STRATEGIC ANALYSIS AND THE MANAGEMENT ACCOUNTANT

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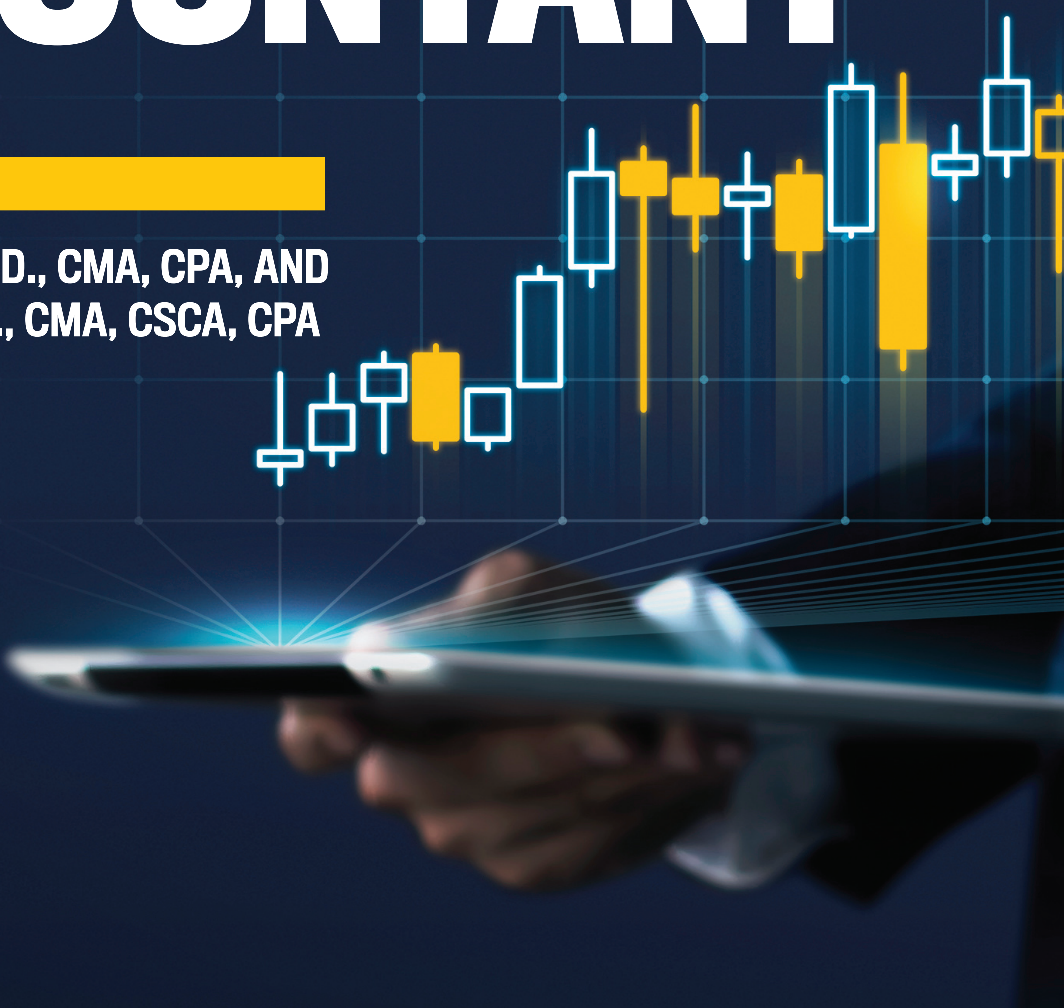

By working to align strategy, execution, budgets, and financial performance, management accountants can help create superior long-term results for their organization.

With the increasing complexity, volatility, uncertainty, and pace of change and competition in today's global marketplace, the need for strategic analysis and execution has never been greater. Management accountants are in a unique position to participate in and lead the strategic analysis process. To do so, however, requires strategic thinking and strategic analysis skills.

To become trusted strategic advisors and partners in the business, management accountants need to have a deep understanding of the underlying business. They need to know how the business is run, the major influences or levers of the business, who the customers are and their buying habits, the customer needs fulfilled by the company, and the strengths and weaknesses of competitors. This can be achieved by asking questions about the operational side of the business, building good working relationships outside of accounting and finance, organizing weekly staff meetings, or facilitating monthly reviews of plan vs. actual results, including both financial and nonfinancial metrics. Further, setting up regular strategy planning meetings and discussions using a variety of tools will help management accountants understand, develop, execute, and communicate the strategic priorities of the organization. Those tools are described in IMA's new Statement on Management Accounting (SMA), *Strategic Analysis—Methods for Achieving Superior and Sustainable Performance*.

When management accounting professionals have the necessary skills and abilities, they can create value in various leadership roles using strategic analysis, including:

1. Helping to develop innovation and growth strategies.
2. Reviewing and refining strategies to create greater long-term sustainable value.
3. Analyzing where the company or business units are in the competitive life cycle.
4. Communicating the strategy within the company and to the board of directors.
5. Developing information for investor relations presentations by the CFO.
6. Evaluating merger and acquisition (M&A) opportunities and risks.
7. Assessing strategic risks of the organization.
8. Developing a strategy for the finance organization.

TOOLS AND FRAMEWORKS FOR STRATEGIC ANALYSIS

A good strategic analyst should have a wide array of strategy tools, methods, and frameworks to help answer key questions, overcome challenges, and find opportunities for both now and the future. A growth strategy is often undermined by day-to-day decisions and short-term priorities inside the business, and, further, many companies lack a coherent vision for the future.

The full SMA delves into a variety of different strategic planning and analysis concepts, tools, and frameworks that you can use, detailing their purpose, how to use them, strengths and limitations, and the role of the management accountant in their use (see "Strategic Analysis Tools and Frameworks"). We encourage you to read it further to see the variety of options available.

Strategic analysis should be anchored to the organization's mission, vision, purpose, and core values. Thus, it's imperative that the organization identifies the right mission and core values. This typically begins with a scan of the external environment using a framework such as Porter's Five Forces and strategic risk management. It should also include an analysis, using tools such as a SWOT (strengths, weaknesses, opportunities, threats) analysis and Return Driven Strategy. Further, organizations today should always be searching for innovation and market disruption opportunities, such as with Blue Ocean strategy. Let's take a closer look at the purpose of those tools and the role the management accountant in their use.

Porter's Five Forces. Developed by Michael Porter, this framework facilitates industry structure analysis to identify potential threats to a company's value proposition. It requires a company to consider five sources of competitive forces that could affect the attractiveness or unattractiveness of a current or potential market: threat of new entrants to the market, bargaining power of customers, bargaining power of suppliers, threat of substitute products, and level of competition intensity in an industry.

Management accountants can help ensure that the Five Forces analysis relates to the company's strategy and doesn't get off track. They can "audit" the availability and use of information within the organization's risk management activities. They can validate that the annual budget includes resources for risk mitigation. They can also identify the need for new or improved competitive intelligence, educate top management on the need for a steady stream of reliable data and people with the talent to analyze the data to create the intelligence needed, and work with other functional areas to develop and improve competitive intelligence practices.

Strategic risk management. Strategic risk management is used to assess and manage the strategic risks as part of the strategic planning and strategic management process.

This article has been adapted from the new IMA Statement on Management Accounting, *Strategic Analysis—Methods for Achieving Superior and Sustainable Performance*, by Mark L. Frigo and Kip Krumwiede. The SMA's overall objective is to help management accounting professionals play a valuable leadership role in the strategic management and strategic analysis processes of their organizations. It emphasizes the importance of developing a connection and alignment between the strategy, strategy execution, budgets, and financial performance to create greater long-term sustainable value for shareholders and stakeholders. Download the full SMA at myima.org/SMA.

STRATEGIC ANALYSIS TOOLS AND FRAMEWORKS

The tools and frameworks discussed in the SMA are grouped into three categories: environmental scan and competitive analysis; internal/external strategic analysis; and innovation, change, and market disruption. Here's a list of all the tools and frameworks discussed, along with their purpose.

ENVIRONMENTAL SCAN AND COMPETITIVE ANALYSIS

- **Porter's Five Forces:** Identify potential market threats to a company's value proposition.
- **STEEP analysis:** Identify nonmarket trends and issues relating to the general social, economic, and political environment.
- **Scenario planning:** Stimulate creative thinking to better prepare for potential scenarios.
- **Strategic risk management:** Assess and manage the strategic risks as part of the strategic planning and strategic management process.

INTERNAL/EXTERNAL STRATEGIC ANALYSIS

- **SWOT analysis:** Match market opportunities with internal capabilities.
- **Value chain analysis:** Identify unique value propositions.
- **Strategy maps:** Develop and articulate the strategy of an organization in a simple visual form.
- **Gap analysis:** Highlight where an organization desires to be on one of its goals and where it will be if no changes are made.
- ***Good to Great*'s Hedgehog concept:** Describe the unique value proposition of a company.
- **Return Driven Strategy:** Assess how well strategies are aligned with ethically creating long-term sustainable value.

INNOVATION, CHANGE, AND MARKET DISRUPTION

- **Blue Ocean strategy:** Create an entirely new uncontested market space.
- **Creating shared value:** Create economic value that also creates value for society.
- **Disruptive innovation:** Disrupt the market by making something unique that creates new value for customers and the company.
- **Reverse innovation:** Innovate in a developing country and later sell the product in more developed countries.

Sometimes referred to as enterprise risk management (ERM), strategic risk management is a process for identifying, assessing, and managing risks and uncertainties that could inhibit an organization's ability to achieve its strategic objectives. With increased expectations from shareholders, regulators, rating agencies, and other stakeholders, nonexistent or underdeveloped strategic risk management plans can prove to be detrimental to a company's ability to create and protect value for its stakeholders.

Management accountants can help lead strategic risk assessments. They can also play a leadership role in developing key risk indicators (KRIs) as part of a company's strategic risk management and performance measurement system. KRIs might include number of defects for a manufacturing company or number of worker injuries.

SWOT analysis. SWOT analysis is typically used to identify opportunities for success in the context of threats and clarify directions and choices. After the strengths, weaknesses, opportunities, and threats from the outside environment are identified, the next step is to match the organization's strengths with market opportunities and then protect and develop its internal strengths (or develop weaknesses into strengths) to further leverage market opportunities.

Management accountants can aid the SWOT analysis by setting up processes for collecting and creating competitive intelligence to help keep it objective and current. They can use their skills in performance measurement to benchmark the company against competitors for identifying areas of strength or weakness. They can take opposing views in management meetings to constantly challenge long-held assumptions about the market. Finally, and perhaps most important, they can ensure that the SWOT analysis is performed regularly and updated frequently to help identify opportunities before it's too late to act.

Return Driven Strategy. Return Driven Strategy is a framework that provides a structure for reviewing, evaluating, and refining the strategies of a company with the goal of creating long-term sustainable value. The framework is based on extensive global research on high-performing companies that have achieved superior and sustainable return on investment while adhering to the ethical parameters of their constituents and communities.

Management accountants can apply the Return Driven Strategy framework to help develop focused growth strategies, review and evaluate those strategies, assess the company's plans and risks, communicate the strategy inside the company as well as to the board and investors, evaluate M&A opportunities, and form a strategy for the finance organization.

Blue Ocean strategy. A strategy planning approach focused on creating an entirely new market space, Blue Ocean strategy reconstructs industry boundaries to create a new market space and unlock latent demand. Because the company hopes to satisfy a consumer need or want that isn't yet established or is being developed in the industry, the company will need to create the demand. The only way a company can truly execute a Blue Ocean strategy is through innovation and being uniquely different. As W. Chan Kim and Renée Mauborgne, the developers of Blue

Ocean strategy, describe it: "Blue Oceans...are defined by untapped market space, demand creation, and the opportunity for highly profitable growth."

Management accountants can use Blue Ocean strategy to help companies identify and define new market space for innovation, higher- vs. lower-profit product offerings, and higher-value-added vs. lower-value-added costs. They can also encourage and facilitate Blue Ocean-type brainstorming sessions. It may require a shift in mind-set from a controller's traditional conservative outlook to say "no" to adopt a more innovative mind-set of trying to find a way to say "yes."

EMERGING FACTORS AFFECTING STRATEGIC ANALYSIS

There are many factors that affect the way organizations develop strategies today. A big one is sustainability. Integrating sustainability objectives into the strategic initiatives of an organization facilitates the alignment of strategy with long-term value creation. Another important factor is the speed of change. Disruptive forces can adversely impact a company or provide great opportunities of creating value.

It's also important to avoid the pitfall of short-termism in strategic analysis. Companies need to understand, manage, and align their long-term value drivers to achieve sustainable value creation, especially in today's constantly changing business environment. Further, investors should understand a company's long-term value-creating strategy to confidently commit to investing in that company.

Finally, an organization's culture, organizational structure, performance evaluation, and incentive system can greatly influence its success with strategic analysis and execution. Big companies may need incentives and organizational changes to foster more entrepreneurial spirit. One example is Haier's Win-Win Value Added approach (see Kip Krumwiede, Raef Lawson, and Lucy Luo, "Haier's Win-Win Value Added Approach," *Strategic Finance*, February 2019, bit.ly/2UOPlf6).

Haier encourages its employees to come up with new ideas and propose them to management. If management likes an idea, the employee(s) proposing it forms a microenterprise and receives resources and funding from the corporation similar to a venture capital-type venture. If successful, the team receives part of the profits. To track the value created by the microenterprise, the company uses an internal "win-win value added statement," which combines financial and nonfinancial data.

ACHIEVING SUPERIOR AND SUSTAINABLE PERFORMANCE

The main goal of strategy analysis is to develop a close alignment between strategy, strategy execution, and financial performance. CFOs and management accounting professionals can play a leadership role in innovation and strategy analysis (see Mark L. Frigo and Darren Snellgrove, "Why Innovation Should Be Every CFO's Top Priority," *Strategic Finance*, October 2016, bit.ly/2Qc76B8):

1. Develop a clear understanding of how value is created in your business through innovation, allocate resources in a more dynamic way, and innovate at an increasingly rapid pace in order to survive and thrive in today's environment.
2. Use your finance and business acumen to demonstrate compelling frameworks that help the organization understand the importance of strategic analysis, innovation, and execution.
3. Develop a deep understanding of the real value drivers from innovation in the business and align the resources and funding accordingly.
4. Understand what really creates value and measure it. This isn't as easy as it sounds. Don't make your measurements too complex, but also don't make them too simple or you may motivate the wrong behavior. A balanced approach to measuring success is key.
5. Become more agile by leveraging real-time predictive analytics to spot trends and opportunities.

Management accounting professionals can contribute to an innovation-minded strategy through a number of roles and opportunities:

- Learn about all aspects of the business and look for opportunities to pursue. Think big picture here.
- Look at the everyday tasks and look for ways to do them more quickly, or not at all. This will free up time to look for innovation ideas and do strategic analysis.
- Listen and note when someone identifies a problem that needs solving.
- Learn about new trends and technologies in your industry. Are there "technology road maps" for your industry?
- Suggest incentive and organizational changes to foster more entrepreneurial spirit, such as Haier's Win-Win Value Added approach.

Knowing how to perform strategic analysis isn't enough. It requires applying the right tools and frameworks to create value in your organization. Develop action items to improve strategic analysis in your company. Choose one or two of the tools in the SMA and give them a try. Start with incremental steps where you can build your confidence and gain support from others. If it shows potential, be a champion for its use in your company, as there will probably be organizational resistance. After you have some momentum, work on gaining support for the tools in your company, especially among top management. SF

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