Corporate Strategy and Financial Analysis
Chew, Andrew
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That is not to say that there are not areas which could not perhaps receive some thought or attention. While there is a reference in the introduction (p.xv) which refers to learning from case studies (Easton, 1992) this issue is not dealt with in any depth. While it might be assumed by the authors that the strength of this type of learning might be apparent to a lecturer adopting the book, it might still have been useful to have debated the topic from the point of view of the student. This might seem rather peripheral if the collection is simply viewed as a resource for teaching. However, the addition of a thoughtful discussion about such issues would enrich the text, extending its properties as a *learning* resource.

Another addition would have similar effect and that is an extension of the references which are provided along with some overview of their nature to give some indication of the approach and issues they covered. I felt at times there was too much reliance on the use of other texts and would like to see greater inclusion of the literature to be found in the academic journals. If students are to develop their critical abilities, they should be using this type of literature; by providing commentary on the nature of the different contributions made by various pieces of referenced work, students can be directed to appropriate material and overload can be avoided.

In summary, I think that this is a collection of cases which can be recommended for use on a range of accounting courses and should not be confined to those with "Public Sector" in their title. The data supplied are diverse and realistic, enabling exploration of a wide set of accounting concerns. The broader issues raised by the cases are ones which affect us all as citizens and are relevant and important and we should encourage our students to engage with them.

Reference

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Jane Broadbent
Sheffield University Management School

Corporate Strategy and Financial Analysis

John Ellis and David Williams
Pitman Publishing, London, 371 pp.

This book provides a framework which combines corporate financial analysis with the analysis of firms' strategies. As such it extends the approach adopted in Foster (1986) which provides a stock market perspective to financial statement analysis but avoids the empiricism which underlies capital market approach. I agree with the authors that consideration of firms' strategic choices, so far missing in the literature on corporate financial analysis, is important in evaluating firms and a book of this nature is timely (cf. Stickney, 1993). However, a major limitation of the book is that its primary focus is to evaluate the firm from a shareholder's perspective. The book does not directly consider corporate failures or lending decisions which are both important current issues, given the large number of corporate failures and large banking bad debts provisions in the late 1980s and early 1990s.

The book is divided into five parts, an introduction, a conclusion and three main sections, each covering one of the three perspectives – strategic, financial and stock market – synthesized in the book. Each section has three chapters. The book uses illustrations and diagrams effectively to explain concepts. It also uses a British quoted company, United Biscuits, to illustrate how the framework can be applied to analyse any quoted company using publicly available data. While this has its advantages, it is also rather restrictive, particularly for illustrating portfolio analysis and core competences.

Chapter 2 deals with strategic choices. Their business strategies are based mainly on Porter's (1980) framework of differentiation, cost, and scope, extended by two other concepts, Stalk and Hout's time-based competition (i.e. the ability to develop new products quickly) and competitive linkage which the book defines as the relationship between the firm and its suppliers and customers. Competitive linkage is presumably based on Porter's (1985) value-chain analysis but this is not developed in the book, presumably because this is not a book on management control. The book, however, made no reference to the other type of competitive linkage, collaborative alliance (see Prahalad and Hamel, 1990; Thompson, 1967). Chapter 2 proposes that an analysis of a firm's strategic positioning should focus on two dimensions – spatial and temporal – and at three levels of analysis. Spatial analysis focuses on broad context, industry and company factors, while temporal analysis introduces three time-frames – past, present and future. The structural analysis of industry is based on Porter's (1980) five competitive forces. Chapter 3 provides some links between a firm's strategy and stock market assessments. It uses the notion of strategic valuation to assess strategy from a shareholder's perspectives, typical of books on financial analysis and also strategy. While some books (e.g. Foster, 1986) acknowledge the existence of other stakeholders, in addition to investors and managers, only to ignore them in the rest of the book, the authors do not even acknowledge the existence of other stakeholders. Three corporate strategies introduced in chapter 2 – portfolio analysis, core competences (Prahalad and Hamel, 1990) and performance enhancement – were advanced as value creation strategies. Performance enhancement refers mainly to leadership or supervisory style. Chapter 4 provides a list of sources of information, e.g. annual reports, on companies and their markets.

Chapters 5 to 7 cover issues in financial statement analysis. One chapter each is devoted to discussing the concepts of profit, cash flows and comparative financial ratios and time series analysis, including the problem posed by creative accounting. The final section covers the valuation of shares. Following chapter 3's framework, chapter 8 uses three levels of analysis to evaluate factors which affect share prices. Chapters 9 and 10 discuss short-term valuation (i.e. analysts' valuation and accounting valuation models, such as p/e ratios and dividend yields) and long-term valuation models (i.e. DCF models). Chapter 10 highlights the additional cash needed to fund growth, especially the incremental working capital needs, a fact which has not been sufficiently stressed in the literature. Incremental working capital needs may not only affect the viability of projects but also threaten the survival of firms.

The authors appear to have an aversion not only to empiricism which dominates mainstream accounting but apparently also to all forms of quantitative models and techniques. They did not use any of the matrices, e.g. BCG and GE matrices, commonly used to analyse a firm's strategic positioning, arguing that "experience has shown that attempting to quantify the importance of individual factors and then aggregating to provide an overall result tend to lead to spurious and false impressions of accuracy". Nor did they discuss forecasting techniques and models normally found in books on financial statement analysis, presumably for similar reasons. While it is important to recognize the danger of over-reliance on quantitative models, nevertheless quantitative techniques and models are useful in obtaining an overall assessment of a firm's positions, performance and future potentials.

Although the book is quite effective in developing a dynamic model which integrates three perspectives, some strategic models are not so well integrated. For instance, the three levels of analysis used in both chapter 2 to assess alternative strategies and chapter 8 to assess the financial worth of a firm can be contrasted with portfolio analysis, core competences and performance enhancement used in chapter 3 to value a firm's strategy. No attempt was made to integrate the two frameworks nor was an attempt made to relate portfolio analysis to the management of core competence. As Prahalad and Hamel (1990) stress, a portfolio of core competence has to be distinguished from a portfolio of businesses. The book would be much improved if such an integration were attempted.

Apart from these criticisms, especially the book's shareholder bias, the authors should be commended for condensing so much material into about 370 pages and for a highly readable book.

References

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Andrew Chew
University of Technology, Sydney