

STRATEGIC MANAGEMENT ACCOUNTING AND CONTROLS

- ppt for next week
- reading pack

assignment 1

- report & presentation due dec 23 (firm decide)

check for ppt

*

ACCT7310

- next week dec 16
- another classroom
- post on webpaper

- next week SMA tools

- costing, budgeting ...

ASSIGNMENT 1

- **Form groups for assignment 1 and assignment 2 and group project**
- **Select firm of your choice for assignment 1 and 2 and group project**

- **Assignment 1 – 7%**
- **1-2 page report (not more than 5 pages) distributed to all**
- **15 minutes presentation**
- **Task: Discuss and evaluate the current strategy of your firm**
- **Due Monday December 16 / 23, 2019**

ASSIGNMENT 2

- **Assignment 2 – 8%**
- **1-2 page report (not more than 5 pages) distributed to all**
- **15 minutes presentation**
- **Task: Given the current strategy of your firm from Assignment 1, discuss and evaluate SMA control and decision making tools that your firm is using**
- **Due Monday February 10, 2020**

GROUP PROJECT

- **Final group project report (15%) and presentation (10%)**
- **Report not more than 10 pages**
- **20 minutes presentation**
- **Task: Extending from Assignment 1 and 2, several future strategies are determined for your firm. Discuss and evaluate SMA and other tools that should be implemented**
- **Due Monday March 2, 2020**

WHAT IS SMA

WHAT IS MANAGEMENT ACCOUNTING

HKICPA "FA"

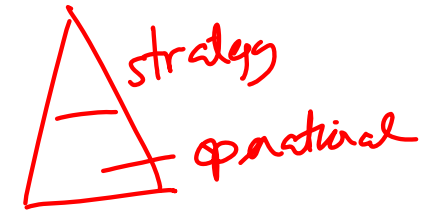
((**Financial Accounting** *)*

Managerial Accounting

	Financial Accounting	Managerial Accounting
1. Users	✓ External persons who make financial decisions	Managers who plan for and control an organization
2. Time focus	<i>"</i> Historical <i>"</i> perspective	Future emphasis
3. Verifiability versus relevance	Emphasis on <i>"</i> verifiability <i>"</i>	Emphasis on relevance for <i>"</i> planning and control <i>"</i>
4. Precision versus timeliness	Emphasis on <i>"</i> precision <i>"</i> <i>audit</i>	Emphasis on <i>"</i> timeliness <i>"</i>
5. Subject	Primary focus is on the <i>"</i> whole organization <i>"</i>	Focuses on <u>segments</u> of an organization
6. GAAP	<i>discretion</i> Must follow <u>GAAP</u> and prescribed formats	<i>cash</i> Need not follow GAAP or any prescribed format
7. Requirement	Mandatory for external reports	Not Mandatory ✓

WHAT IS "STRATEGIC" MANAGEMENT ACCOUNTING

相親



- Management accounting can be expanded to be used in:
 - Operational management (day-to-day short term, control and implementation of strategy)
 - * Strategic management (input for long term strategic decisions)
costs in control *existing strategy*
future *
- Operational management
 - Control of day-to-day costing, reporting, and other operational matters
 - Performance measurement and evaluation *control of performance reward*
 - Control of implementation of strategy
 - "Budgets, costing systems, variance analysis"
- "Strategic management"
information useful & relevant
 - Inputs to "strategic" decision making through the generating and evaluation of strategic choices / options and the selection of the strategies
 - Plus CVP, target costing, life cycle costing

NATURE OF SMA INFORMATION

"JUSCO" SUPERMARKET FOOD
TASTING IN ISLE



"Nature" of SMA information

- Financial (main focus of tools so far) * CMA \$
- Non-financial (need more focus and development) * quality
time

Characteristics of SMA information

- Specific (measurement problem if non-financial and / or qualitative like: What to measure? How to measure? How to know good or bad? Better measurement alternatives?)
warranty claim \ recall # customer survey
- Future-oriented (future outcome unknown so how to determine suitable risk and reliability level or range and probabilities)
- Timely (trade off between usefulness and timeliness)

financial

investment expected rth = +20% pa

(a) +30% 50% prob
- +10% 50% prob

(b) +100% 50% prob
- 60% 50% prob.

average
- range
- prob

non-financial

doctor:

12 day 50% prob

hospitalize approx 10 days

10 day 50% prob

* die 50%

+ ²⁰~~50~~ day 50%

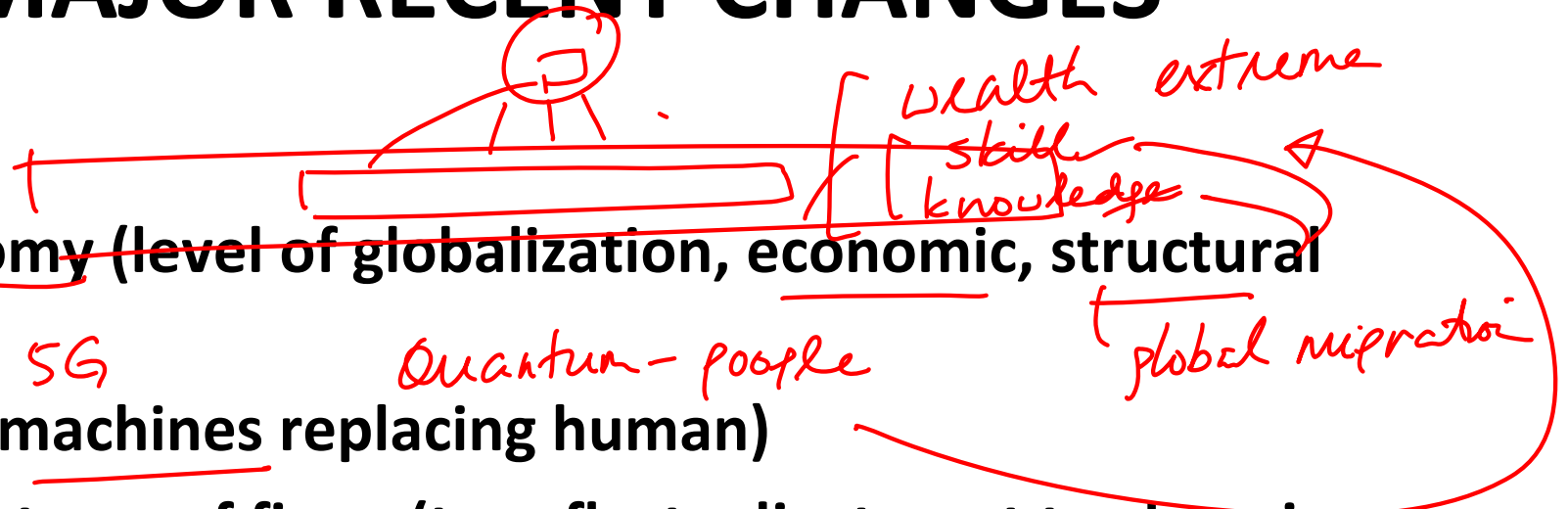
HOW CAN **SMA** CREATE VALUE

- Providing information that captures *non-financial* financial and non-financial information from the internal and EXTERNAL environments to assist management with **EFFECTIVE RESOURCE ALLOCATION**
- Support the formation, selection, implementation, and evaluation of organizational strategy by management
- VALUE CREATION (through existing operation and future strategic directions)
- Sustainability (not only for firm but also for environment and CSR)

MAJOR RECENT CHANGES

- Global economy (level of globalization, economic, structural change)
SG *Quantum-people* *global migration*
- Technology (machines replacing human)
- Internal structures of firms (to reflect adjustment to changing external environment)
- Sustainability ?????

air pollution in Beijing



INCLUDING

- **Conflicting perspectives between ^{CSR}society's and environmental view of goals and value**
- **Stakeholder approach**
 - Perspective of stakeholders' value
- **Environmental management accounting system (EMAS)** ↗
- **Non-profit entities**
 - Public sector organizations
 - Non-government organizations (NGOs)
 - Charities

→ shares fin
global warming
CO₂

RISK MANAGEMENT SYSTEM

Steps to manage risks:

npv

huawei

• Risk identification

- Management accounting system (MAS) should be able to identify and provide risk information
- **BUT** might have other risks that are outside the accounting system (political, earthquake, meteorite, unknown unknown risks) *risk not yet found discovered*

• Risk classification based on severity (\$ or qualitative) and probability

• Measure

not do it

small branch

buy insurance

• Management risk: avoid, reduce, transfer, acceptance

• Monitor

SHORTCOMINGS OF MANAGEMENT ACCOUNTING SYSTEM

not a SMA

Timing	Management accountants focus on the production stage, not the design stage when the key decisions are made.
Controllability	Focus is on direct costs, rather than overheads, when overheads are more difficult to control. MAS information does not address/solve problems.
Different assets	Systems have difficulty measuring non-tangible assets and how they affect resource allocation and strategic value.
Customers	Systems fail to analyse how customers drive costs.
Cost reporting	Reporting reflects functional structure rather than processes that drive costs and cut across functions.
Overhead cost allocation	Allocations based on labour hours are inappropriate for many modern non-labour intensive processes. Activity-based costing may be a better method. Cost of waste should not be allocated.
Standard costing	Inappropriate where flexibility/customisation/service are important.

SHORTCOMINGS OF MANAGEMENT ACCOUNTING SYSTEM

Short-term financial measures

Take too long to produce/too narrow.

Cost accounting methods

Emphasis on quantifiable financial benefits at expense of non-quantifiable or non-financial benefits.

Variances

Can produce inappropriate responses (excess inventory).

Investment appraisal

Fail to consider financial constraints/strategic issues.

Transfer pricing

Problems resolving conflict between economic price and inappropriate behaviour.

Balanced scorecard

Range of measures, links with strategy, but difficult to understand/gain overall impression.

Environmental reporting

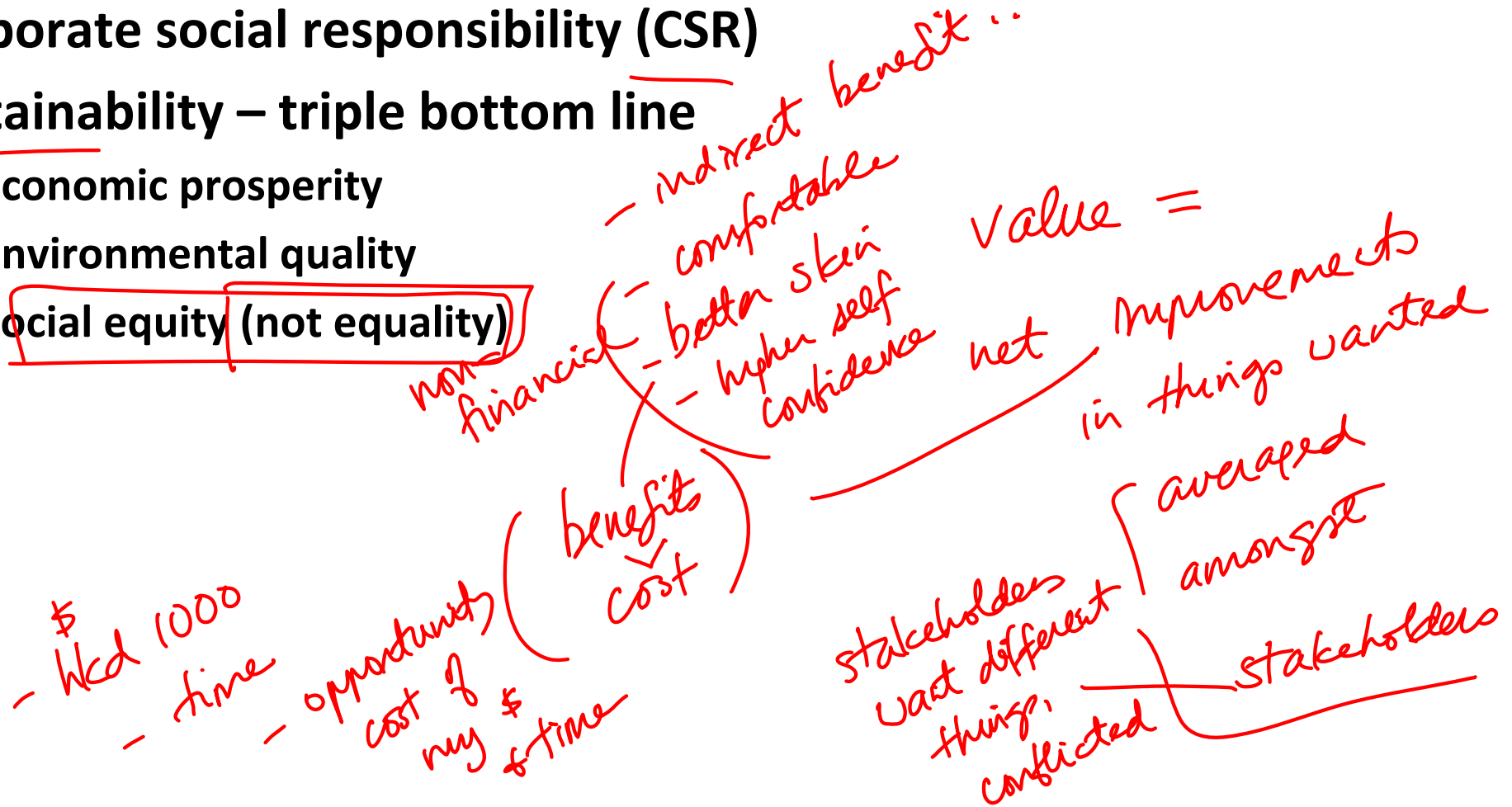
Full cost accounting including hidden costs, contingent liabilities, rectification costs, emissions cost, waste cost, consumption of raw materials, value-added analysis, and total cost of ownership.

HOW TO CREATE “VALUE”

BOUNDARIES ?

- Ethics
- Corporate social responsibility (CSR)
- Sustainability – triple bottom line

- Economic prosperity
- Environmental quality
- Social equity (not equality)



VALUE DRIVERS

How can value be created?

* "Collaboration"

* Innovation

• Efficiency

* "Market awareness"

• Which driver(s) do SMA focuses on?

"JIT"

not discovered from accounting, by operation

cooperate w/ others, JV, affiliates

* - huawei 5G

- drug & medicine

ByteDance

- disney movies

variance calc

new ideas

based on existing / customer wants

future MAS

"KEY FACTORS" THAT CREATE VALUE

- Strategy → food
- Collaboration ✓
- Satisfaction
- Quality
- Innovation ✓
- "Time" → (mkt awareness efficient)

~~drive~~
drivers

- food looking face
- food looking nose
- not fat body
- Well off
- can travel 3x a year
- nice
- nice to parents

"¹ ROLE OF MA IN VALUE CREATION ¹"

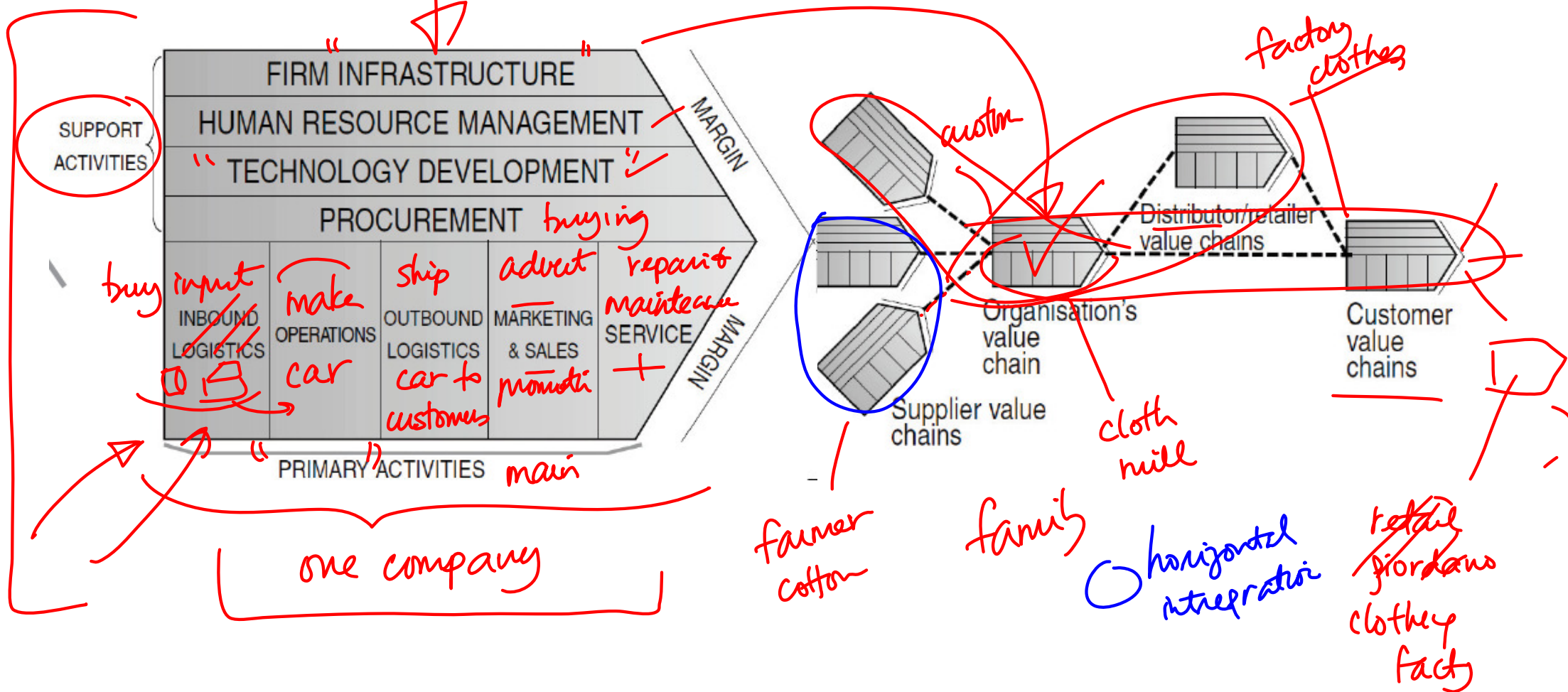
What does MA / SMA provide within the value creation process?

- [?] "Identify and [?] measure" value drivers
- Measure inputs and outputs of value-creating activities
- Plan for, control, and maximize value creation (through innovation)
- Eliminate non-value adding activities

— efficiency
— inward looking

VALUE CHAIN APPROACH

- " *one firm* " Organizational value chain => industry value chain system



VALUE CHAIN APPROACH

Ten Cent
try to
cooperate
industry

players (suppliers, customers, competitors)

can create value"

- Organization value chain – firms can secure competitive advantage in several ways:
 - Invent new or better ways to do activities *JIT, 6 sigma*
 - Combine activities in new or better ways *online ordering*
 - Manage the linkages in its own value chain *one firm only*
 - Manage the linkages in the value system *by itself*
- At industry value chain level, can use
 - Direct method (vertical or horizontal integration) *supplier/customer (make or buy) merge w/ someone buy/merge w/ competitors*
 - Indirect method (bargaining power, co-ordination, relationships, alliances, joint ventures)
- More effective to manage industry value chain than each member maximizing their own efficiency in isolation "BUT TRUST and "GAME THEORY" and Social political elements must be considered "

STRATEGIES

WHAT IS STRATEGY?

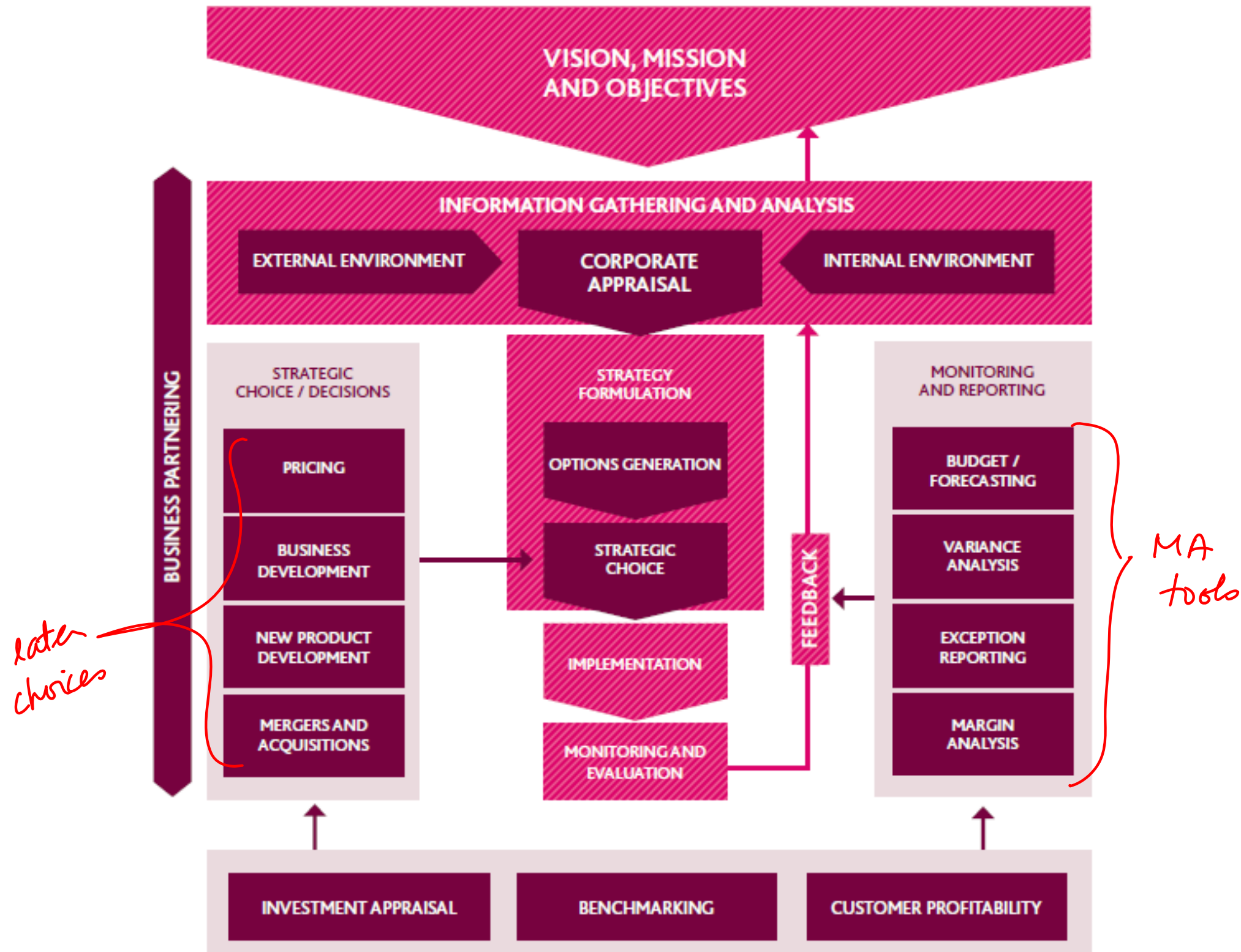
- Strategy is the **direction and scope** of an organization over the long term, which **achieves advantage** in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. Strategic decisions are made under conditions of complexity and uncertainty, they have wide impact on the organization and often lead to major change.
- How to be a successful firm ?
- Successful = ?

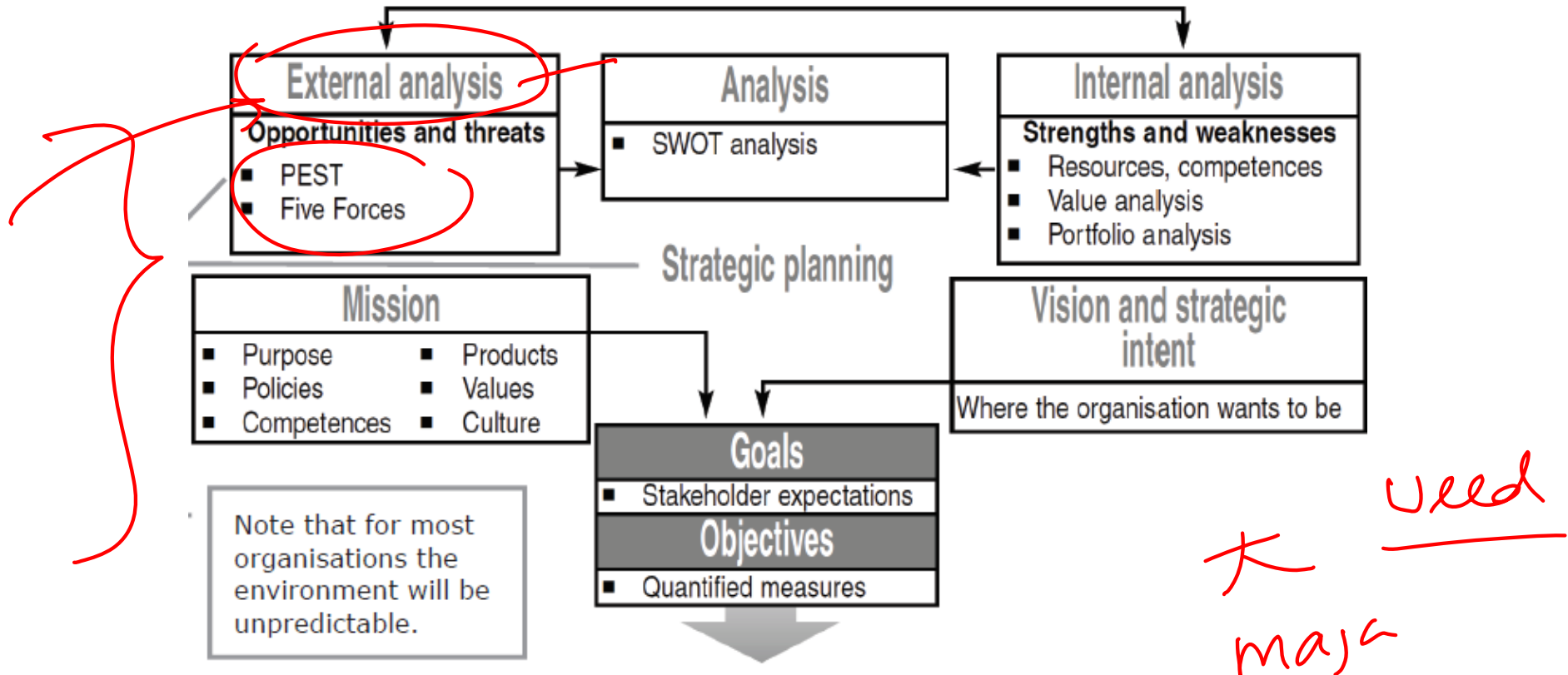
Huawei

ByteDance

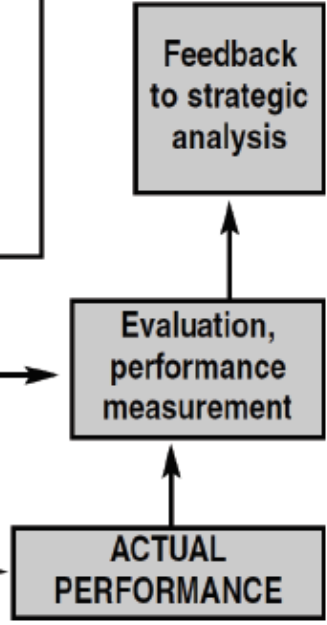
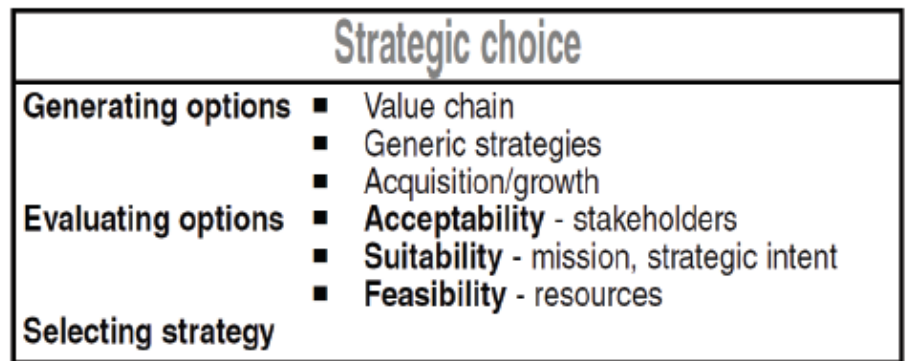
Telsa china

字节跳动





module 2



TOOLS

- *external*
Macro / global environment analysis *
 - Global trends
 - Global demographic / country / industry trends
 - Full environment analysis = PESTEL *

- it affects everyone
- no one can affect
- *external*
Industry analysis *
 - Porter's five forces *

— it affects only your industry
— you might affect what is in the industry
- Company analysis *

internal

 - SWOT = overall firm analysis
 - Value chain analysis (firm and industry value chain)
 - Product life cycle = from macro industry to micro product levels
 - BCG matrix = manage multi-product firms
 - Ansoff matrix = how to achieve growth
- Company strategy
 - Porter's cost leadership vs differentiation

internal analysis

MACRO ANALYSIS **PESTEL**

In addition to the five industry forces identified by Porter (1985), other opportunities and threats must be analysed. The **PEST** framework is based upon six factors: **p**olitical, **e**conomic, **s**ocio-cultural, **t**echnological, **e**nvironmental protection and **l**egal.

Political/legal factors

Governments oversee the framework in which business operates eg physical, social and market infrastructure.

Many aspects of business activity are subject to legal regulation:

- Contracts
- Health and safety
- Employment
- Tax

Other aspects are regulated by supervisory bodies.

Economic factors

These operate in both a national and international context. Relevant factors include:

- Inflation rates
- Employment rates
- Interest rates
- Tax levels
- The business cycle
- Growth/fall of GDP
- Savings levels
- Exchange rates
- International trade
- Capital markets

Political change and political risks affect the planning activities of many businesses.

Government policy

- Fiscal policy (taxes, borrowing, spending).
- Monetary policy (interest rates, exchange rates).
- Size and scope of the public sector.

MACRO ANALYSIS PESTEL

Social/environmental factors

Demographic changes have clear implications for patterns of demand. They also affect availability of labour. Can also affect recruitment policies.

Culture in society provides a framework for understanding beliefs and values, and creates patterns of human activity. It influences **tastes** and **lifestyles**.

Technological factors

Many strategies are based on exploiting technological change (e.g. the Internet and e-commerce). Others are defences against such change (e.g. emphasising service or quality when a competitor introduces a major technical development).

Technological developments affect all aspects of business (especially IT developments).

- New products and services become available.
- New methods of production and service provision.
- New ways of selling (e-commerce).
- Improved handling of information in sales and finance.
- New organisation structures to exploit technology.
- New media for communication with customers and within the business (e.g. the Internet and email) facilitates business becoming global.

MACRO ANALYSIS PESTEL

"Legal"

Environmental protection

Pressure coming from many quarters:

- Green pressure groups
- Employees
- Corporate Social Responsibility
- Legislation
- Environmental risk screening
- Shareholders

Possible green issues for businesses to consider:

- Consumer demand for environmentally friendly products.
- Greater regulation by governments and international bodies.
- Businesses may be charged for the external cost of their activities.
- Scarcity of non-renewable resources.
- Sustainability of operations.
- Opportunities to develop new environmentally friendly products and technologies (gain competitive advantage).

Example

- Huawei – **5G and infrastructure**, phones
 - P – trade war, China support to be main standard vs US *private*
 - E – huge growth and upside potential as many application but if locked out?
 - S – many social factors dependent on 5G connections, political support for own country?
 - T – the main driver to become international standards for future''
 - E – not too much
 - L – US system vs China system

Example

- ByteDance – news and **TikTok**

- P – trade, financial, and data security war

- E – growth potential but short lived, WeWork repeat? No profit yet, recurring success?

uber lyft

- S – huge potential growth in social media but need the right software, back slash from data security and privacy issues?

ethnics

- T – 5G development leads to next type of technologies?

- ~~– E – not too much~~

- L – where is the data stored and access rights

Example

- Telsa **China** – electric cars

- P – trade war, tariff protection, exchange of benefits
- E – China market extremely saturated, cut throat competition within China
- S – environmental friendly but Chinese willing to pay the premium?
- T – Chinese electric cars have better value, hydrogen powered cars
- E – is electric cars really environmental friendly?
- L – exposed to high legal risk as operating in China

prestige

INDUSTRY ANALYSIS

PORTER'S FIVE FORCES MODEL

Porter says that **five forces** together determine the long-term profit potential of an **industry**. *prob of earning high profits in the industry*

4 Bargaining power of suppliers

Depends on:

- Number of suppliers
- Threats to suppliers' industry
- Number of customers in the industry
- Scope for substitution
- Switching costs
- Selling skills

Suppliers seek **higher prices**

1 Threat of new entrants

This is limited by **barriers to entry**

- Economies of scale
- Switching costs
- Patent rights
- Product differentiation
- Access to distribution
- Access to resources

5 Rivalry among current competitors

Depends on:

- Market growth
- Spare capacity
- Uncertainty about competitors' strategy
- Buyers' ease of switching
- Exit barriers

2 Threat from substitute products

A substitute is produced by a different industry but satisfies the same needs

3 Bargaining power of customers

Depends on:

- Volume bought
- Scope for substitution
- Switching costs
- Purchasing skills
- Importance of quality

Customers seek **lower prices**

Example

1 road (belt)

high \Rightarrow high chance of "power" of part

- Huawei – 5G and infrastructure, phones

- New entrants – high as need penetration and technical expertise
- Substitute products – high as now other alternative except if standard based on US
- ? – Customer power – low if do not want Huawei system but will be behind
- Supplier power – high as moving towards using self made parts instead of relying on foreign suppliers for parts
- Internal rivalry – extremely low as US government sees it as a way to control future online access

4.5g . satellites

no competitors high

Example

snapchat

- ByteDance – news and TikTok

QQ

- New entrants – low as easy to program

- Substitute products – low as facebook, Instagram and others have similar offerings

- Customer power – low as almost no switching cost

- Supplier power – not applicable

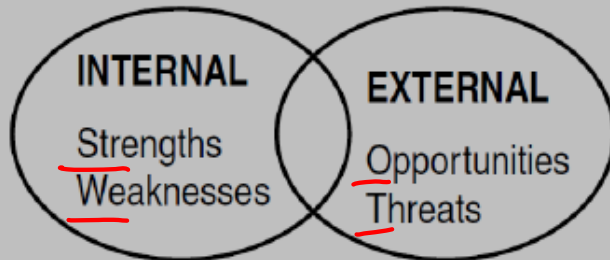
- Internal rivalry – low but customer hard to read and entice

Example

- Telsa **China** – electric cars
 - New entrants – high due to high capital investments required, government and funding availability?
 - Substitute products – low as many cheaper alternatives non-electric cars, high speed rail, DiDi *gas*
 - Customer power – low as many cheaper choices in both electric and gas cars *needed car and*
 - Supplier power – medium as many parts self made, other input parts, labor, land, electricity
 - Internal rivalry – high but reducing as other imported prestigious brands have electric offerings

COMPANY ANALYSIS SWOT ANALYSIS

(also known as **corporate appraisal**) is a review of:

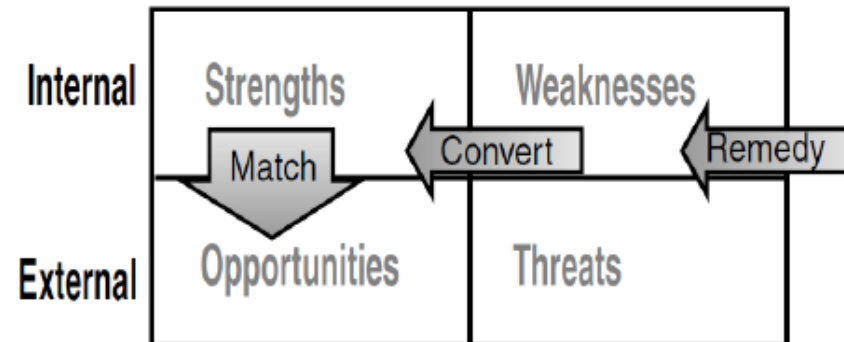


and how they can be related.

Useful tools supporting SWOT analysis

- Product life cycle analysis.
- BCG matrix.
- Five forces.
- PEST analysis.

The results can be combined in guiding strategy formation.



SO strategy – employ strengths to seize opportunities

WT strategy – defensive, avoid threats and impact of weaknesses

Note the varying resource implications of these strategies.

Conversion applies in two ways – remedying weaknesses and managing threats so as to reveal opportunities.

Example

- Huawei – **5G and infrastructure**, phones
 - Strengths – technology developed
 - Weaknesses – reliance on non-China parts supplier, reliance on foreign government approval of use of technology
 - Opportunities – controlling the 5G technology standards as 5G not like 4G
 - Threats – political reason not to be accepted and used by countries

Example

- ByteDance – news and **TikTok**

- Strengths – existing users, growth, and popularity
- Weaknesses – many similar offerings current and potential, "user peaked"
- Opportunities – 5G allows further content exchange *vr based data*
- Threats – user taste change and move to other type of apps

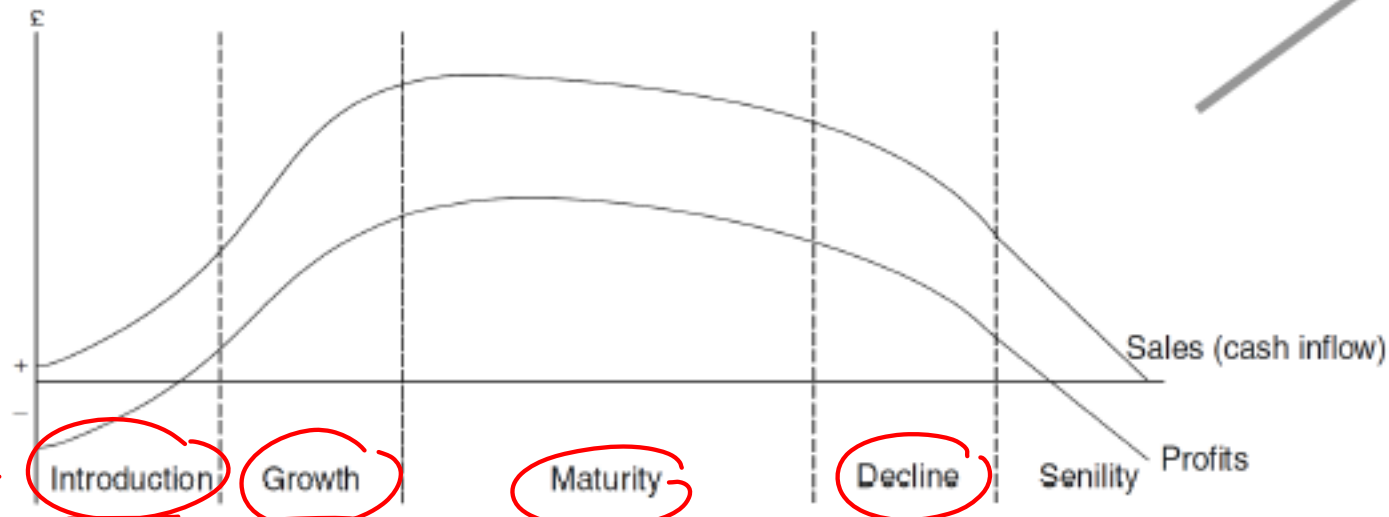
Example

- **Telsa China** – electric cars

- Strengths – “premium” brand name, more establish and more reliable
- Weaknesses – price, founder, parts availability, charging station availability
- Opportunities – electric pickups and trucks, solar panels
- Threats – other China made electric cars that are cheaper, hydrogen powered cars, political reasons

COMPANY ANALYSIS PRODUCT LIFE CYCLE

1 Product life cycle



Test & track

nature

Introduction: development, marketing and production costs high; sales volume low; loss maker; negative cash flow.

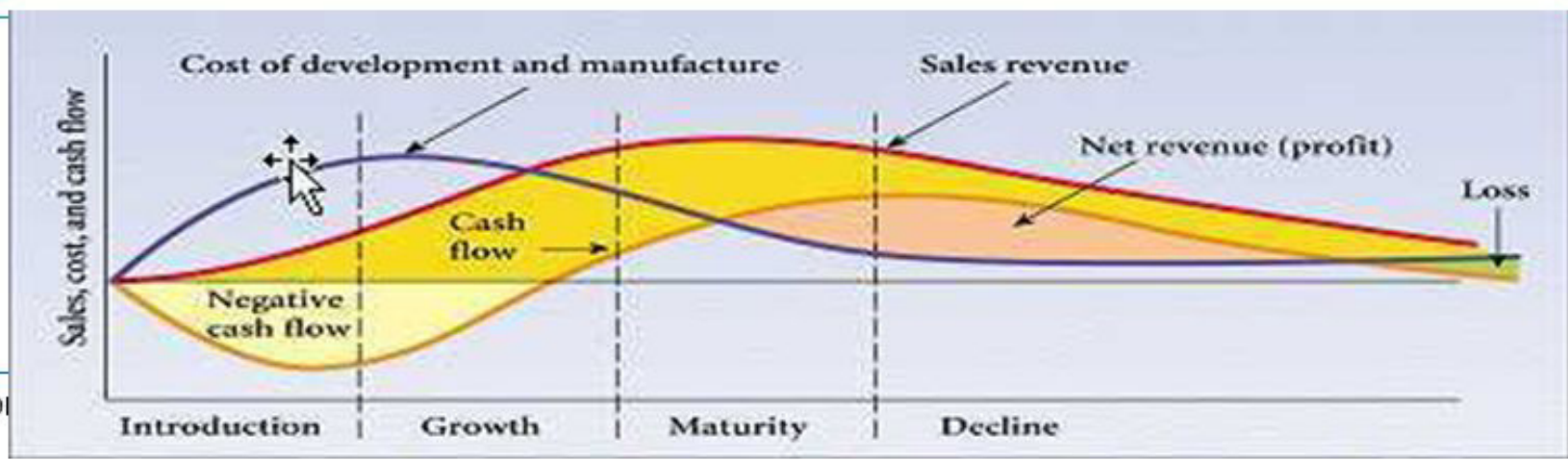
Growth: sales volumes accelerate, profits rise, but cash flow likely to remain negative; competitors enter the market. High advertising costs. Add additional features to product.

Maturity: longest period; no market growth but profits good, and cash flow positive; reminder promotions only.

Decline: product superseded; sales fall, over-capacity in industry; some players leave market. Those that remain try to find niches.

Marketing Strategy Over the Product Life Cycle

	INTRODUCTION	GROWTH	MATURITY	DECLINE
<u>Marketing strategy emphasis</u>	Market development	Increase market share	Defend market share	Maintain efficiency in exploiting product
<u>Pricing strategy</u>	High price, unique product / cover production costs	Lower price over time	Price at or below competition	Set price to remain profitable or reduce to liquidate
<u>Promotion Strategy</u>	Mount sales promotion for product awareness	Appeal to mass market	Emphasize brand differences, benefits & loyalty	Reinforce loyal customers; reduce promotion costs
<u>Place strategy</u>	Distribute through selective outlets	Build intensive network of outlets	Enlarge distribution network	Be selective in distribution, trim unprofitable outlets

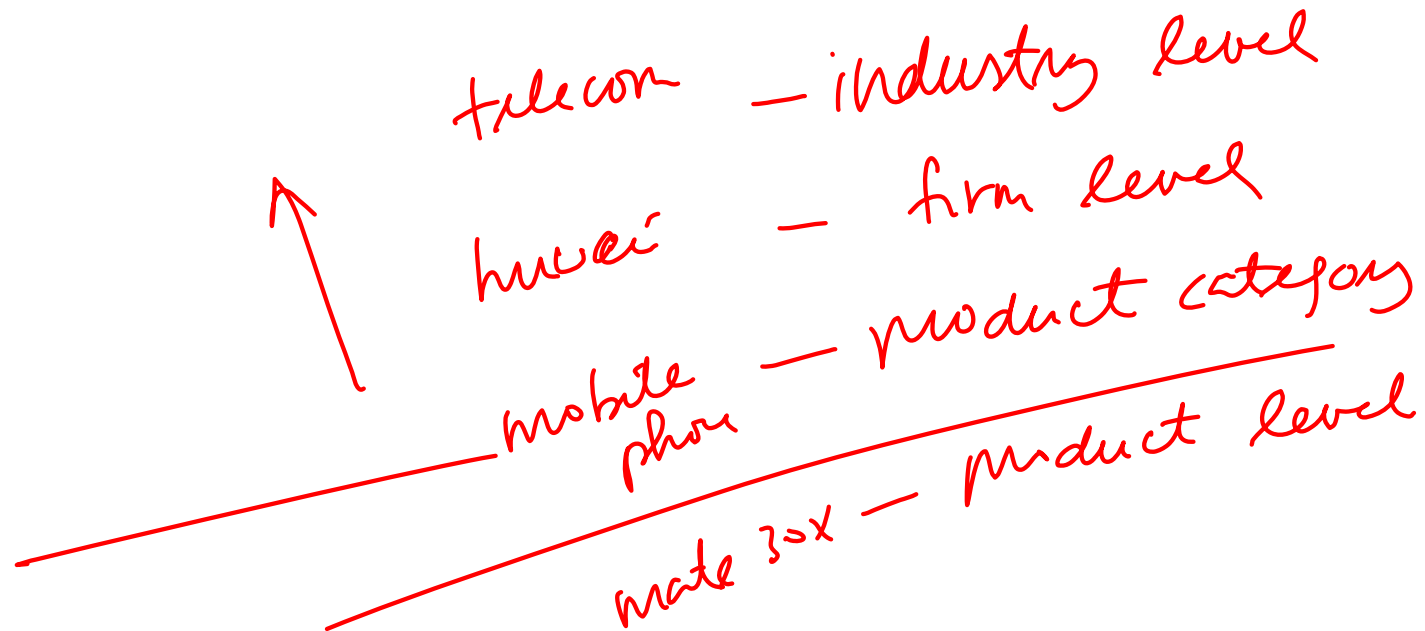


	Introduction	Growth	Maturity	Decline
“ Characteristics ”				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
“ Strategies ”				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and innovators	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain most loyal customers
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Example

- Huawei – **5G and infrastructure**, phones

- Introduction
- Growth
- Maturity
- Decline



Example

- **ByteDance – news and TikTok**
 - Introduction
 - Growth
 - Maturity
 - Decline

Example

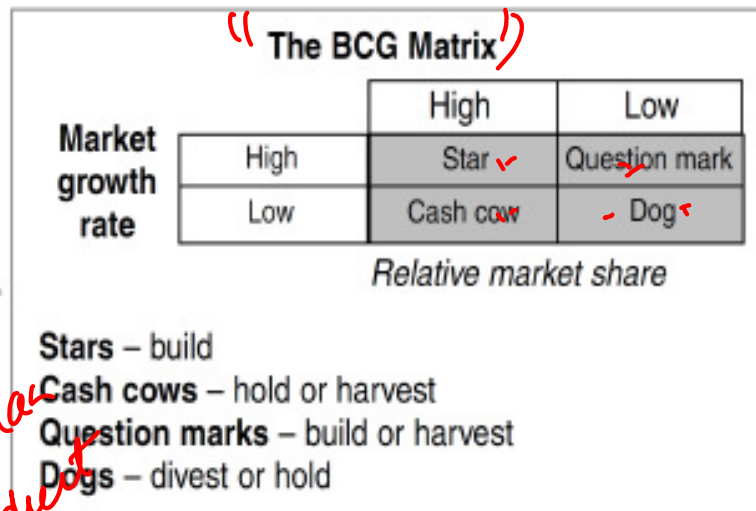
- **Telsa China** – electric cars
 - Introduction
 - Growth
 - Maturity
 - Decline

COMPANY ANALYSIS BCG MATRIX

Portfolio analysis is applicable to products, market segments and Strategic Business Units (SBUs). There are four basic strategies:



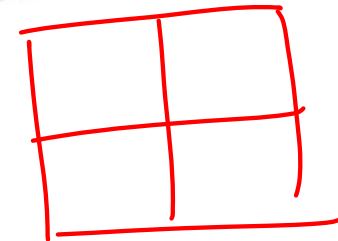
TikTok



product mix model - more than one product

Problems with the BCG matrix

- Simplistic.
- Strong brand may give competitive strength despite relatively low market share.
- Ignores innovation.
- Dogs and question marks may be needed to complete a range.
- High market growth assumed to be attractive. But will require significant investment which may not be available.
- Ignores competitors other than market leader.
- Does not indicate overall best mix or how to build stars and question marks



Importance of having a balanced portfolio:

- ▶ stars to assure the future
- ▶ cash cows to supply funds to support future growth
- ▶ question marks to be converted into stars.

Parallels with product life cycle:

- ▶ stars – growth phase
- ▶ cash cow – mature phase.

Example

- Huawei – **5G and infrastructure**, phones
 - Star
 - Cash cow
 - Question mark
 - Dog

Example

- **ByteDance – news and TikTok**
 - Star
 - Cash cow
 - Question mark
 - Dog

Example

- **Telsa China** – electric cars
 - Star
 - Cash cow
 - Question mark
 - Dog

COMPANY ANALYSIS

ANSOFF ANALYSIS (ORGANIC GROWTH)



Example

- **Huawei – 5G and infrastructure, phones**
 - Market penetration
 - Market development
 - Product development
 - Diversification

Example

- **ByteDance – news and TikTok**
 - Market penetration
 - Market development
 - Product development
 - Diversification

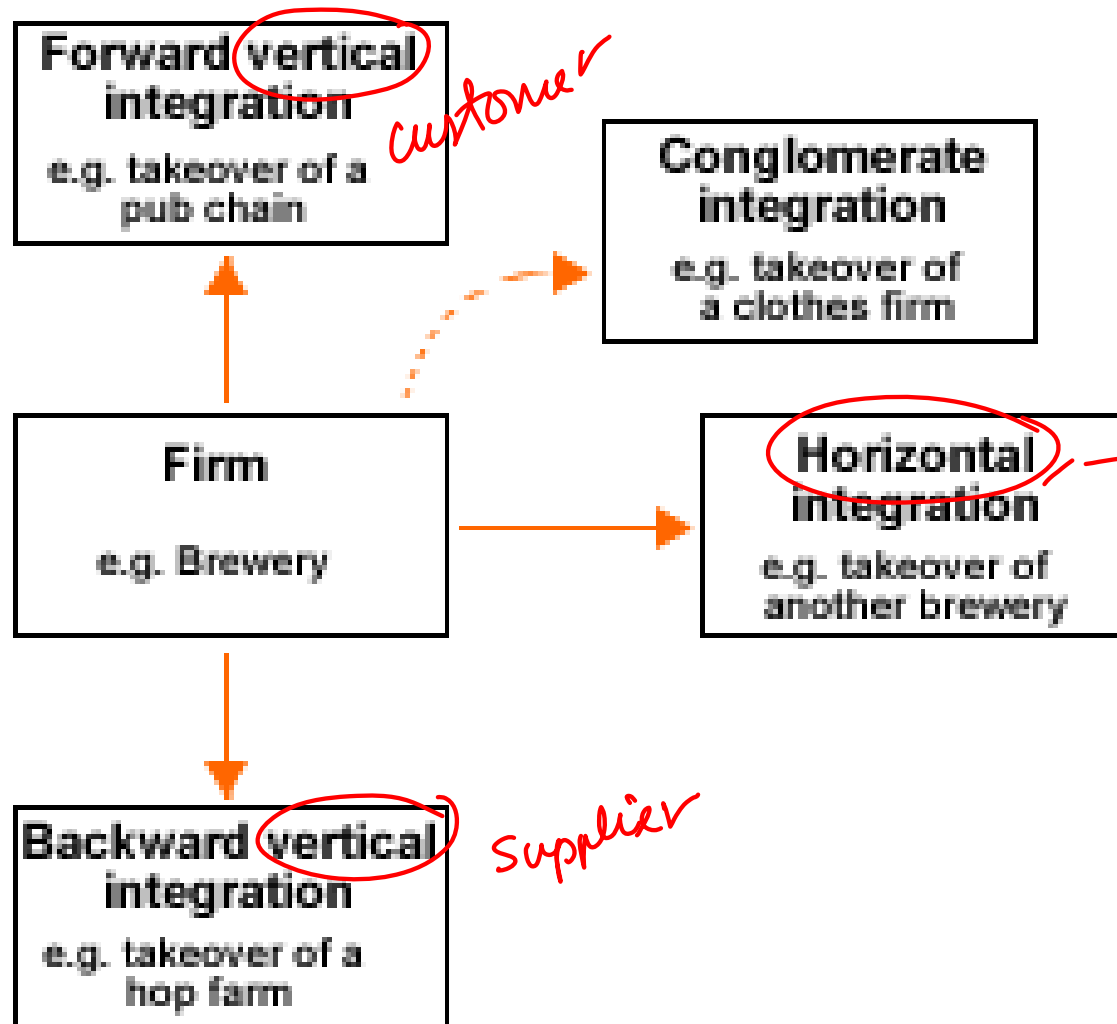
Example

- **Telsa China** – electric cars
 - Market penetration
 - Market development
 - Product development
 - Diversification

COMPANY ANALYSIS

GROWTH VIA ACQUISITION

Types of merger



- good - fast
- ↓ competitors
- lock up supplier / customer

- competitor

- bad - costly
- integration

Example

- **Huawei – 5G and infrastructure, phones**
 - Vertical integration opportunities
 - Horizontal integration opportunities

Example

- **ByteDance – news and TikTok**
 - Vertical integration opportunities
 - Horizontal integration opportunities

Example

- **Telsa China** – electric cars
 - Vertical integration opportunities
 - Horizontal integration opportunities

COMPANY STRATEGY

COST LEADERSHIP VS DIFFERENTIATION

Developing a business strategy (Porter, 1980)

Toyota
Cost leadership

*cheaper
analogy*

Texaco
Differentiation

*Apple ip**

aims to be the lowest cost producer in the industry as a whole.

aims to exploit a product perceived as unique within the industry as a whole.

Aspects of cost leadership

- Economies of scale.
- Use the latest production technology (capital investor) or cheap labour.
- Productivity improvement.
- Minimisation of overheads.
- Favourable access to inputs.

FOCUS

satellite, folded phone

Aspects of differentiation


- **Breakthrough** products – radical performance advantage.
- **Improved** products – superior performance at a competitive price.
- **Competitive** products – unique combinations of features:
 - Brand image.
 - Special features.
 - Unique combination of value activities.

Activity is restricted to a particular **segment** of the market. Either a cost leadership or differentiation strategy is then pursued. Such concentrated effort can be more effective, but the segment may be attacked by a larger firm.

COMPANY STRATEGY

COST LEADERSHIP VS DIFFERENTIATION

- **Cost leadership**

- Economies of scale
 - Economies of scope
 - Economies of learning
 - Efficient production
 - Simpler product design
 - Better sourcing
 - Lower input costs
 - Efficient organizational process
- 

- **Above average profit at same price as competitors**

- **Force competitors to cut price and lower return or exit the industry**

COMPANY STRATEGY

COST LEADERSHIP VS DIFFERENTIATION

- **Differentiation**
 - Identify attributes that customers value
 - Position to meet these attributes in a unique manner
 - At a cost lower than the additional price customer willing to pay
- **Intrinsic value**
 - Product quality
 - Product variety
 - Bundled services
 - Delivery timing
- **Signal of value = brand image, product appearance, reputation**
 - Investment in R&D
 - Engineering skills
 - Marketing capabilities

SUSTAINING COMPETITIVE ADVANTAGE

- **Sustaining difficult to do**

- Copy by competitors

- Explicit barriers = patents or other legal protections

- Implicit barriers = switching costs or first mover advantage

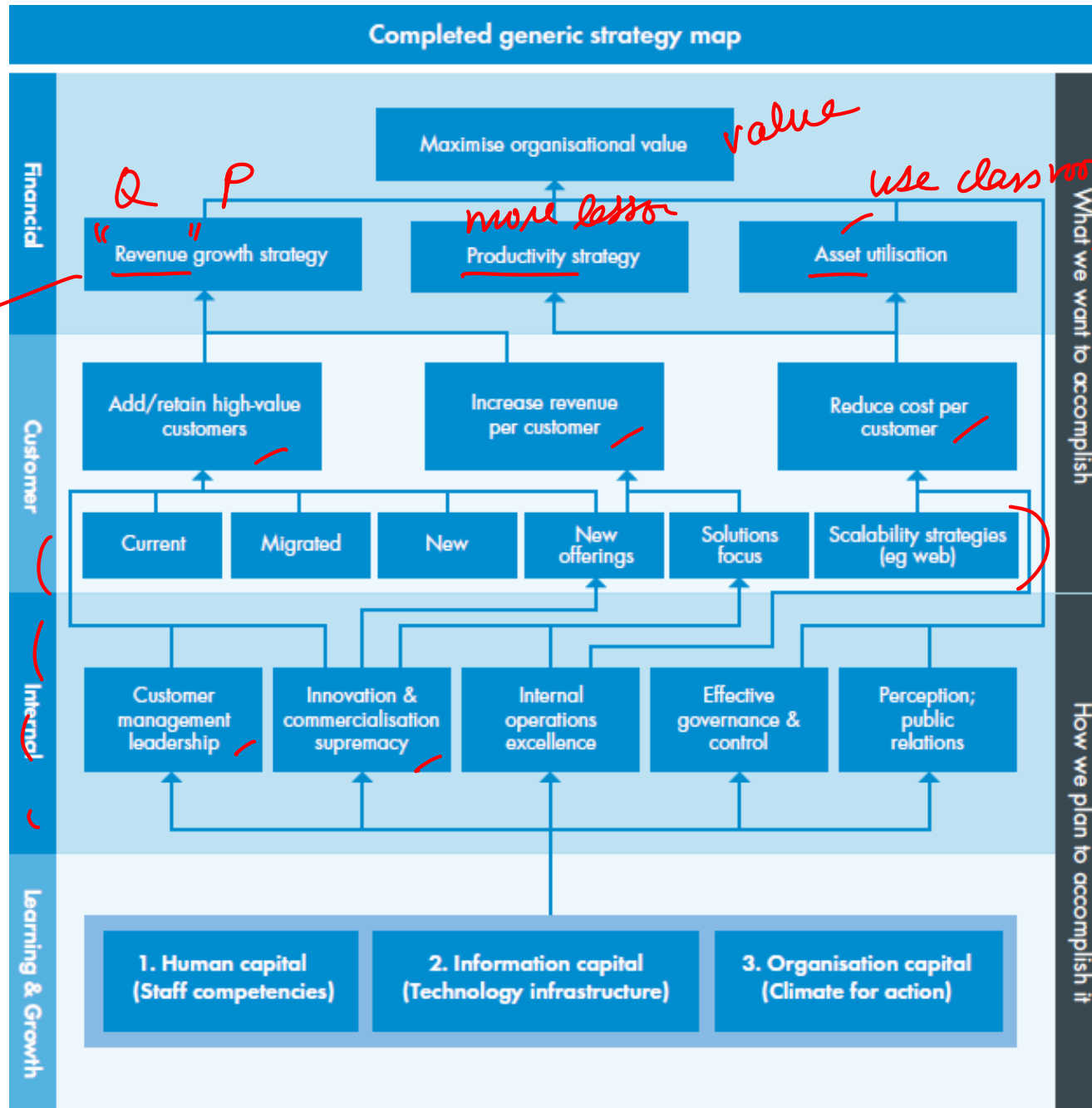
- Change in environment = market, technology, customer, legal

high switch cost
outlook software

calendar - email

STRATEGIC POSITIONING

future potential more in strategic class



provide english lesson

fa

value

more lesson

use classroom