Strategy models and frameworks

A brief description of the models and an indication of the role of management accounting.

The skill set and techniques available to the management accountant can support the strategic management process in many ways. When using certain strategy models/frameworks or tools, whatever we choose to label them, some accounting techniques are more appropriate than others, but in general the skills of investigating, analysing, evaluating, and disseminating information are invaluable to any strategic management process.

The table below highlights some of the strategy models and frameworks that could be used by managers and notes any specific areas where management accounting is particularly helpful. It should be recognised that the table provides a brief description only and that there are benefits and drawbacks associated with each model/framework that are not discussed here.

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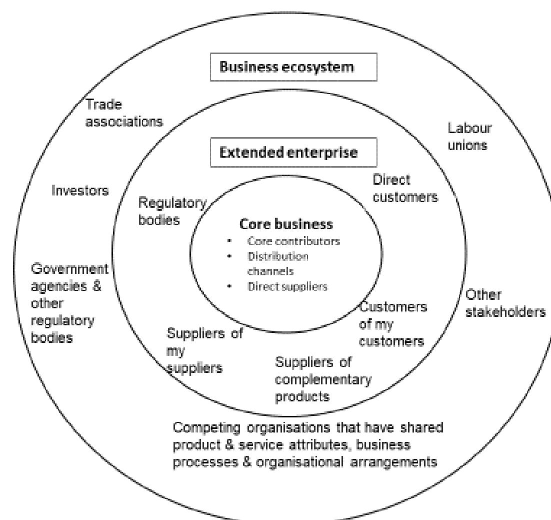
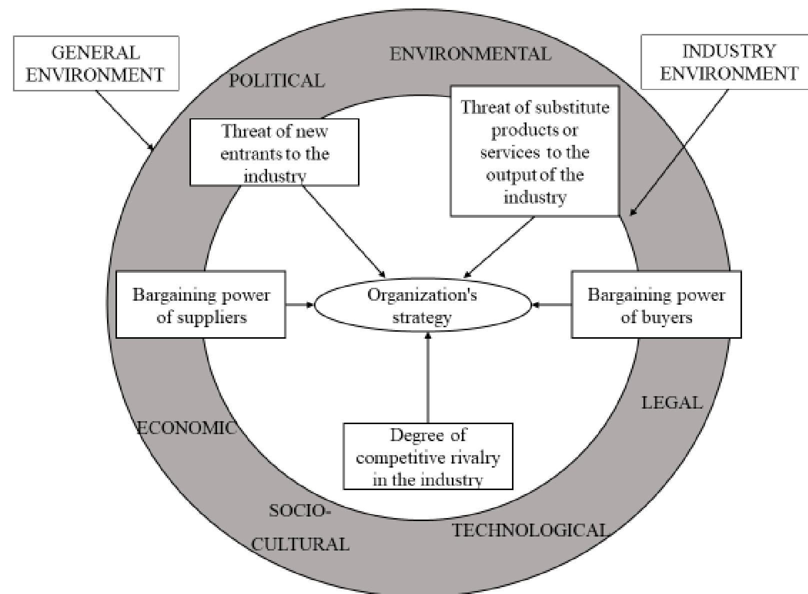
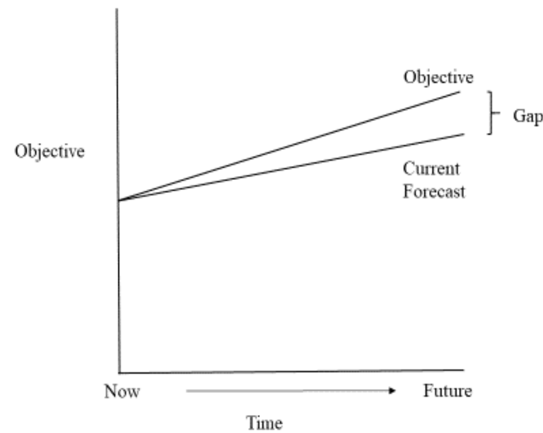
Strategy model/framework	Brief description and role of management accounting
PESTEL	Political, Economic, Socio-cultural, Technological, Environmental (sustainability), Legal PESTEL provides a framework for thinking about, and analysing, the general environment that organisations operate in to identify those factors that could have an impact on the operations of the organisation in the future. The framework enables managers to identify the key drivers for change affecting their organisation, identify opportunities and threats, and to stimulate the development of a strategy to deal with them. The role of management accounting is not just to contribute to identify changes within the area of financial expertise, such as changes in economic conditions, interest rates, money markets etc, but to help evaluate, in financial terms, the potential impact of the changes in the general environment identified from the broader analysis. Specific techniques such as scenario planning, forecasting and investment appraisal are useful in this regard.

Business ecosystem	The business ecosystem encompasses the network of organisations within which each organisation operates. A definition is captured by Deloitte Consulting LLP who suggest that 'Ecosystems are dynamic and co-evolving communities of diverse actors who create and capture new value through increasingly sophisticated models of both collaboration and competition.' Ecosystems are also sometimes referred to as value webs, as they represent a web of loosely connected organisations that work towards creating value. Analysing the business ecosystem enables managers to evaluate the potential benefits and threats of working collaboratively and/or in competition with organisations with which it is associated. It is closely aligned to stakeholder analysis in that the collaborative and competitor organisations and associations could be viewed as stakeholders. The business ecosystem sits around the core business and extended business enterprise to encompass the wider stakeholders in the system. This ensures that managers consider the implications of their strategic decisions on a wide range of stakeholders and vice versa.  The role of management accounting is to assist in the financial evaluation of associations via scenario planning, forecasting and investment appraisal, and providing support within any negotiations with potential partners and the subsequent monitoring of such associations.

Porter’s Five Forces	Porter identified five forces that help shape strategy. The model provides a framework for analysing the impact that changes in the forces will potentially have on the industry within which the organisation operates. The forces: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products or services, and competitive rivalry provide a framework for assessing and evaluating the competitive strength and position of an organisation and adds to the understanding of potential opportunities and threats in the industry environment.  This representation illustrates how industry analysis sits within the general environment and that the five forces impact on the organisation’s strategy. The role of management accounting is to assist in the monitoring of the strength of, and changes in, the various forces. For example, downward pressure on margins from the effect of increasing buyer power identified through customer profitability analysis, or upward pressure on costs from supplier power identified from supplier evaluation. Also, to evaluate the potential future impact of changes in the forces in financial terms. Scenario planning and forecasting can assist along with evaluating strategic options to deal with changes in the forces, or indeed, to take advantage of any opportunities arising from potential changes.

Competitor analysis	Competitor analysis involves determining the industry in which an organisation operates and analysing the strengths and weaknesses of its major competitors. By linking this with industry analysis there is also an opportunity to develop some thinking about who might be potential competitors in the future by identifying the core competencies required to provide the product or service to customers. The role of management accounting is to assist in the analysis of the financial strengths and weaknesses of competitors from publicly available information, and evaluating the potential future impact in financial terms, of competitor actions and responses to an organisation’s strategy, via scenario planning and forecasting techniques. Also, to assist in evaluating the potential impact of the organisation’s competitive strategies.

GAP analysis	GAP analysis involves identifying the gap between what the organisation wants to achieve, measured in terms of quantifiable objectives, and the likely outcome if the current strategy is continued.  The role of management accounting is to assist by quantifying the gap in financial terms and in evaluating potential strategies to close the gap. The gap is often analysed in terms of a profits gap, but can be undertaken for any quantifiable objective. Forecasting techniques can be useful in helping to identify the potential gap that will arise if action is not taken.

SWOT

Strengths, Weaknesses, Opportunities and Threats.

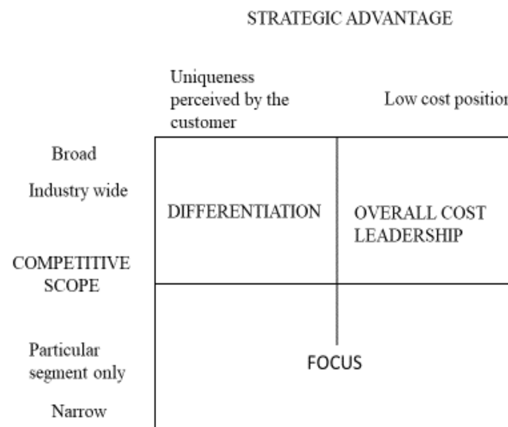
SWOT analysis provides a framework for identifying the key strengths and weaknesses from internal analysis, and opportunities and threats from environmental analysis, that can be used to help managers develop a suitable strategy. An ideal strategy looks to build on the strengths, address the weaknesses, grasp the opportunities and avoid or minimise the threats. The SWOT analysis can be used to identify strategies for closing any profits gap arising from the GAP analysis.

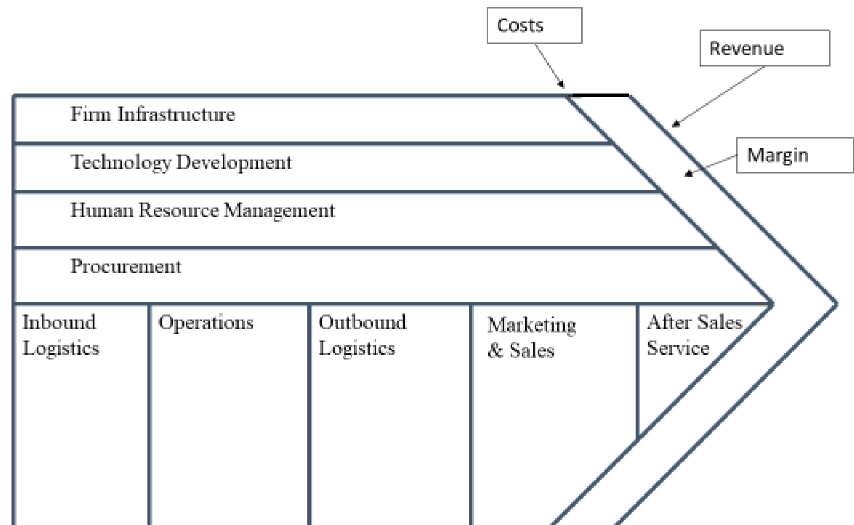
Internal: Relative to competitor organizations

STRENGTHS Build / Match with opportunities	WEAKNESSES Address / Remedy / Convert to strength
OPPORTUNITIES Grasp / take advantage	THREATS Avoid / Minimize / Convert to opportunities

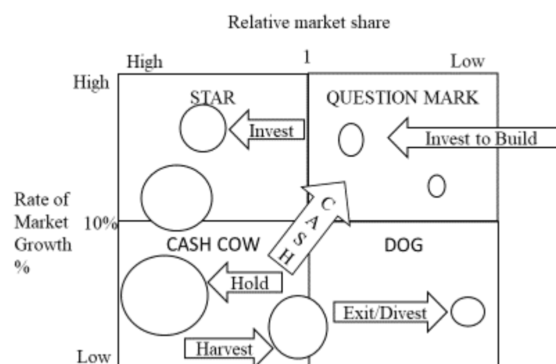
External: Present for all industry members

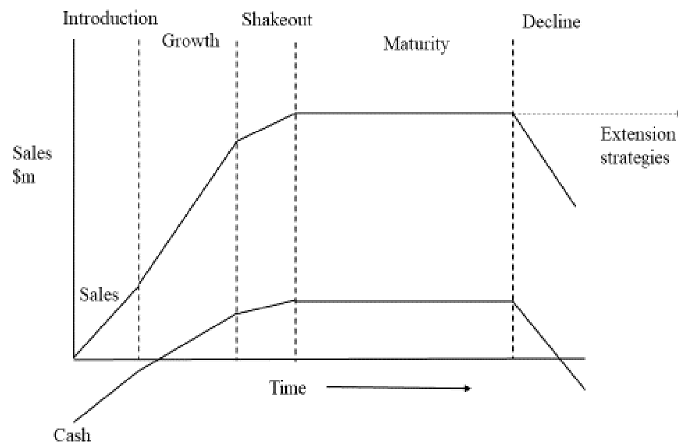
The role of management accounting is to assist in the internal analysis of the financial resources in terms of any strengths or weaknesses that emanate from the financial performance of the organisation. For example, the availability of finance now and in the future, or good/poor operating margins, or good/poor performance generally. Also, to assist in the evaluation of various strategic options that are developed from the SWOT analysis.

Competitive strategies	Porter identified the three generic competitive strategies.  Cost leadership – a strategy where the organisation strives to be the lowest cost provider in the sector(s) in which it operates. As the name suggests it is a cost driven strategy. Differentiation – a strategy where the organisation provides a product or service that is significantly different to competitors and that the customer values. This is a value driven strategy. Focus – a strategy where the organisation seeks to dominate a sector of the market, either following a cost led or differentiated strategy. The role of management accounting is in providing information that aids managers in the monitoring of the effectiveness of the strategy, not just from past performance, but in sustaining the strategy in the future. Also, in working with managers to investigate ways of reducing and maintaining a cost advantage over competitors, or adding enhanced value to the customers.

Value chain	Porter’s value chain looks at an organisation as a set of activities that can be configured in a way that provides competitive advantage and value to the customer. Primary activities follow a logical flow of inbound logistics, operations, outbound logistics, marketing and sales and after sales service. These are supported by the activities of procurement, human resource management, technology development and firm infrastructure. Managers can choose which of the activities are necessary, which activities the organisation undertakes itself, and which are outsourced to specialist providers.  The role of management accounting is to assist managers in assessing the costs of different configurations of the value chain to add value to the customer. Techniques such as activity-based costing can be used to determine the cost of the activities. Evaluation of outsourcing options versus inhouse options can also help to determine the most cost-effective way of achieving the desired strategy.

The 9 M's framework	The 9 M's framework provides a means of reviewing the resources and operations of the organisation as a resources audit. Manpower – the human resources activities Money – the cash available now and in the future Materials – the supply chain and supplier relationships Machinery – the assets of the organisation Markets – the products and services provided and markets which the organisation serves Management – the management and organisation structures – are they appropriate for the environment in which the organisation operates? Makeup – the culture of the organisation – is it appropriate? Methods – the processes and procedures that the organisation employs Management information – are information systems, particularly the provision of management accounting information, capable of providing management with the right information at the right time to the right people? The role of management accounting is obvious in the assessment of the Money element of the 9M's framework. Assistance is also invaluable in helping to evaluate the financial implications of acquiring and sustaining the other resources in various configurations.

Boston Consulting Group Matrix (BCG)	The BCG matrix provides a means of evaluating the balance of the product/service portfolio and assists in determining appropriate strategies. A grid with the axes of high to low market share relative to an organisation's major competitors and high to low industry/market growth rate. Products are represented by a circle indicating the relative proportion of total sales, i.e., the larger the proportion of total sales the product represents, the larger the circle. Assessing products against these two axes categorises products as: Question marks – high growth rate but low relative market share – a build strategy may be appropriate. Rising stars – high growth rate and high relative market share – continue to invest to maintain market share in a growing market. Cash cows – low growth rate and high relative market share – a holding strategy to provide the cash to invest in question marks and rising stars. Dogs – low growth and low relative market share – consider divesting to release resources to other products.  The role of management accounting is to aid the evaluation of various strategies at each stage/category by using appropriate management accounting techniques. For example, investment appraisal can be useful in the early stages, as are the use of strategic milestones, pricing strategies, margins and control of costs. Then as market share and volumes grow contribution per limiting factor may be more appropriate for certain products. Cash generation and customer profitability play a role at the cash cow stage. Evaluation of exit strategies or freeing up cash resources become appropriate for the dog category.

Product lifecycle	A model that charts the lifecycle of a product or services through introduction, growth, maturity and decline. The model can be used to help ascertain appropriate strategies as the product progresses through its lifecycle. At the market lifecycle level there is often a shakeout stage depicted indicating that the weaker competitors are shaken out of the market, leaving only the larger players in the market.  The role of management accounting is to aid the evaluation of various strategies at each stage/category by using appropriate management accounting techniques. For example, forecasting is invaluable throughout but can be of importance at the early stages as the likely volumes of sales impacts on the pricing strategy adopted and vice versa. Investment appraisal and initial evaluation of product development is an area where accounting can assist the development of strategy. Later in the lifecycle techniques such as contribution per limited factor, customer profitability analysis, maximising cash generation, and cost management become more relevant. Not least assisting in evaluating strategies of product developments and market developments to extend the product lifecycle (extension strategies) benefit from management accounting input as does the monitoring of competitor actions.

Supplier analysis	The supplier relationship can be evaluated and monitored using the three aspects of: Supplier appraisal – the capability of meeting and maintaining contract requirements of quality, delivery, quantity and price. Supplier approval – the process of placing a supplier on an approved supplier list following evaluation. Supplier rating – the performance of the supplier is monitored against the terms of the contract. The role of management accounting is to assist managers in the evaluation, negotiation and monitoring of supplier contracts.

Ansoff's product market scope or growth matrix

Ansoff identified strategies for growth and presented them in a grid with the axes denoted as current to new products versus current to new markets.

Strategies for continuing with the current products and markets could be market penetration (selling more of the same products to the same markets) or consolidation of existing current markets and/or products.

Product development involves developing new products for the existing markets.

Market development involves developing new markets for the existing products – typically exporting but could also be finding new channels to market, e.g. selling online.

Diversification is developing new products and markets, or essentially moving away from the current product/market offering.

It is not necessarily a case of choosing just one option, as it is possible to adopt a dual strategy of product development and market development.

MARKET \ PRODUCT	Current	New
Current	Market Penetration Consolidation	Product Development
New	Market Development	Diversification • Related • Unrelated

The role of management accounting is to assist managers in the evaluation of various growth strategies identified on the Ansoff matrix mainly via the provision of a financial evaluation from investment appraisal techniques and forecasting/scenario planning.

Stakeholder mapping

The technique of stakeholder mapping (developed by Mendelow) can be used to understand the dynamics of the stakeholder influence on a strategic decision being considered. A typical matrix showing the degree of influence and power on one axis against the expectations or level of interest on the other axis is used.

Stakeholders can be classified as:

Low interest - low power indicates that these stakeholders require minimal effort to convince and hence can largely be directed as to the decision being made.

Low interest - high power, indicates these stakeholders need to be kept satisfied so that they do not become too interested and exercise their power – an intervention strategy is often used to make sure stakeholders are satisfied before the decision is made.

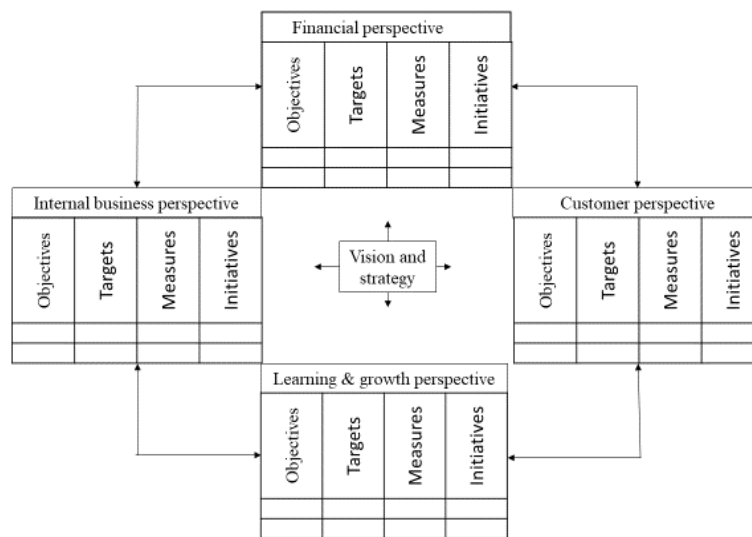
High interest - low power implies that these stakeholders need to be kept informed throughout the decision-making process and potentially educated as to the benefits and drawbacks of the strategic decision.

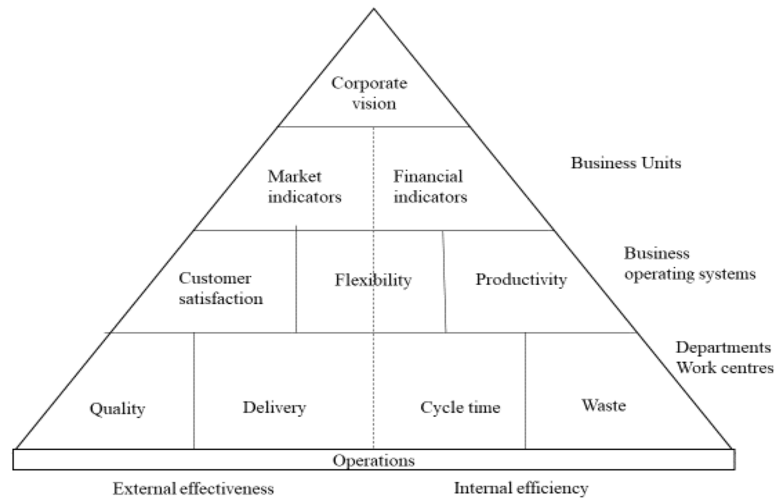
High interest - high power make these stakeholders key players and often a strategy of involving them in the decision-making process is advisable – a participative approach.

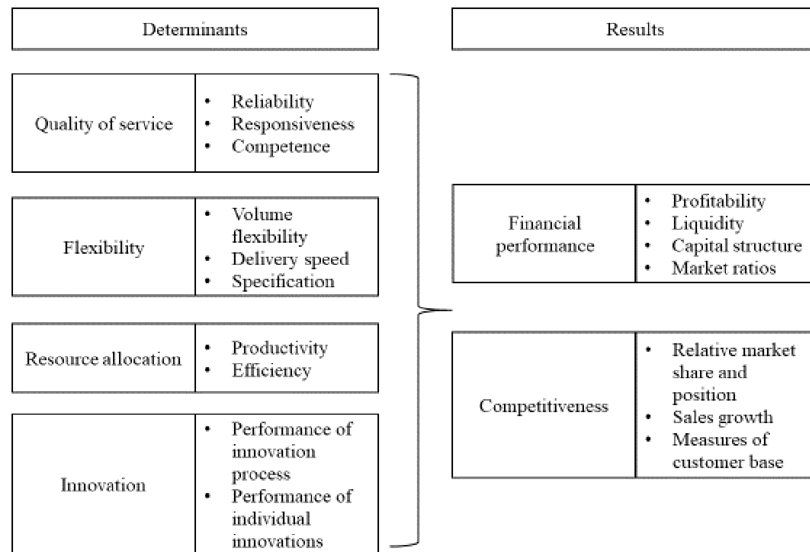
Mendelow's Matrix
(Stakeholder mapping)

Degree of Power / Level of Interest	Low	High
Low	**Minimal Effort**	**Keep Informed**
High	**Keep Satisfied**	**Key Players**

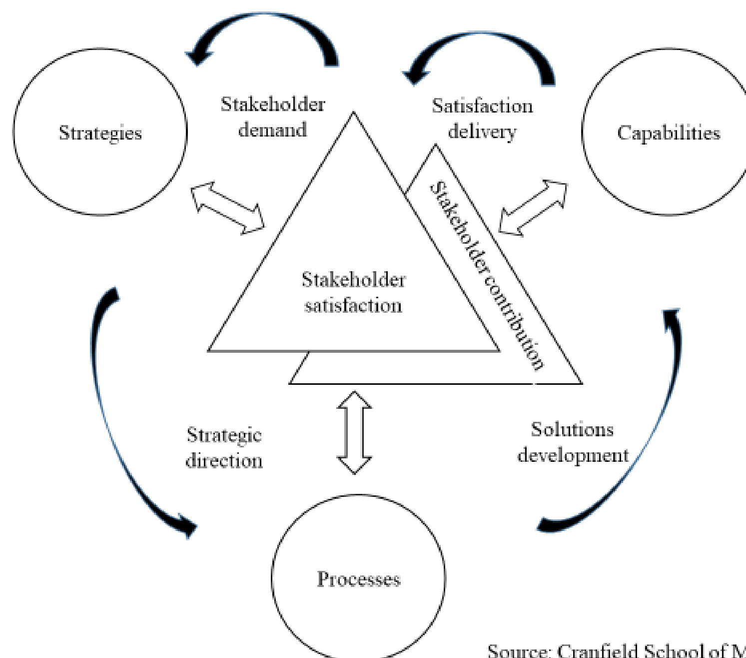
The role of management accounting is to assist managers by evaluating the financial implications of strategic decisions so that the case can be put to various stakeholder groups and also to evaluate in financial terms the implications of stakeholder actions in response to proposed (and taken) strategic decisions. Investment appraisal techniques and forecasting/scenario planning are relevant.

Balanced scorecard	The balanced scorecard put forward by Kaplan and Norton, is a framework for monitoring and improving performance using a range of performance measures. Objectives/goals, performance measures and targets are set under four headings (although these can be tailored to suit the business). A financial perspective, a customer perspective, a learning and growth perspective and an internal business perspective. The result is a range of performance measures that encompasses financial and non-financial, internal and external, quantitative and quantitative measures. Each perspective can contain several objectives, targets, performance measures and the opportunity to consider initiatives that can be made to help achieve the desired performance.  The role of management accounting is to assist managers in crystallising objectives in quantitative terms, determining appropriate performance measures and providing the information to monitor performance measures. Also, to help evaluate the potential of any initiatives that could improve performance in the future.

Performance pyramid	Similar in style to the balanced scorecard the performance pyramid is a framework that encourages a range of performance measures, financial and non-financial, internal and external, quantitative and qualitative that support the mission and objective of the organisation.  The role of management accounting is to assist managers in crystallising objectives in quantitative terms, determining appropriate performance measures and providing the information to monitor performance measures.

Results and determinants of performance management	Effective for service sector organisations the framework enables managers to review not just the results in terms of financial performance and competitiveness, but to monitor the determinants of the performance, i.e., quality of service, flexibility, resource allocation and innovation.  The role of management accounting is to assist managers in crystallising objectives in quantitative terms, determining appropriate performance measures and providing the information to monitor performance measures.

Benchmarking	Benchmarking is a means of comparing the performance of an organisation (or individual or subgroup) with another with the aim of making improvements. It is essentially a learning exercise and not a copying exercise. Typical classifications of benchmarking include: Internal – comparisons made within the organisation Competitor – comparisons with direct competitors Industry – comparison with industry standards where they exist Functional/activity – comparisons with an organisation that undertakes the same activity but is not necessarily in the same industry, e.g., a hotel or theatre comparing their booking systems with that of an airline. Best practice – comparing with an organisation recognised as being the 'best in practice' at an activity/function. Strategic – comparison of strategic action or change, e.g., launching new products, product development, entering a new market. The role of management accounting is to assist by working as part of the benchmarking team to determine the necessary performance measures, collecting, and analysing the results of the benchmarking exercise. The skillset of management accountants can contribute greatly to the benchmarking activity.

Performance prism	The distinguishing characteristic of the performance prism developed by Neely and Adams, is that it uses stakeholders as its starting point and asks the following questions: Stakeholder satisfaction – who are the stakeholders and what do they want and need? Strategies – what strategies do we need to satisfy these wants and needs? Processes – what processes do we need to execute these strategies? Capabilities – what capabilities do we need to operate our processes more effectively and efficiently? Stakeholder contribution – what do we want and need from our stakeholders if we are to develop and maintain these capabilities. The model focuses initial attention on the stakeholders rather than on just developing strategies which then leads to satisfying the range of stakeholders with which the organisation engages.  The role of management accounting is to support managers in evaluating the various strategic options and resources/capabilities required via investment appraisal techniques as well as performance monitoring.