk or decrease effects of risk should it crystallise
Acceptance	...	Accept risk may occur and choose to deal with consequences of risk if it does occur. Used where adverse impact of risk is minimal

Further risk management strategies

- Risk avoidance = risk literally avoided.
- Risk retention = risk retained within organisation.

Diversifying/spreading risk

- Aim to reduce total risk.
- Can diversify operations
    - make different products or invest in different countries.
- Works best where returns are negatively correlated.

Diversifying risk

Backward integration
E.g. Raw materials supplier

Related
Development beyond the present product and market, but still within the broad confines of the 'industry'.

Diversification

Horizontal integration
E.g. competitor

Unrelated
Development beyond the present industry into products and/or markets that may bear no clear relationship to their current products.

Forward integration
E.g. Distribution outlet

Risk monitoring

Risk auditing

- = provision of independent view of risks and controls in organisation
- May be obligatory (e.g. Sarbanes-Oxley)
- Carried out by internal and/or external audit teams.

Process for carrying out internal risk audit

Identify risks

Assess risks

Report on inadequately – controlled risks

Review controls over risk

chapter

17

Professionalism, ethical codes and the public interest

In this chapter

- Profession and professionalism.
- The public interest.
- Accountants and the public interest – role and influence.
- Corporate codes of ethics.
- Professional codes of ethics.
- Benefits and drawbacks of corporate and professional code of ethics.
- Ethical threats and safeguards.
- Bribery and corruption.
- Ethical conflict.
- Ethical decision making – Tuckers 5 questions.
- Issue and context related factors.

Profession and professionalism

Profession

Definition

- A body of theory and knowlege which is used to support the public interest.
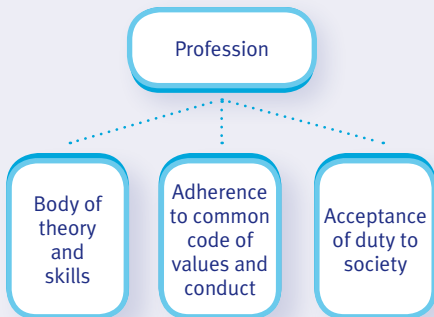
Professionalism

Definition

- Taking action to support the public interest.
- Acting professionally.

Views of professionalism

Reactive – noting negative aspects of accounting and taking action to remove those aspects e.g. legislation post Enron.

Proactive – seeking out new ways for accounting to support the public interest e.g. self-imposed codes of conduct.

The public interest

Definition

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).

- Ethical codes confirm that acting against the public interest is not appropriate for an accountant.

- When considering whether to disclose information or not the accountant will need to evaluate each situation on its merits.

Accountants and the public interest – role and influence
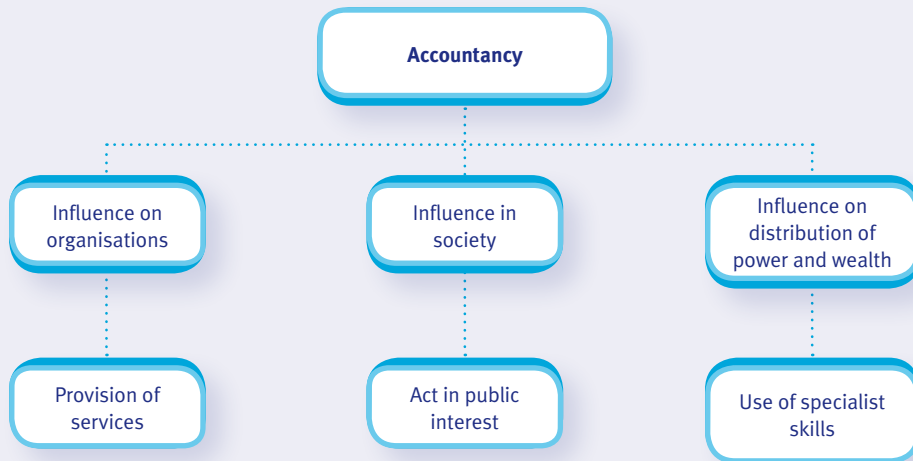
Corporate code of ethics

Definition

= application of ethical values to business behaviour.

Shareholders
Expect fair and proper return on their investment. Company should provide this return and information on how shareholders investment managed

Suppliers
Suppliers attempt to provide quality goods on time. Company should pay invoices promptly, select suppliers on known criteria e.g. 'fair trade' principles

Wider community
Company affects society as a whole. CSR report explains how company treats wider community

How business ethics affects stakeholders

Business values
Mission statement mentions
• products/services provided
• financial objectives
• role of business in society

Employees
How business relates to employees. Company recognises employee rights in areas such as working conditions, training, health and safety

Customer relations
Company has responsibility to produce quality goods/ services at reasonable price

Professional code of ethics

Contents of code:

Introduction	Fundamental principles	Conceptual framework	Detailed application
States who code affects, how enforced	Key principles all members must follow	Explains how 'spirit' of principles applied	Principles applied to specific situations

Fundamental ethical principles

Integrity	**Objectivity**	**Competence**	**Confidentiality**	**Professional behaviour**
Members should be straightforward and honest in all professional/ business relationships	Members do not allow bias or conflict of interest in business judgements	Duty to maintain professional knowledge and skill at appropriate level	Information on clients not disclosed without appropriate specific authority	Members must comply with relevant laws and avoid actions discrediting the profession

Benefits and drawbacks of corporate and professional code of ethics

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

Ethical theats and safeguards

Ethical threats and safeguards

Threats = situation where person tempted not to follow code of ethics

Safeguards = guidance or course of action aimed at reducing or eliminating threats

Main safeguards include:

Profession	Work environment	Individual
• Education and training	• Internal control systems	• Compliance with standards
• CPD	• Review procedures	• Mentoring
• Monitoring of work	• Codes of ethics	• Recording contentious issues
• Disciplinary proceedings	• Disciplinary procedures	• Assistance from professional body

Bribery and corruption

- 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

Corruption and bribery

- Examples:
    - excessive 'hospitality'
    - facilitation payments
- it increases risk
- it is inherently unethical.

Relevant legislation

UK Bribery Act (2010)

- 4 offences
    - Offering, promising or giving bribe.
    - Requesting, agreeing to receive or accepting a bribe.
    - Bribing a foreign public official.
    - A corporate offence of failing to prevent bribery.

Ethical conflict

Factors to take into account in dealing with ethical conflict:

Ethical issues involved	Relevant fundamental principles	Established internal procedures
Relevant facts	**Obtain detail on ethical conflict**	Alternative courses of action
Consider consequences of each course of action	**Decide action**	Consider withdraw from engagement/assignment
Consult with those charged with governance	Consult with appropriate persons in firm	Advice from professional institute

Ethical decision making – Tuckers 5 questions

Tucker's 5 questions

5 questions against which ethical decisions can be tested.

Is decision:

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

Issue and context related factors

Ability to make ethical decision depends on:

- issue related factors – how important decision is to decision-maker – factors affect moral intensity and moral framing.

- context-related factors – how factors relating to issue are viewed.

CONCENTRATION OF EFFECT

How many people affected by action

Fewer people increases moral intensity

PROXIMITY

Nearness of decision maker to people affected by decision

'closer' increases moral intensity

TEMPORAL IMMEDIACY

How soon effects of decision occur

Short time increases moral intensity

Factors affecting moral intensity

MAGNITUDE OF CONSEQUENCE

Extent of harm caused by poor advice

More harm increases moral intensity

SOCIAL CONSEQUENCES

Extent of agreement ethics of an action

More agreement increases moral intensity

PROBABILITY OF EFFECT

Likelihood harm/ benefit occurs

More likelihood increases moral intensity

Context-related factors:

- behaviour rewarded by superiors – even though dubious – will it be continued.
- co-workers take same action – will it be continued.

System of reward
Rewards based on achievement may encourage unethical decisions

Authority
Senior manager unethical means junior likely to be also

Bureaucracy
Follow rules – not normally consider ethics of decisions made

Key contextual factors

Cultural context
Cultures have different ideas of 'ethics'

Group norms
Follow what peer-group think is ethical

Work roles
Provides ethical context e.g. accountants normally behave ethically

18

Organising for success

In this chapter

- The link between structure and strategy.
- Main structural types.
- Mintzberg's building blocks.
- Boundaryless organisations.
- Business process outsourcing.
- Harmon's process strategy matrix.
- Business process redesign.

The link between structure and strategy

How structure changes as strategy changes

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

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

Main structural types

Types of structure

Entrepreneurial
- structure is built around the owner manager

Functional
- groups together employees that undertake similar task

Divisional
- splits organisation into several divisions
- either product based or geographical based

Matrix
- a combination of a functional and a divisional structure

Small organisation

Large organisation
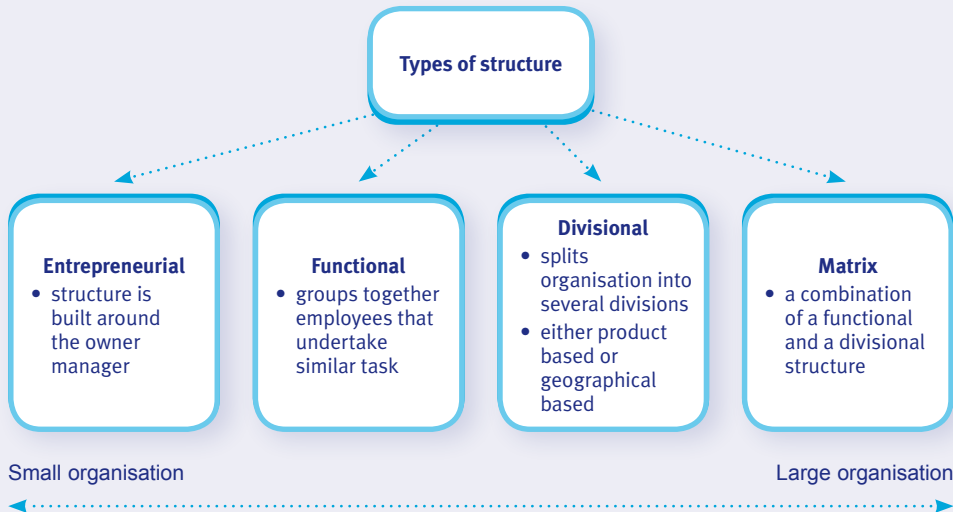
Mintzberg building blocks

As the business and its structure grows, different building blocks develop and can become more important:

Building block	What they want	What they provide	Structure in which they dominate
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 training	None

Boundaryless organisations

• The hollow structure – where non-core activities are outsourced.

• The modular structure – where some parts of product production are outsourced.

• The virtual structure – where the organisation is made up of a collaboration of other organisational parts.

Business process outsourcing

Advantages	Disadvantages
• Cost savings (currently the main decision-making factor). • Improved customer care. • Allows management to focus on core activities.	• Problems finding a single supplier for complex processes, resulting in fragmentation. • Firms are unwilling to outsource whole processes due to the strategic significance or security implications of certain elements. • Inflexible contracts and other problems managing suppliers. • Difficult to reverse and bring in-house again. • Problems measuring performance. • Data security.

Harmon's process-strategy matrix

Strategic importance

		Low	High
Process complexity dynamics	High	• Outsource	• Undertake process improvement
	Low	• Use minimum resources	• Automate to gain efficiency

Must be done but adds little value to products or services | Very important to success, high value added to products or services

Business process redesign

Typical causes of problems in processes

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

Typical solutions in processes

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

chapter

19

e-Business

In this chapter

- IT – the strategic context.
- Types of e-Business.
- IT Risks.
- IT Controls.
- Promoting cyber security.

IT – the strategic context

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.

Therefore we should consider IT at all stages of the syllabus. For example, we should incorporate IT influences within the PESTEL, 5 Forces, value chain etc.

Porter suggests 3 ways IS/IT can affect industries

- New businesses might become possible. For example, auction sites and photo-album sites.
- The industry structure can be changed. For example, in the music business it can be argued that the large CD publishers have less power because music can be self-published on the internet.
- IS/IT can provide an organisation with competitive advantage by providing new ways of operating. For example, airlines save money by encouraging internet bookings.

Types of e-Business

Delivery by

	Business	Consumer

	Business	Consumer
Business	B2B Business models, e.g. VerticalNet	B2C Business models, e.g. Amazon.com
Consumer	C2B Business models, e.g. Priceline.com	C2C Business models, e.g. eBay.com

Exchange initiated by

Stages of e-business

1   Web presence

2   E-commerce

3   Integrated e-commerce

4   E-business

Benefits of e-business	Barriers to e-business
• Cost reduction	• Technophobia
• Increased revenue	• Security concerns
• Better information for control	• Set-up costs
• Increased visibility	• Running costs
• Enhanced customer service	• Limited opportunities – type of business
• Improved marketing	• Limited resources
• Market penetration	• Customer aversion
• Enhanced competitive advantage	

IT Risks

```
                        ┌─────────────────┐
                        │    IT Risks     │
                        └─────────────────┘


  ┌─────────────┐   ┌─────────────┐   ┌─────────────┐   ┌──────────────┐
  │   Hacking   │   │   Viruses   │   │  Hardware   │   │ Input errors │
  └─────────────┘   └─────────────┘   └─────────────┘   └──────────────┘

  Unauthorised access   Code capable of     Either from        Either deliberate
    to systems          corrupting data     failure or loss    or accidental
```

IT Controls

```
                        ┌─────────────────┐
                        │   IT Controls   │
                        └─────────────────┘
```

```
┌──────────────┐  ┌──────────────┐  ┌──────────────┐  ┌──────────────┐
│   General    │  │ Application  │  │   Software   │  │   Network    │
└──────────────┘  └──────────────┘  └──────────────┘  └──────────────┘
```

General	Application	Software	Network
• personnel	• authorisation	• supplier selection	• firewalls
• logical access	• pre-numbered forms	• retain original disks	• data encryption
• access logging	• control totals	• license checking	• virus protection
• physical controls	• output checking		• flow
• hardware security			
• back-ups			

Promoting cyber security

- Have a written policy.
- Provide ongoing training and assessment.
- Have a dedicated cyber security staff.
- Limit systems access.
- Limit data volume.
- Automate systems.

chapter

20

Using IT successfully

In this chapter

- Supply chain management.
- Upstream supply chain management.
- Downstream supply chain management.
- Big data.
- Disruptive technology – Fintech.
- Cloud technology.

Supply chain management (SCM)

Supply chain management typically involves:

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

Role of IT in SCM

- facilitated a move from push systems towards pull systems
- E-procurement has become a vital part of SCM
- facilitated better interaction with customers
- encouraged virtual integration.

Push model

- production design, quality and volume are led by the manufacturer
- little product personalisation
- aims to reduce set-up costs and gain economies of scale.

Pull model

- customers have a greater say
- products are made to order
- aims to reduce inventory levels and be more responsive to customer needs
- often relies on e-commerce (and e-procurement).

It is now common for companies to use a combination of push and pull systems.

E-commerce creates a much more efficient supply chain that benefits both customers and manufacturers. Companies can:

- better serve customer needs
- carry fewer inventories
- send products to market more quickly.

Upstream supply chain management

E-procurement

Benefits	Risks
• Reduced labour costs	• Technology risks
• Lower inventories	• Organisational risks – especially staff resistance
• Higher sales due to fewer inventory stock outs	• Costs savings fail to materialise
• Better control over product development	• Requires new skills
• Greater choice of supplier	• It can be difficult to integrate different systems
• Better transaction history	• Expensive to set up
• Reduced admin	

Downstream supply chain management

Benefits	Problems
• Disintermediation	• Relies on supplier willingness
• Tie-in	• Reaction of distributors/ retailers
• Continual updates	• Move to product orientation
• Differentiation	• Extra admin costs
• Two way communication	• Easily copied
• User communities	• Users must be representative
• Better market research	• Become reactive rather than proactive
• Easier e-marketing	• Can increase business risk and exit barriers
• Reduced product failure rates	
• Customers can define specifications	

Big data

Characteristics of big data

- volume
- velocity
- variety

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.

Disruptive technology – Fintech

Advantages	Potential defences – against Fintech
• Better use of data	• Differentiating
• A frictionless customer experience	• Improving flexibility
• More personalisation of products/services	• Promoting physical presence
• Lack of physical presence costs	• Take legal action
• Access to cheap capital	• Relying on technophobia
	• Reacting sooner
	• Launch own disruptive tech

Cloud technology

Advantages	Potential defences
• Sharing data	• Reliance on the provider
• On-demand self service	• Regulatory risks
• Flexibility	• Unauthorised access of data
• Collaboration	
• More competitive	
• Easier scaling	
• Reduced maintenance	
• Back-ups	
• Disaster recovery	
• Better security	

21

e-Marketing

In this chapter

- Marketing mix (7P's).
- The 6I's.
- e-Branding.
- Using marketing in e-business.

Marketing mix (7P's)

Traditional marketing involves finding the correct mix of the following elements:

• Product.

• Price.

• Promotion.

• Place.

E-marketing expands this into three more areas:

• People.

• Physical evidence.

• Processes.

The 6I's
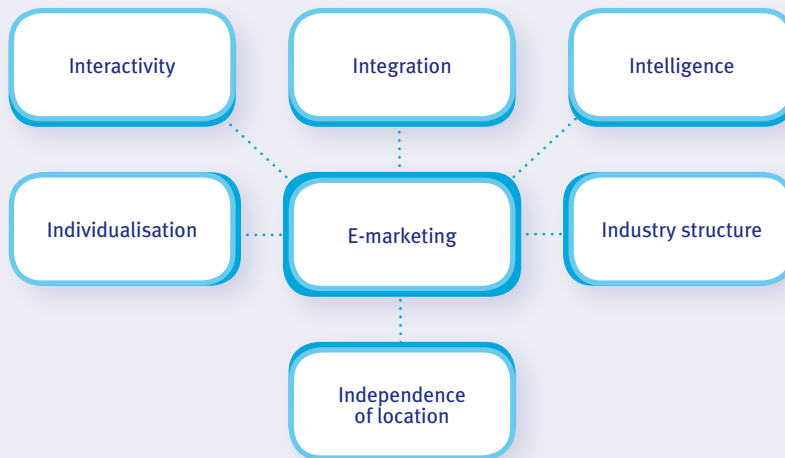
e-Branding

Potential e-branding strategies:

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

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

Using marketing in e-business

Acquiring customers

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

Managing customers

Ensuring that customers keep returning to 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

22

Project management

In this chapter

- The project life cycle.
- The business case document.
- Risk analysis.
- The project plan.
- The project initiation document.
- Key project staff.
- Project control.
- Project review.

The project life cycle

A cyclical diagram showing the project life cycle with the following stages connected by dotted arrows flowing clockwise:

- **Project life cycle** (top centre)
- Initiation (right upper)
- Planning (right lower)
- Execution (bottom centre)
- Control (left lower)
- Completion (left upper)
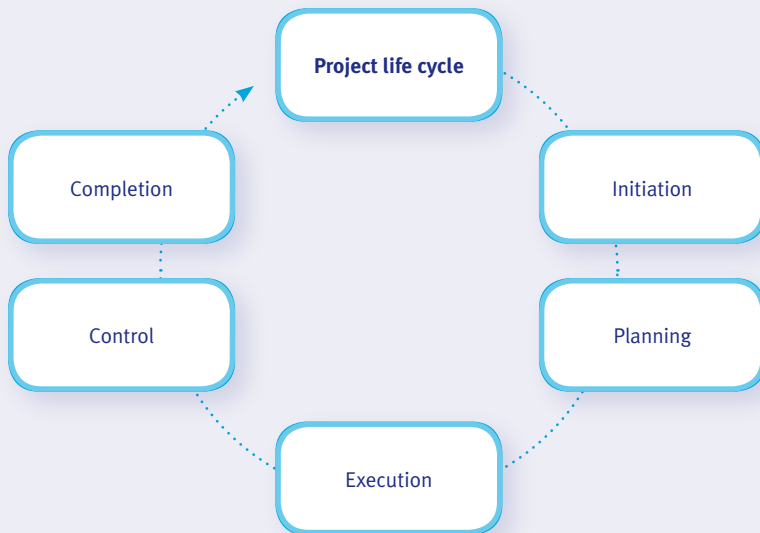
The business case document

Typical contents:	Reason:
• Strategic analysis	• Explains why project is needed
• Project benefits and costs	• Provides a financial rationale
• Project constraints	• Provides clear boundaries
• Risk analysis	• Managers can be more proactive to risks

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.

Risk analysis

3 stages:

- Identify risks
- Assess risks
- Manage risks

		Likelihood	
		L	H
Impact	L	Accept	Reduce
	H	Transfer	Avoid

The project plan

The project initiation document

What it contains	Benefits of having this
Clear responsibilities	Lines of authority for decision making Facilitates responsibility accounting
Detailed schedules	Clear path Improved efficiency
Targets and measures	Clear control points Early identification of problems
Exit plans	More efficient handover Easier exit for the project team

Key project staff

Project staff	Project roles
Project sponsor	Providing resources Approving changes Communicating organisational goals
Project manager	Building the business case Executing the plan Exercising control Managing team members
Team members	Make business and enabling changes Follow the plan

Project control

This has 3 stages:

- Create performance measures and targets
- Test performance at project gateways
- Take control actions if targets aren't met.

Potential control actions:

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

Project review

Post project review (PPR) – reviews the performance of the project team.

Post implementation review (PIR) – reviews the output from the project.

23

Financial decision making

In this chapter

- Options for raising finance.
- Other sources.
- Cost accounting.
- Break even analysis.
- Marginal decision making.
- Investment appraisal.
- Dealing with risk in decision making.
- Budgeting.
- Variance analysis.

Options for raising finance
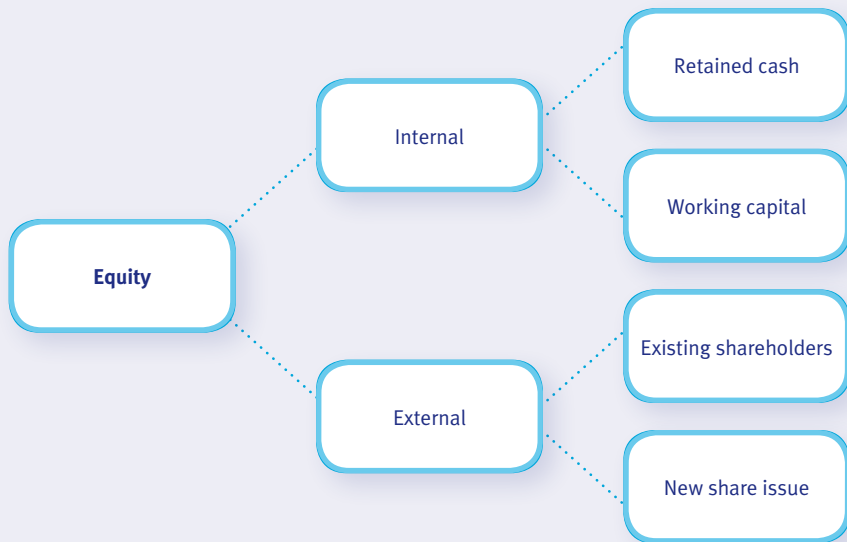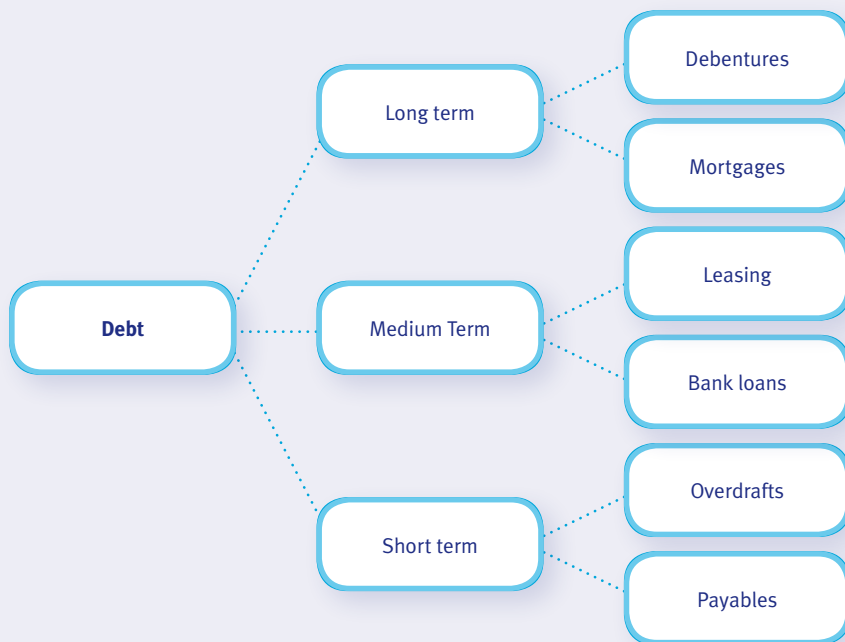
Other sources

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

Factors to consider when choosing a source of finance

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

Cost accounting

- Based on standard costing systems
- May be based on absorption, marginal or activity based systems
- Becoming increasingly out-of-date in modern manufacturing environments

Key areas:

- Break even analysis
- Project appraisal
- Decision making
- Risk and uncertainty
- Budgeting
- Variance analysis

Break even analysis

Break even point = $\dfrac{\text{Total Fixed Costs}}{\text{Contribution/unit}}$

Break even revenue = $\dfrac{\text{Total Fixed Costs}}{\text{Contribution margin}}$

Margin of safety = Budgeted Sales – Break even sales

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.

Marginal decision making

- Accepting/rejecting special orders
- Closing a business unit
- Abandoning a project

Relevant costs and revenues must satisfy three criteria:

- Future
- Incremental
- Cash

Key problems:

- May need to consider opportunity costs
- The accounting (and tax) impact will be different

Investment appraisal

Method:	**Net Present Value (NPV)**
How to calculate:	Use a cost of capital and discount factors to discount future cash flows to give the present value
Best used when:	The project is long and the cost of capital is known
Key advantage:	Gives an absolute estimate of the impact on shareholder wealth
Key disadvantage:	Relies on a reliable cost of capital estimate
Method:	**Payback period**
How to calculate:	Determine how quickly the original cash injection is recovered
Best used when:	The project is short and/or cash is in short supply
Key advantage:	Provides a minimum target for protect life
Key disadvantage:	Requires a target/benchmark

Method:	**Accounting Rate of Return (ARR)**
How to calculate:	Divide average profits by the initial investment
Best used when:	The project has profit targets to meet
Key advantage:	A simple calculation based on readily available Information
Key disadvantage:	Profits are easily manipulated
Method:	**Internal Rate of Return (IRR)**
How to calculate:	Determine the cost of capital that provides a zero NPV
Best used when:	The project is long and the cost of capital has not yet be determined
Key advantage:	Tells us the highest acceptable cost of capital
Key disadvantage:	It is not useful for comparing protects

Dealing with risk in decision making

An expected value summarises all the different possible outcomes by calculating a single weighted average. It is the long run average (though not necessarily the most likely result).

Complicated scenarios could be represented as a decision tree. Decision trees force the decision maker to consider the logical sequence of events.

Key limitations:

• Only useful for one-off decisions
• Based on subjective information
• Ignores attitudes to risk
• Does not provide an actual outcome

Budgeting

Effective budgetary control requires:

- 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.

Variance analysis

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.

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Managing strategic change

In this chapter

- Types of change.
- Influence of culture on change.
- Preparing for change – Lewin.
- Change management styles.
- The change kaleidoscope.
- POPIT Model.

Types of change

Extent of change

	Transformation	Realignment
Incremental	**Evolution:** Transformational change implemented gradually through inter-related initiatives; likely to be proactive change undertaken in participation of the need for future change	**Adaptation:** Change undertaken to realign the way in which the organisation operates; implemented in a series of steps
Big bang	**Revolution:** Transformational change that occurs via simultaneous initiatives on many fronts: • more likely to be forced and reactive because of the changing competitive conditions that the organisation is facing	**Reconstruction:** Change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously: • often forced and reactive because of a changing competitive context

Speed of change

Influence of culture on change

The Cultural Web

- Stories
- Routines and rituals
- Organisational structures
- Control systems
- Power structures
- Symbols

Preparing for change – Lewin

Lewin suggests that change is achieved in three stages:

- Unfreeze

  Create the initial motivation to change by convincing staff of the undesirability of the present situation.

- Change

  Make the necessary changes to strategy, processes, culture etc.

- Refreeze

  Reinforcement of the new pattern of work or behaviour through rewards, praise, etc.

Change management styles
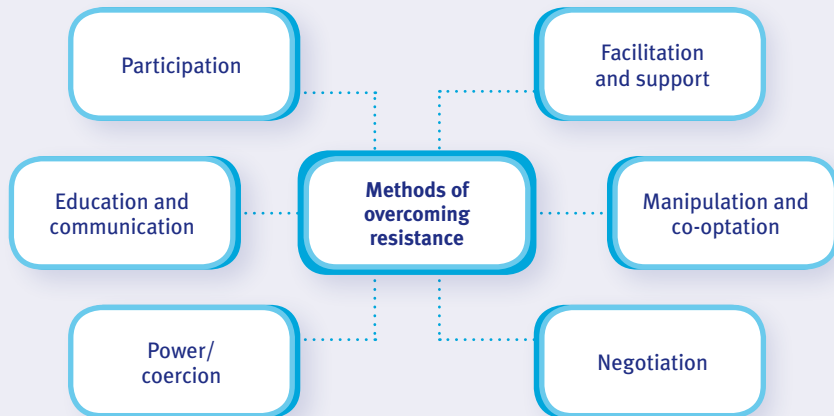
The change kaleidoscope (Balogun and Hope Hailey)

Contextual features:

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

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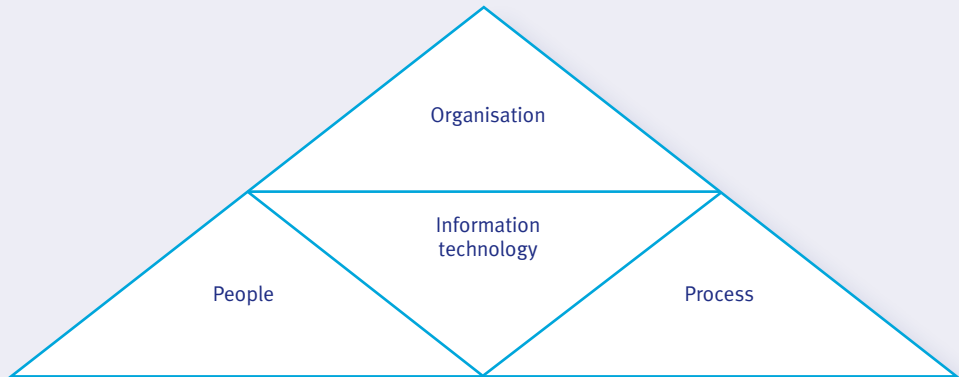
The business system can only be a success if all work together and changes are co-ordinated.

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