P3 Business Analysis

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P3 syllabus and study guide

Visit
http://www.accaglobal.com/content/dam/acca/global/PDF-students/acca/p3/studyguides/p3-sg-sept16-17.pdf

Main sections of the syllabus

A. Strategic position

B. Strategic choices

C. Strategy into action

Main sections of the syllabus

A. Strategic position

- The business environment
- Strategic capability
- Expectations and purposes

Main sections of the syllabus

B. Strategic choices

- Corporate level and international strategies
- Business level strategies
- Development of directions and methods

Main sections of the syllabus

C. Strategy into action

- Organizing for success
- Enabling success
- Managing change

Exam format
3 hours 15 mins (195 mins)

Part A
- Compulsory question
- 50 marks

Part B
- Answer 2 out of 3
- 25 marks each

Exam issues

A. Students’ weaknesses

B. Common problems with scripts

Exam issues

A. Students’ weaknesses

- Do not know the material
- Poor time management
- Handwriting matters
- Did not analyze and apply
- Answers to classification questions unclear
- Not answering the requirement!!!

Exam issues

B. Common problems with scripts

- Writing virtually illegible
- Did not answer the question: requirements not addressed
- Poor presentation and structure: lack of professional style; failure to use proper layout, headings, etc.
- Lack of priority in the answer; answers should address strategic, functional and operational issues preferably in that order
- Not making enough points to score sufficient marks on each part of each question

Exam issues

B. Common problems with scripts

- Failure to lay out answers to allow candidates to give breadth and depth
- Failure to answer in a professional style
- Lack of balance between sections of questions
- Lack of effective language necessary to illustrate higher level application skills
- Not enough examples from or unrelated to scenario
- Use of inappropriate metaphors
- Long non-relevant answers

How to improve performance

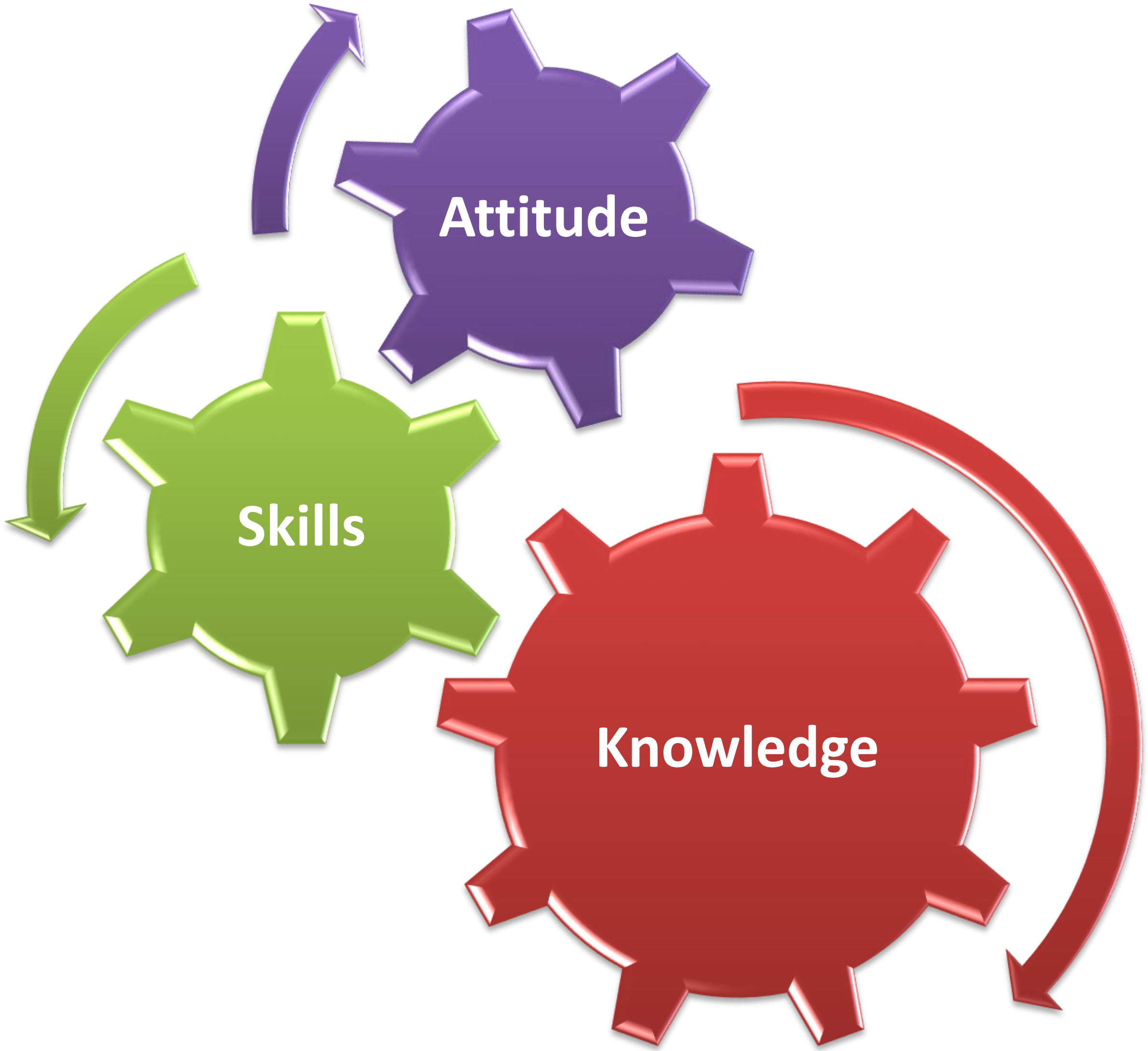
A. Gearing for P3

B. Handling Section A questions

C. Handling Section B questions

How to improve performance

A. Gearing for P3



How to improve performance

A. Gearing for P3

BEFORE the exam

- Must complete the syllabus coverage
- Always complement knowledge with skills, knowing that this is an application paper
- Should revise properly and comprehensively
- Do not spot questions
- Remember that it is not JUST an examination
- Prepare to be professional accountants

How to improve performance

A. Gearing for P3

BEFORE the exam

- Practice scenario questions under realistic time constraints
- Practice handwriting in a 3 hour 15 minutes session
- Read widely, keep up-to-date, and be aware of global trends and issues
- Ensure ACCA resources, including technical articles on the website are used
- See the bigger picture

How to improve performance

A. Gearing for P3

DURING the exam

- Read the first paragraph followed by the questions
- Read the question very carefully – what is the requirement?
- Analyse quantitative data, what picture does it paint? How will the answers use this data?
- Review the questions in the context of the syllabus
- Plan and allocate time properly
- Beware of assumptions about location
- Answer the question in the context of the scenario

How to improve performance

A. Gearing for P3

DURING the exam

- Create an answer plan, and allocate time
- Do not unnecessarily restate information from the scenario
- Do not repeat verbatim answers from past papers
- Do not assume that case study characters are virtuous or correct
- Do not be afraid to bring in knowledge from other ACCA papers
- Do not spend too much time on theory
- Make sure that your answers are easy to read and mark

How to improve performance

A. Gearing for P3

Reminder

- P3 is an application paper
- More thought, imagination and spontaneity required
- No correlation between the number of theories learnt and success in the paper
- Use theories appropriately (more does not mean better)
- Use common sense
- Apply right exam techniques

How to improve performance

A. Gearing for P3

Understanding the verbs

- Define
- Explain
- Identify
- Describe
- Contrast
- Analyse
- Assess
- Discuss
- Evaluate
- Justify
- Recommend

Intellectual Level	Verbs	What do they want?
1	**Define**	Give the meaning of
1	**Identify**	Recognise or select
1	**Describe**	Give the key features
1	**Explain**	Make clear
2	**Contrast**	Make a comparison based on differences
2	**Analyse**	Give reasons for the current situation or what has happen or Examine in detail the structure of
3	**Discuss**	Examine in detail by using arguments for and against
3	**Assess**	Determine the strengths/weaknesses/importance/significance/ability to contribute
3	**Evaluate**	Determine the value of by looking at the pros and cons. A conclusion is required
3	**Recommend**	Advise the appropriate actions to pursue 'We should…
3	**Justify**	Support with reasons What to do and why?

How to improve performance

Handling Sections A and B

Use the first minute to decide which question not to attempt in Section B

Section A

30-40 mins → Read and analyse scenario and **prepare answer plans**

60-70 mins → Write the answer

In total, don't exceed 100 minutes – you are now left with 94 mins

Section B

Each question: 47 mins

17 mins → Read and analyse scenario and **prepare answer plans**

30 mins → Write the answer

How to improve performance

B. Handling Section A questions

1. Read the first paragraph (3 mins)
2. Read the requirements (2 mins)
3. Read the scenario (15-20 mins)
    - Annotate
    - Use financial data
4. Plan points and answer structure (10-15 mins)
    - How many requirements
    - How many marks for each requirement
    - What points for each requirement
    - Rearrange points based on importance
5. Write the answer (60-70 mins)

How to improve performance

C. Handling Section B questions

1. Read the first paragraph (1 min)
2. Read the requirements (1 min)
3. Read and analyze the scenario (10 mins)
4. **Plan** your structure and points (5 mins)
5. Write the answer (30 mins)

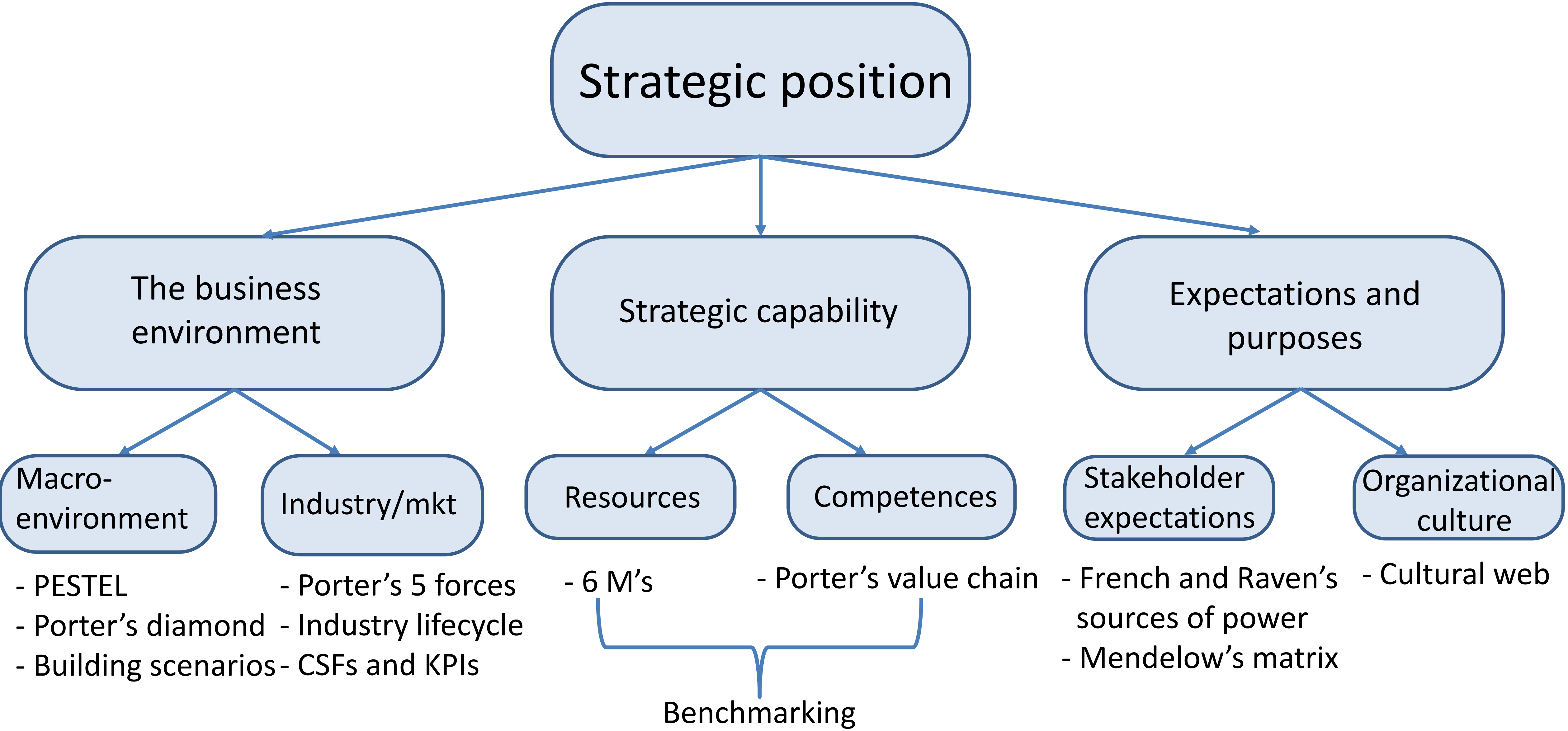
Important topics

THE WHOLE SYLLABUS!!!

Study EVERY single topic in the syllabus as each question in the exam can include more than one topic

Topic spotting - impossible for P3

Contents


Strategic position
The business environment
Strategic capability
Expectations and purposes
Macro-environment
Industry/mkt
Resources
Competences
Stakeholder expectations
Organizational culture
- PESTEL
- Porter's diamond
- Building scenarios
- Porter's 5 forces
- Industry lifecycle
- CSFs and KPIs
- 6 M's
- Porter's value chain
- French and Raven's sources of power
- Mendelow's matrix
- Cultural web
Benchmarking

The strategy lenses

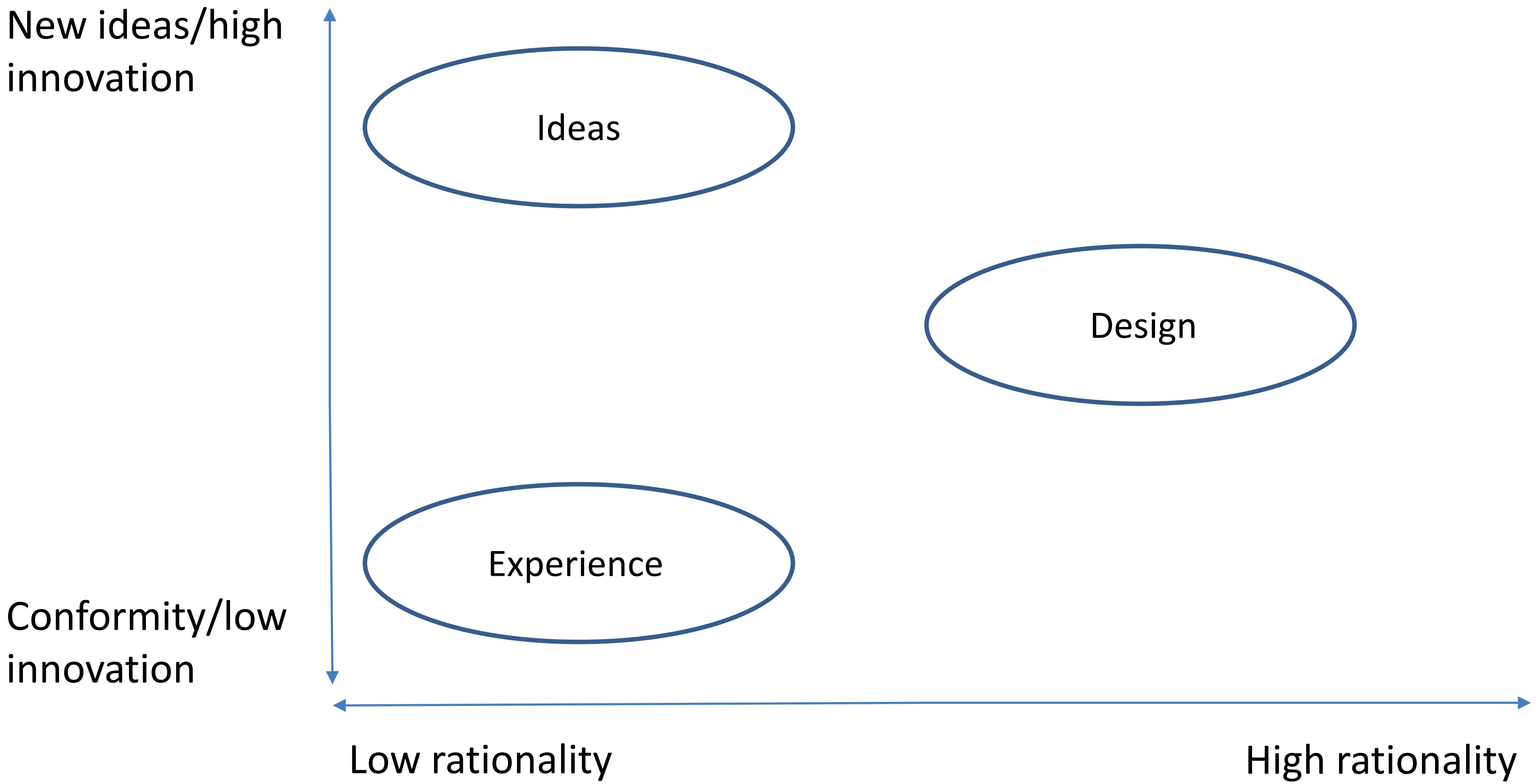
Different approaches taken by managers to formulate the strategies of an organization

Strategy as design	Strategy as experience	Strategy as ideas
Logical and rational process	Based on adaptation of past strategies, influenced by managers' experience	Based on new ideas and innovation
Uses analytical and evaluation techniques	Adaptive approach, incremental	Emphasizes importance of variety and diversity
Most common approach	Driven by the taken-for-granted assumptions	Ideas likely to come from anywhere
Top-down approach	Adopted by risk averse managers	Top managers - creators of the context
Found in conservative organizations	For stable and static environments	Adopted by risk takers in dynamic environments
	If environment dynamic, strategic drift occurs	Commonly used by innovative organizations e.g. 3M and Google

The strategy lenses

Lenses	Advantages	Disadvantages
Strategy as design	Structured process	Does not encourage lower level participation
	Logical, makes sense	Rigidity
	Many academic models	Paralysis by analysis
Strategy as experience	Managers learn from experience	Low on innovation
		Low on logic
		Strategic drift
Strategy as ideas	High on creation and innovation	Lack of structure
	Includes everyone	Not all great ideas translate into great commercial products
	Can lead to massive competitive advantage	High risk
		High cost (failure cost)

The strategy lenses



Summary: Something as complex as strategy should be viewed in a number of complementary ways i.e. by looking through all three lenses

PESTEL

Apply when asked to analyse or assess the macro-environment

Approaching PESTEL questions

1. Identify current and impending changes in the macro-environment

2. Threat/Opportunity? **Why**?

3. Response

PESTEL

Political

- Government stability
- Taxation policy
- Foreign trade regulation
- Social welfare policy

Economical

- Business cycles
- GNP/GDP trends
- Interest rates
- Exchange rates
- Taxes
- Money supply
- Inflation
- Unemployment
- Disposable income
- Labour costs

Socio-cultural

- Population demographics
- Income distribution
- Social mobility
- Lifestyle changes
- Consumer tastes
- Attitudes towards local goods and services
- Attitudes to work and leisure
- Consumerism
- Levels of education
- Societal trends

PESTEL

Technological

- Government spending on research
- Government and industry focus on technological effort
- New discoveries/developments
- New products/production methods
- Speed of technology transfer
- Patents granted

Environmental

- Environmental protection laws
- Waste disposal
- Energy consumption
- Recycling
- Corporate social responsibility (CSR) requirements
- Green consumer

Legal

- Company law
- Competition law
- Employment law
- Health and safety legislation
- Environmental law
- Tax law

➢ Identify the **key drivers of change** and the differential impact of these on particular industries, markets, and organisations

Porter’s diamond

Apply when asked to analyse or assess the reasons why one country/industry has an advantage over other countries/industries

- **Factor conditions**

Availability of inputs or resources
These comprise:

i. Basic factors

- Provides initial advantages only
- Do not create a sustainable competitive advantage
- Absence of has acted as a stimulus to seek innovative ways
- E.g. natural resources, climate, availability of cheap labour/land etc.

ii. Advanced factors

- Provides higher order sustainable competitive advantage
- E.g. a highly educated workforce, appropriate technology and data communications infrastructure, and well-developed financial markets

Porter's diamond

- **Demand conditions**

i. Refers to demand from local customers
ii. The more demanding and sophisticated the consumers, the more the industry is expected to deliver high quality products/services

- **Related and supporting industries**

i. Refers to the existence of industries that support the specific industry
ii. Involves suppliers and business partners in the upstream and downstream supply chain
iii. Important for developing industry cluster
iv. Key to attracting international companies

Porter’s diamond

- **Firm strategy, structure and rivalry**

Firm strategy → how ambitious are the strategies of the firms

Structure → how favourable are the government policies

Rivalry → how intense is the competition among the firms

Porter's five forces

Apply when asked to analyse the industry/marketplace/competition

- **Threat of new/potential entrants**

The ease or difficulty of entry of new/potential entrants will depend on the extent to which there are barriers to entry. Typical barriers are as follows:

i. Economies of scale (Higher EOS, higher barrier)

ii. The capital requirements (Higher capital requirement, higher barrier)

iii. Access to supply/distribution channels (Lower access, higher barrier)

iv. Customer/supplier loyalty (Higher loyalty, higher barrier)

v. Experience of incumbents (Higher experience, higher barrier)

vi. Expected retaliation (Higher retaliation, higher barrier)

vii. Legislation or government actions (More stringent, higher barrier)

viii. Degree of differentiation (Higher differentiation, lower barrier)

Porter’s five forces

- **Threat of substitutes** → Any other product/service that serves the same purpose

i. **Product for product substitution (direct substitution)**
   - New product/technology replaces old product/technology

ii. **Substitution of need**
   - This renders an existing product or service redundant

iii. **Generic substitution**
   - Other products/services competing for disposable income

Porter's five forces

- **Bargaining power of buyers and suppliers**

Buyer power likely to be high when:

i. Concentration of buyers (small number of large size buyers)
ii. Volumes purchased are high
iii. The product accounts for a high percentage of total purchases
iv. Low switching costs
v. Can backward integrate

Supplier power likely to be high when:

i. Concentration of suppliers (small number of large suppliers)
ii. Volumes purchased are small
iii. The product accounts for a small percentage of total purchases
iv. High switching costs
v. Can forward integrate

Porter’s five forces

- **Competitive rivalry** → Competitive rivals are organisations with similar products and services aimed at the same customer group

Factors affecting the degree of competitive rivalry in an industry/sector:

i. Competitors in balance (Higher balance, higher intensity)

ii. Industry growth rates (Lower growth, higher intensity)

iii. High fixed costs (Higher fixed costs, higher intensity)

iv. Degree of differentiation (Lower differentiation, higher intensity)

v. High exit barriers (Higher exit barriers, higher intensity)
   - Strategic
   - Emotional
   - Financial

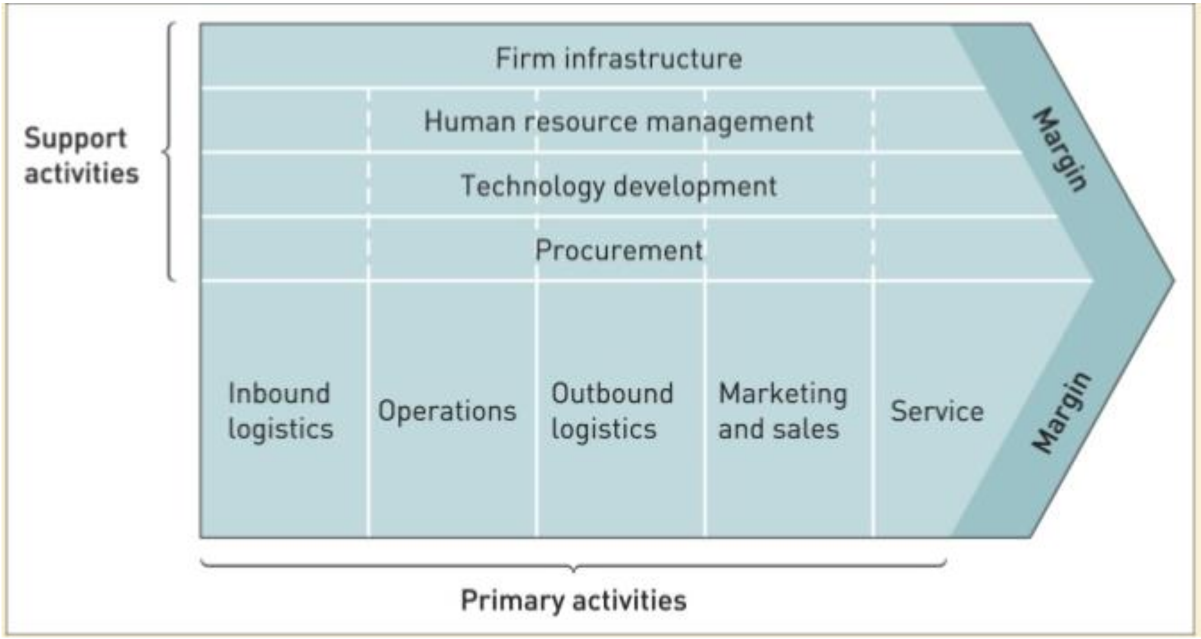
Critical Success Factors and Performance Indicators (CSFs and KPIs)

- **CSFs** - factors critical to the success of a business/product
- **KPIs -** targets to achieve in order to meet the CSFs
- Use the **balanced scorecard** to identify CSFs

<u>Examples:</u>

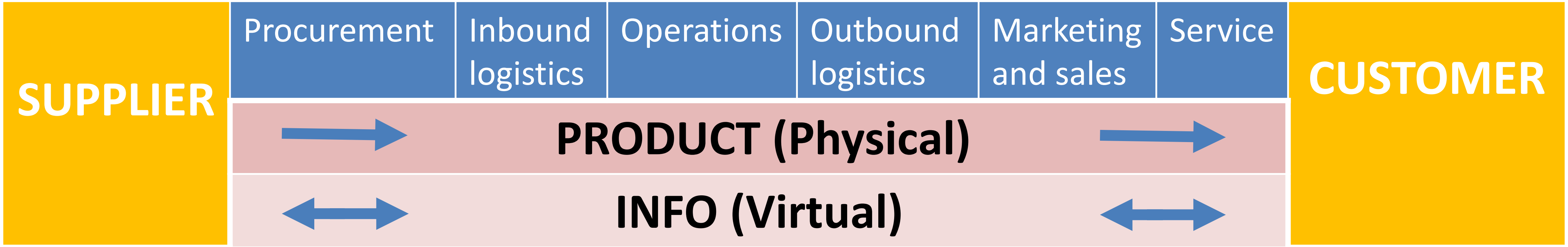
Mission	To provide safe transportation
CSFs	Safety
KPIs	Number of accidents per year
Performance objectives	Zero accidents

Porter's value chain → To help managers analyze the **activities** of an organization



- All primary and support activities must be integrated as closely as possible to create a smooth supply chain process that allows info and products to flow seamlessly from the supplier, through the value chain to the customer

The supply chain process



Porter’s value chain

Primary activities → Activities directly related to production and distribution or creation and delivery of product/service

Inbound logistics

- Deals with inputs/raw material
- Receiving, storing, distributing, quality check
- E.g. in universities, registering students and orientation activities

Porter’s value chain

Primary activities

Operations

- Transformation of inputs to outputs
- Production, machining, packaging, assembly, testing
- E.g. in universities, lecturing and taking exams

Porter’s value chain

Primary activities

Outbound logistics

- Collect, store and distribute the finished product to customers
- For tangible products – warehousing, materials handling, distribution, etc.
- Services – bringing customers to the service if it is a fixed location
- E.g. in universities, graduation

Porter’s value chain

Primary activities

Marketing and sales

- Sales administration, advertising, selling, etc.

- Most important marketing activity is market research to find out the needs and wants of customers (what they want, when and in what quantity) – only then can JIT be introduced

Porter’s value chain

Primary activities

Service

- Enhances/maintains the value of a product or service (to retain customers)
- Repair, service, supply of spares, after sales support
- E.g. in universities, job placement

Porter's value chain

Support activities → Support primary activities (help to improve the effectiveness/efficiency of primary activities

Procurement

- Purchases and supply relationship management
- Occurs in many parts of the organization

Technology development

- Redesigning products and processes (R&D)

Human resource management

- Recruiting, managing, training, developing and rewarding employees

Firm infrastructure

- System of planning, administration, finance, quality control, information management
- Includes structures and routines, which are part of the firm's culture

Criticisms of the value chain

- Does not emphasize the importance of market research as it happens very late in the value chain
- Biased towards manufacturing companies

Benchmarking

Types of benchmarking

Historical benchmarking

- Form of internal benchmarking
- Considers an organization's performance in relation to previous years

Industry/sector benchmarking

Compare with competitors

- Within strategic group
- Outside strategic group

Best-in-class benchmarking

- Compares against best in class performance – wherever
- Shakes managers out of the mindset that improvements must be gradual

Benchmarking

Dangers of benchmarking

- If basis of benchmarking is flawed, can set-off a reorientation (change) of strategies that are flawed

- Will not identify the reasons for the good or poor performance

Cultural web

<table>
<tr><th>Cultural web</th><th></th><th>Schein</th></tr>
<tr><td>Symbols</td><td>Aspects of culture that can be seen
E.g. logos, offices, cars, titles, languages, terminology used etc.</td><td rowspan="4">Artefacts</td></tr>
<tr><td>Power structures</td><td>The most powerful individuals are closely associated with core assumptions and values
E.g. autocratic or participative style of management</td></tr>
<tr><td>Organisational structures</td><td>Reflects authority and power and shows important roles and relationships</td></tr>
<tr><td>Control systems</td><td>The way employee performance is measured and rewarded
E.g. centralised or decentralised</td></tr>
<tr><td>Routines</td><td>Demonstrate ‘the way things are done’ on a day-to-day basis</td><td rowspan="3">Espoused values</td></tr>
<tr><td>Rituals</td><td>Special events to emphasise what is important to the organisation
Reinforces ‘the way we do things here’</td></tr>
<tr><td>Stories</td><td>A device for telling people what is important to the organisation</td></tr>
<tr><td>Paradigm</td><td>A fixed set of taken-for-granted assumptions that are held in common by employees of the organisation
It encapsulates and reinforces the other 6 elements</td><td>Basic assumptions and values</td></tr>
</table>

Stakeholder expectations

A. French and Raven’s sources of power

B. Mendelow’s matrix

Stakeholder expectations

A. **French and Raven’s sources of power** → Where do stakeholders derive their power from?

Types of power	Sources of power
Referent (charisma) power	Personal attributes or charisma – natural ability to lead/influence people where don’t have to be formally appointed
Expert power	Superior knowledge or expertise – having a special skillset
Legitimate power	Position held in the organisation – having authority which is a formal source of power
Reward power	Capability to grant valued incentives e.g. increment, bonus, promotions in return for compliance with instructions
Coercive power	Capability to impose penalties or sanctions for non-compliance with instructions

Stakeholder expectations

B. Mendelow's matrix

Stakeholder expectations questions will require candidates to:

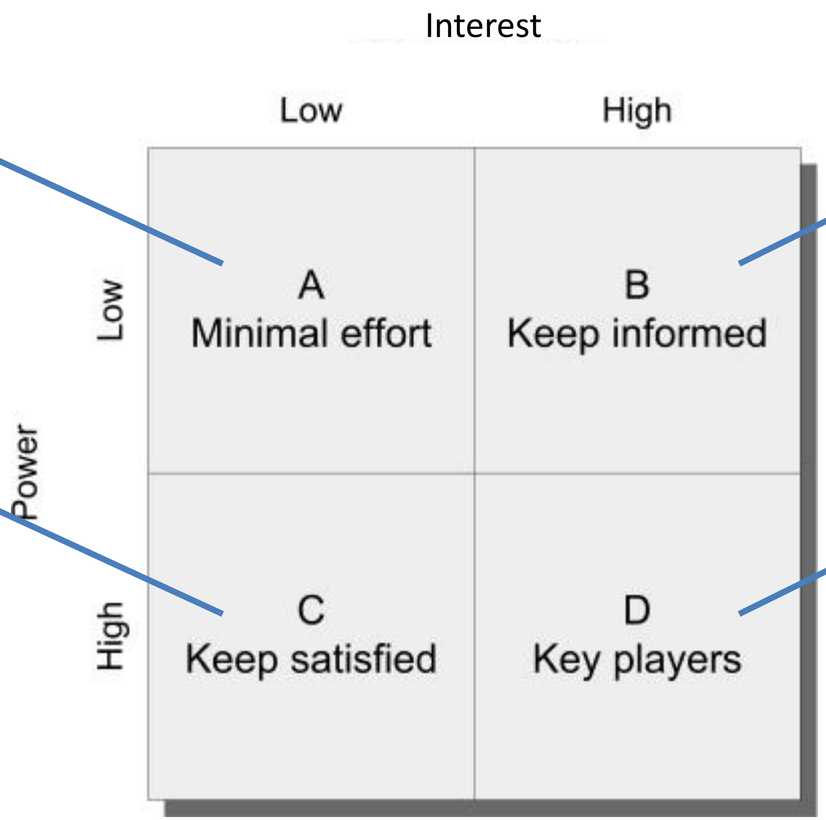
1. Identify the stakeholders
2. Position them in the matrix with justification
3. Identify their expectations
4. Manage their expectations

Stakeholder expectations

B. Mendelow's matrix

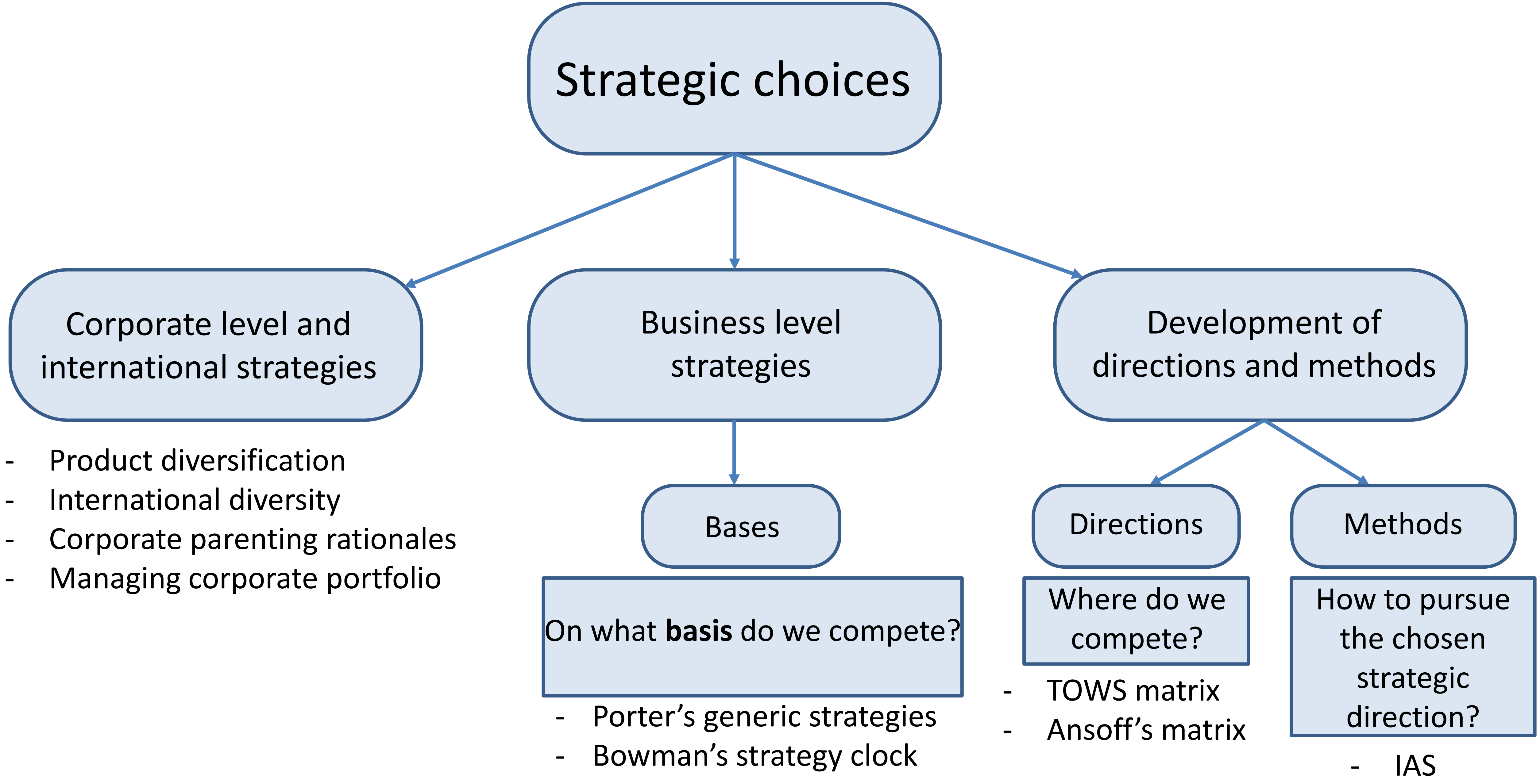
Can be ignored

E.g. employees (operational level)



Most dangerous stakeholder - difficult for organization to identify their expectations. Organization risks strategizing against them, lest they become key player blockers.
E.g. government

E.g. major shareholders/ directors/significant customer


Strategic choices
Corporate level and international strategies
Business level strategies
Development of directions and methods
- Product diversification
- International diversity
- Corporate parenting rationales
- Managing corporate portfolio
Bases
On what **basis** do we compete?
- Porter's generic strategies
- Bowman's strategy clock
Directions
Where do we compete?
- TOWS matrix
- Ansoff's matrix
Methods
How to pursue the chosen strategic direction?
- IAS

Corporate parenting rationales

A. The portfolio manager

B. The synergy manager

C. The parental developer

Corporate parenting rationales

A. The portfolio manager

- ‘Agent’ for financial markets and shareholders
- Only financial returns matter
- Identify and acquire under-valued assets/businesses
- Small number of corporate staff
- Relatedness of SBUs not a concern
- Hands-off approach
- SBU heads have a high degree of autonomy
- Parent sets financial targets
- High rewards if targets achieved, low rewards/loss of position if targets not achieved

Corporate parenting rationales

B. The synergy manager

- Synergy - raison d’etre of the synergy manager

- **Value** at the SBU level **enhanced** by:
  - Sharing resources or activities
  - Common skills or competences

- **Problems**:
  - Excessive cost
  - Overcoming self-interest
  - Illusion of synergy
  - Compatibility problems
  - Variations in local conditions
  - Determination

Corporate parenting rationales

C. The parental developer

- Adds value by handing down its capabilities to the SBUs

- However,
- Parent must clearly know the capabilities they possess
- Must identify ‘parenting opportunity’

- **Challenges:**
- Difficulty in identifying a corporate parent’s capabilities
- Focus
- Mixed parenting
- The ‘crown jewel’ problem
- Sufficient ‘feel’

Strategic directions – The TOWS matrix

A model to **generate and evaluate** options in terms of **directions**

	Strength	Weaknesses
Opportunity	**SO**	**WO**
Threat	**ST**	**WT**

a) Strength-Opportunity (SO) – Use strengths to capitalise on opportunities

b) Strength-Threat (ST) – Use strengths to mitigate threats

c) Weakness-Opportunity (WO) – Improve weaknesses to exploit opportunities

d) Weakness-Threat (WT) – Minimise weaknesses to mitigate threats

Strategic directions – Ansoff's product/market matrix

An alternative model to **generate and evaluate** options in terms of **directions**

MARKETS	PRODUCTS: **Existing**	PRODUCTS: **New**
Existing	Protect/Build **Consolidation** **Market penetration**	**Product development** ➢ With existing capabilities ➢ With new capabilities ➢ Beyond current expectations
New	**Market development** ➢ New market segments ➢ New territories ➢ New uses ➢ With new capabilities ➢ Beyond current expectations	**Diversification** ➢ With existing capabilities ➢ With new capabilities ➢ Beyond current expectations

Methods of growth

A framework to **generate and evaluate** options in terms of **methods**

A. **Internal development**

B. **Acquisition and mergers**

C. **Strategic alliances**

Methods of growth

A. Internal development → also known as organic growth/development

- Building on and incrementally developing an organisation's own capabilities

- Primary method of development because:
  - Retain trade secrets
  - Knowledge and capability development enhanced
  - Spread costs over time
  - Minimises disruption
  - Nature of markets

Methods of growth

B. Acquisitions and mergers

Acquisition → an organisation takes ownership of another organisation
Merger → a mutually agreed decision for joint ownership between organisations

- **Motives for acquisitions and mergers**

a) To keep up with a changing environment:

- Speed of entry
- Competitive situation
- Consolidation opportunities
- Deregulation
- Financial markets

Methods of growth

B. Acquisitions and mergers

b) To exploit capabilities:

- Exploit capabilities/address lack of capability
- Improve cost efficiency
- Enhances learning

c) To meet expectations of key stakeholders:

- Continual growth
- Attractive to ambitious senior managers
- Speculative motives

Methods of growth

B. Acquisitions and mergers

- **Acquisitions and financial performance**
- 70% of acquisitions fail

- **Why acquisitions fail**
- Failure to add value to the acquired business
- Inability to integrate
- Inability to gain commitment of middle managers
- **Poor cultural fit**: particularly relevant to cross-border acquisitions

Methods of growth

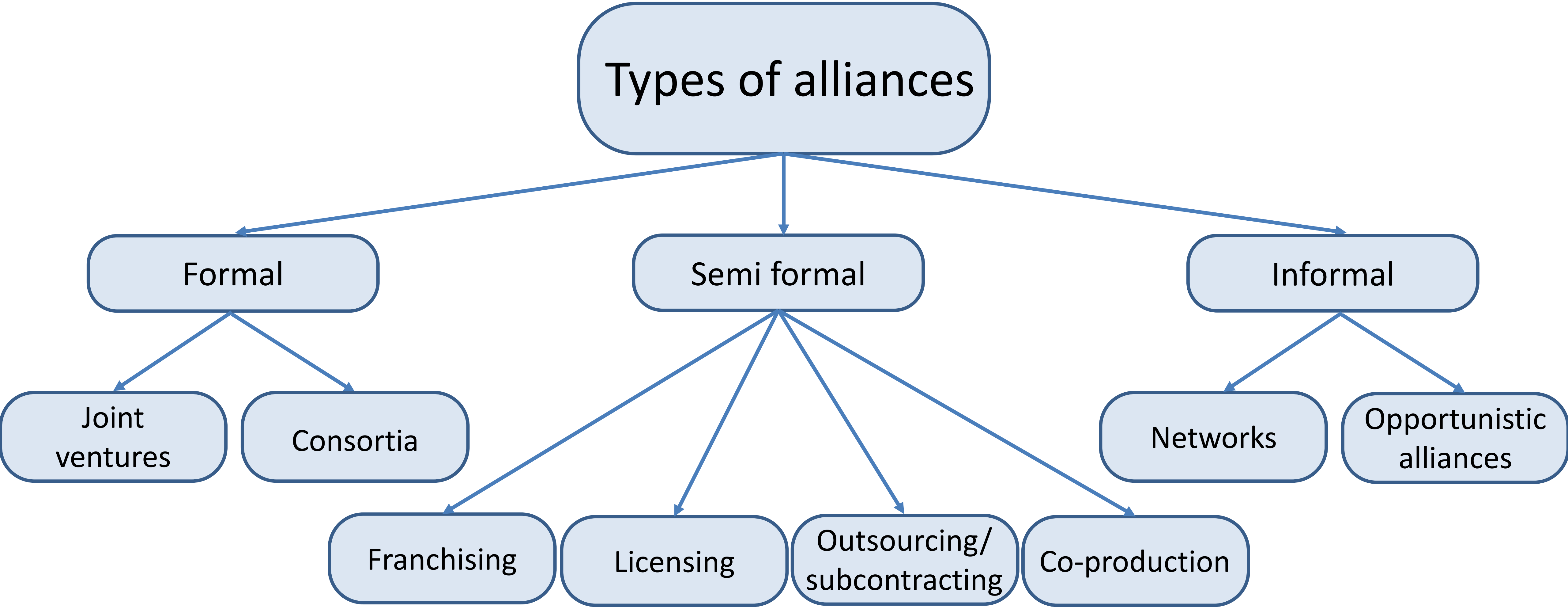
C. Strategic alliances → 2 or more organisations share capabilities

➢ **Motives for alliances**

- Co-specialisation
- Critical mass
- Learning from partners
- Experimentation

Methods of growth

C. Strategic alliances



Methods of growth

C. Strategic alliances

- **Ingredients of successful alliances** → **Trust and cooperation**

- **2 separate elements:**
  - Competence based
  - Character based

- **Quality of relationship -** of prime importance

Success criteria

To **evaluate and choose** proposed strategic options, both at the corporate and business level

A. **Suitability** – is the proposed strategy logical and sensible?

B. **Acceptability** – are the returns/risks of the **acquiree** acceptable?

C. **Feasibility** – does the **acquirer** have the required capabilities?

Success criteria

A. **Suitability**: Is the proposed strategy relevant to the strategic position of the company?

Does it use? **S**

Does it reduce? **W**

Does it exploit? **O**

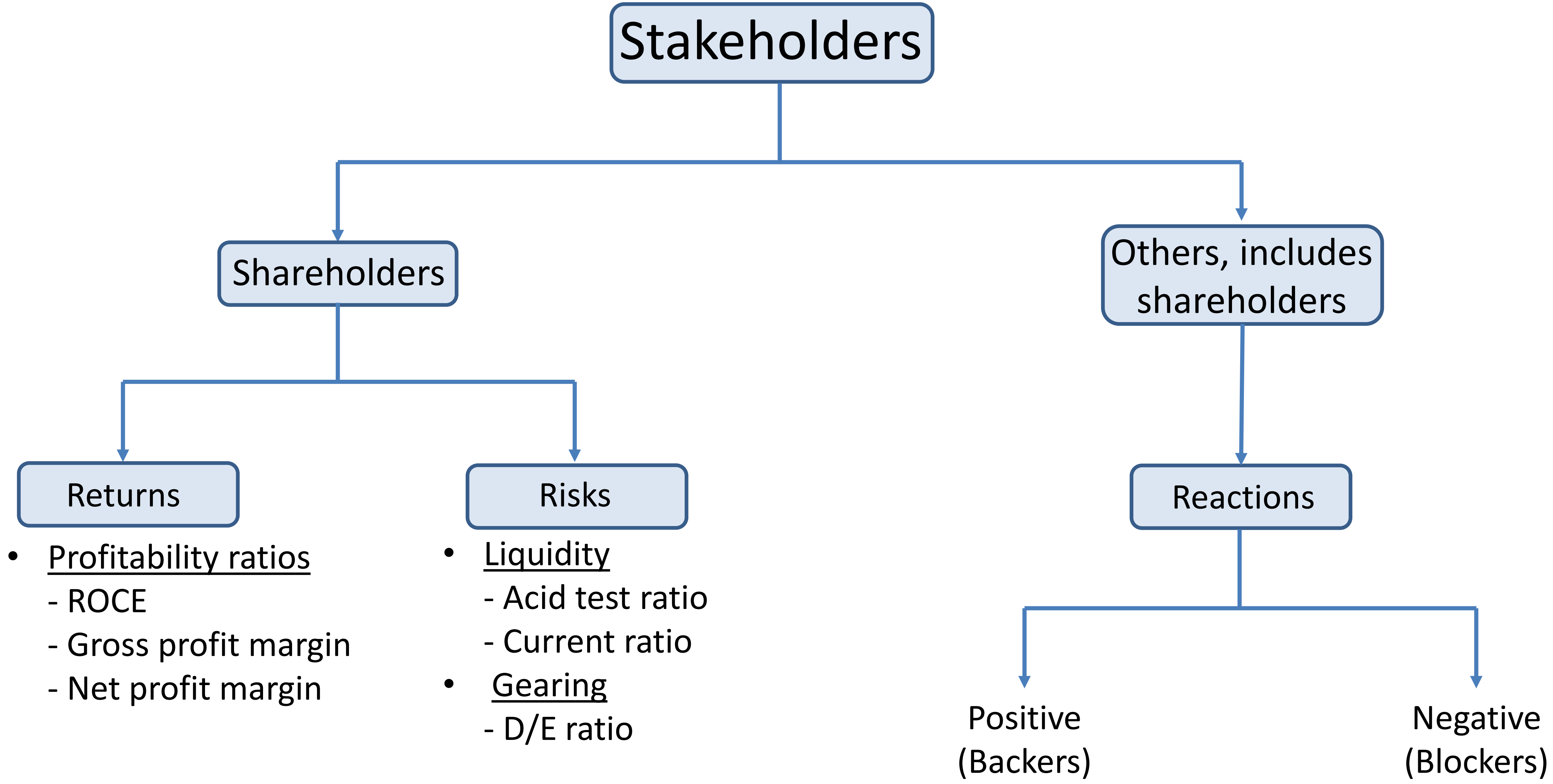
Does it mitigate? **T**

Does it meet:

- stakeholder expectations
- company cultural expectations

Success criteria

B. Acceptability: Is the proposed strategy acceptable to stakeholders?



Success criteria

C. Feasibility: Does the acquirer possess the required capabilities?

Proposed strategy

Goal: Survival or Success/competitive advantage ?

- <u>Threshold capabilities</u>

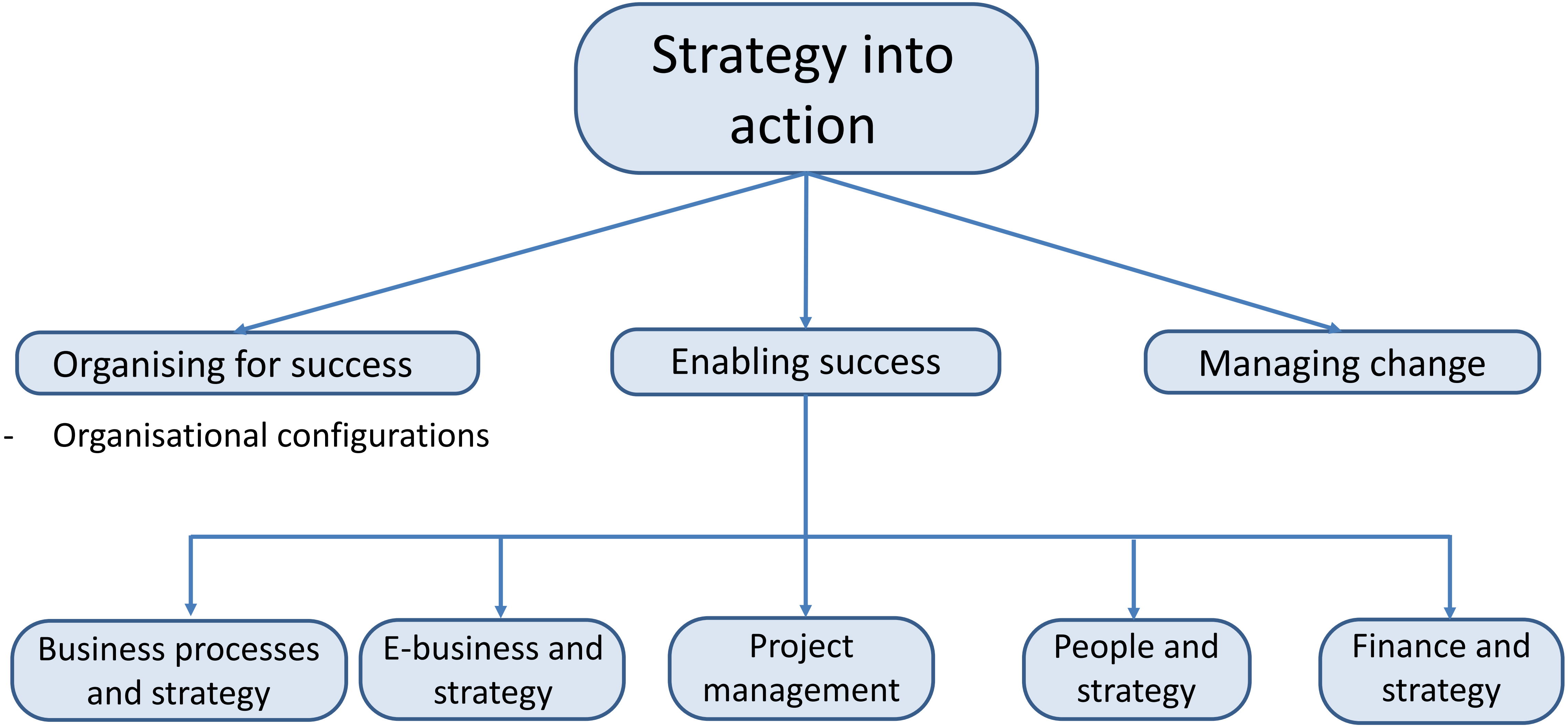
  - Threshold resources

  - Threshold competences

- <u>Strategic capabilities</u>

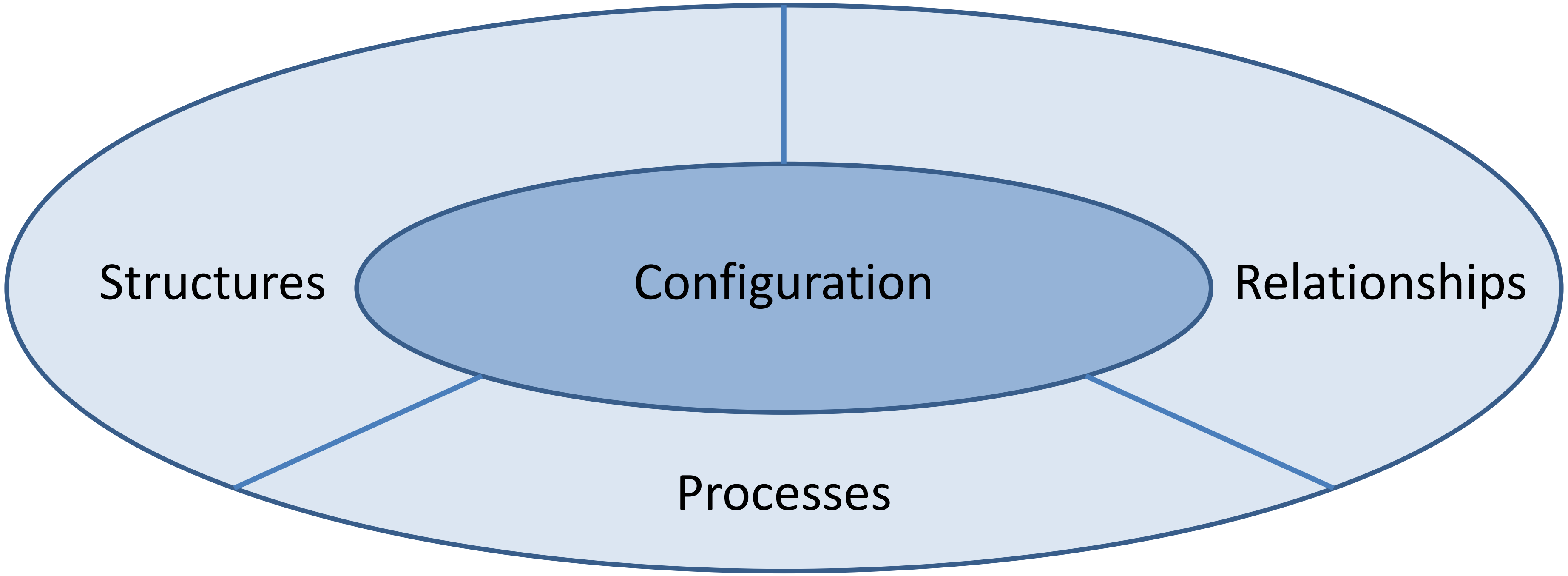
  - Unique resources

  - Core competences


Strategy into action
Organising for success
Enabling success
Managing change
- Organisational configurations
Business processes and strategy
E-business and strategy
Project management
People and strategy
Finance and strategy

Organizational configurations

Structure + Process + Relationship = Configuration



Organizational configurations

Structures

- Entrepreneurial or CEO control structure
- Functional structure
- Multidivisional structure
- Holding company structure
- Matrix structure
- Transnational structure
- Team-based structures
- Project-based structures

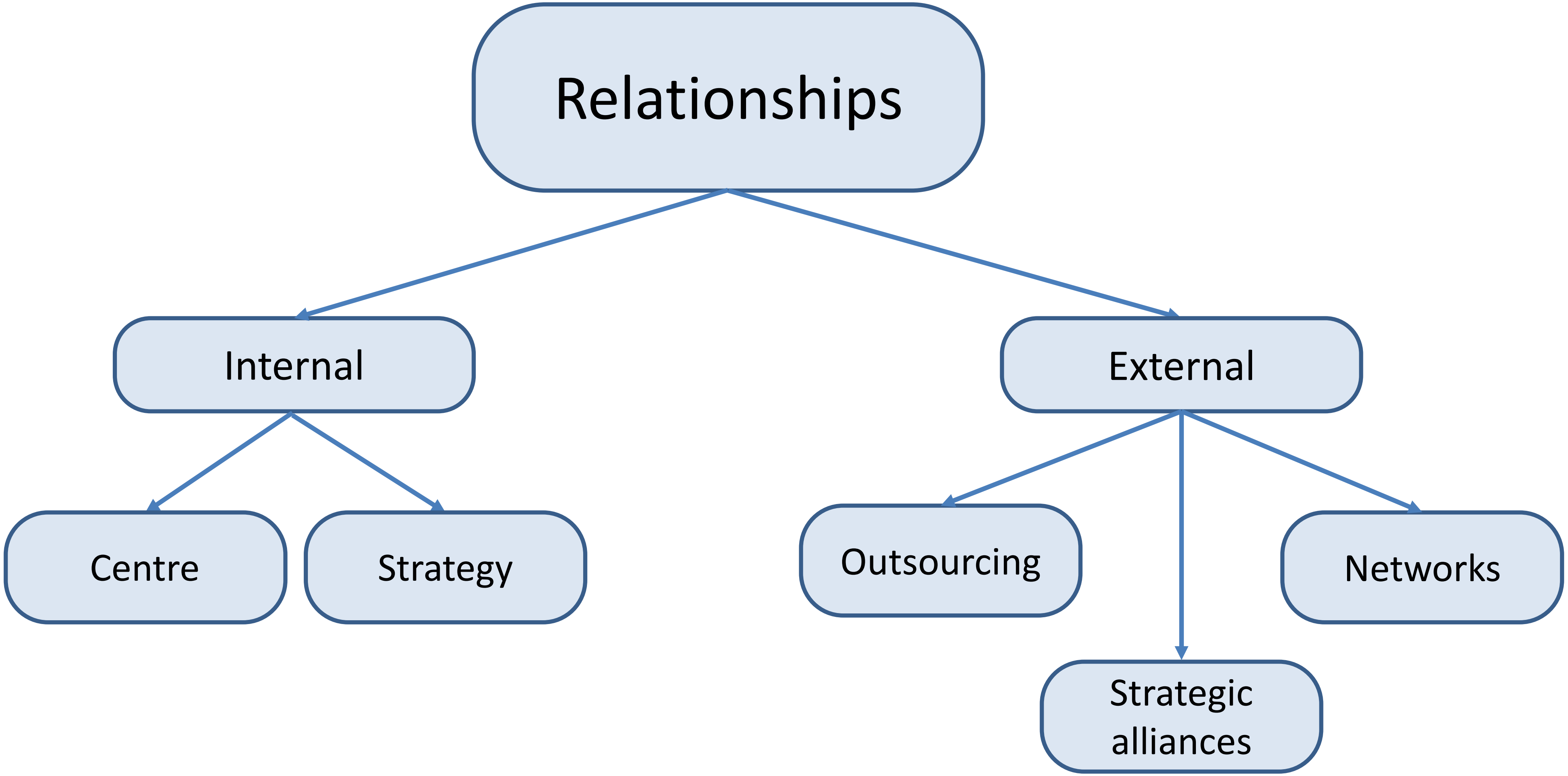
Organizational configurations

Processes

	Input	Output
Direct	• Direct supervision • Planning processes	• Performance targeting
Indirect	• Cultural processes • Self-control	• Internal markets

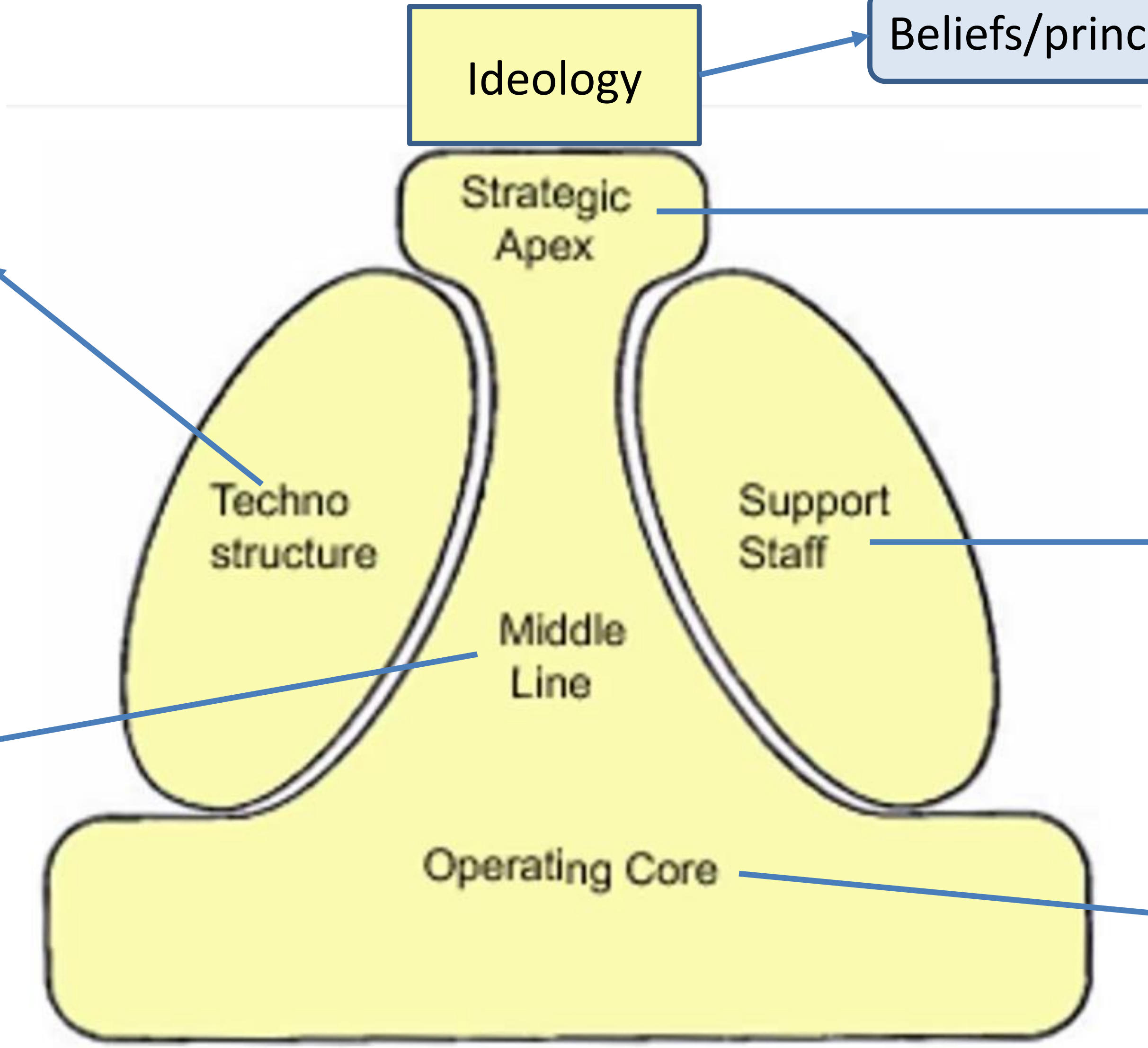
Organizational configurations

Relationships



Organizational configurations

6 components of an organisation



Beliefs/principles/ethics

Top management, normally the parent in larger organisations

Comprises experts and professionals who design the best way of performing processes or delivering outputs

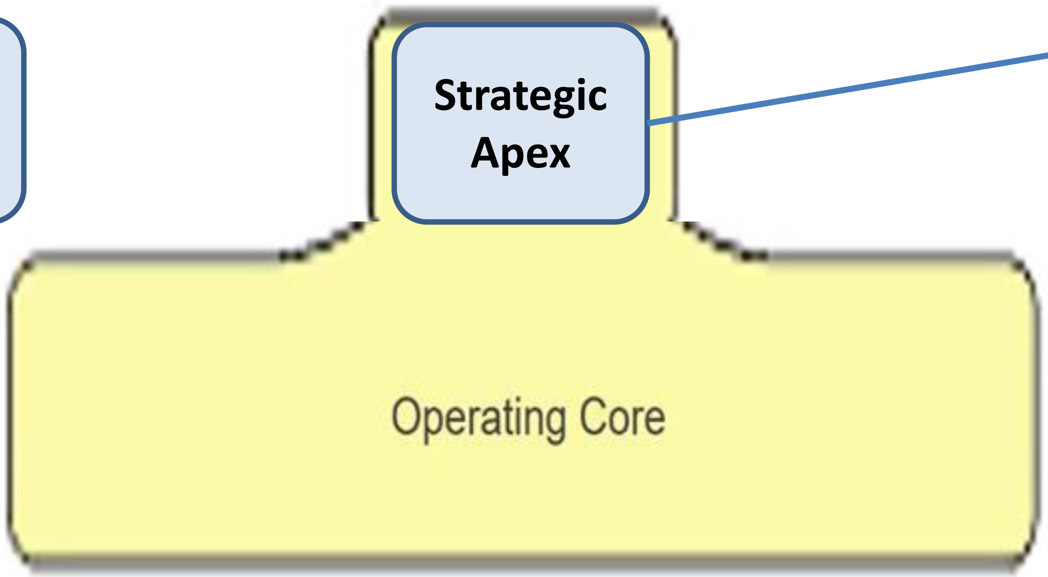
Employees providing ancillary services and functions (non-core activities) independent of the operating core

Managers who interpret and communicate instructions of the strategic apex into a form understood by the operating core

Employees directly involved in the process of obtaining inputs and converting them into outputs

Organizational configurations

Simple structure



Dominant component

Structure

- CEO control

Processes

- Direct supervision

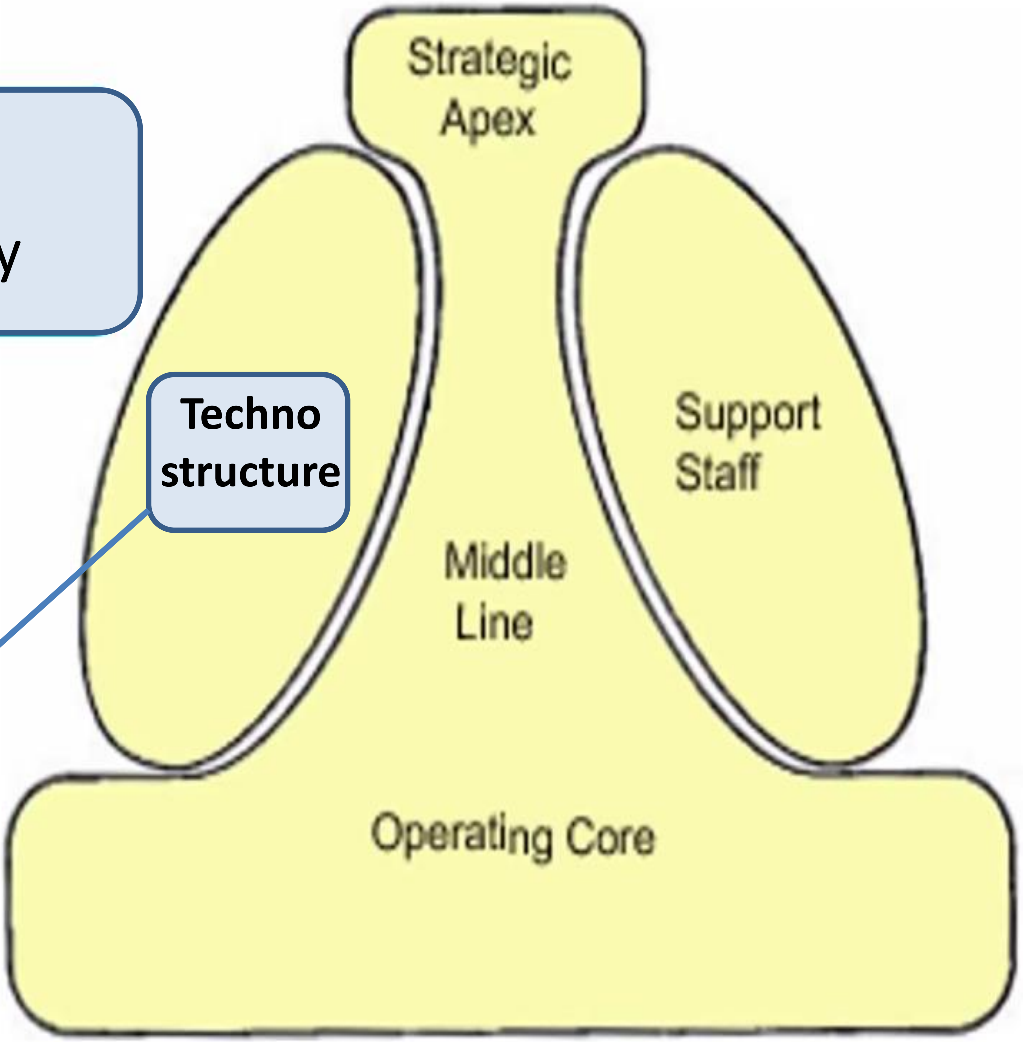
Relationships

- Centralised

Organizational configurations

Machine bureaucracy

- High standardisation of work processes and routines
- Tall structure



Dominant component

Structure
- Functional

Processes
- Planning processes

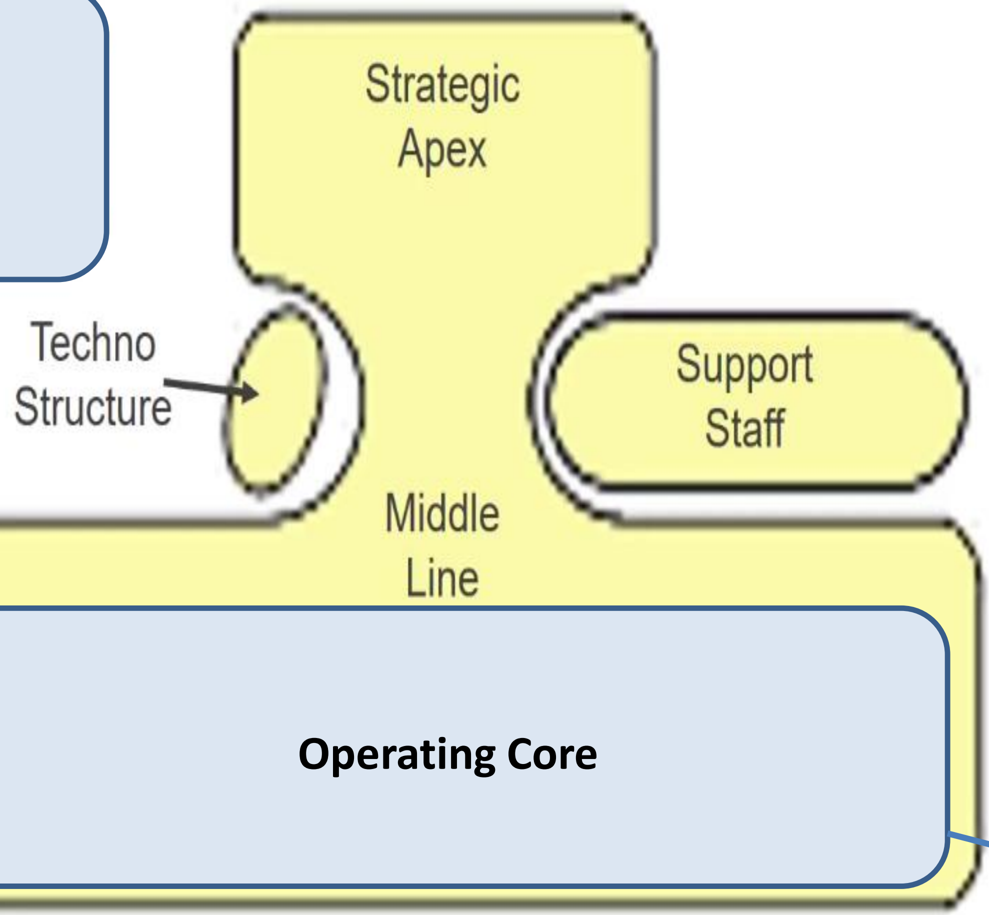
Relationships
- Centralised and strategic planning

Organizational configurations

Professional bureaucracy

- High standardisation of norms and knowledge/data resources

- Flat structure



Dominant component

Structure

- Functional

Processes

- Self-control/cultural processes

Relationships

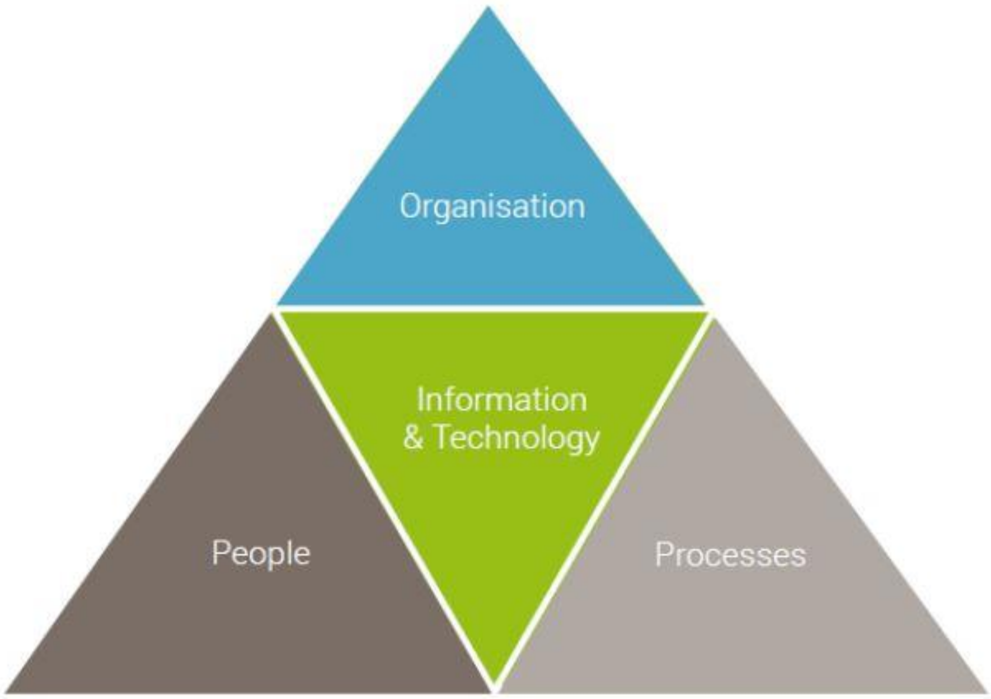
- Decentralised/devolved

Organizational configurations

Situational factors			Design parameters		
Configuration	**Environment**	**Internal factors**	**Typical structure**	**Key processes**	**Typical relationships**
Simple	Simple/dynamic Hostile	Small Young Simple tasks	CEO control	Direct supervision	Centralised
Machine bureaucracy	Simple/static	Old Larger Regulated tasks Technocrat control	Functional	Top-down planning processes	Centralised and strategic planning
Professional bureaucracy	Complex/static	Simple systems Professional control	Functional	Self-control or cultural processes	Devolved

POPIT

- Framework for what the organisation needs to consider when:
  - **analysing** a business system
  - **designing** a business system
- Ensures all aspects and linkages between them considered



Swimlane diagrams

A type of process diagram representing the full documentation of processes and sub-processes concerned

IS process diagram

- Documents existing processes - shows the existing process as it ‘is’

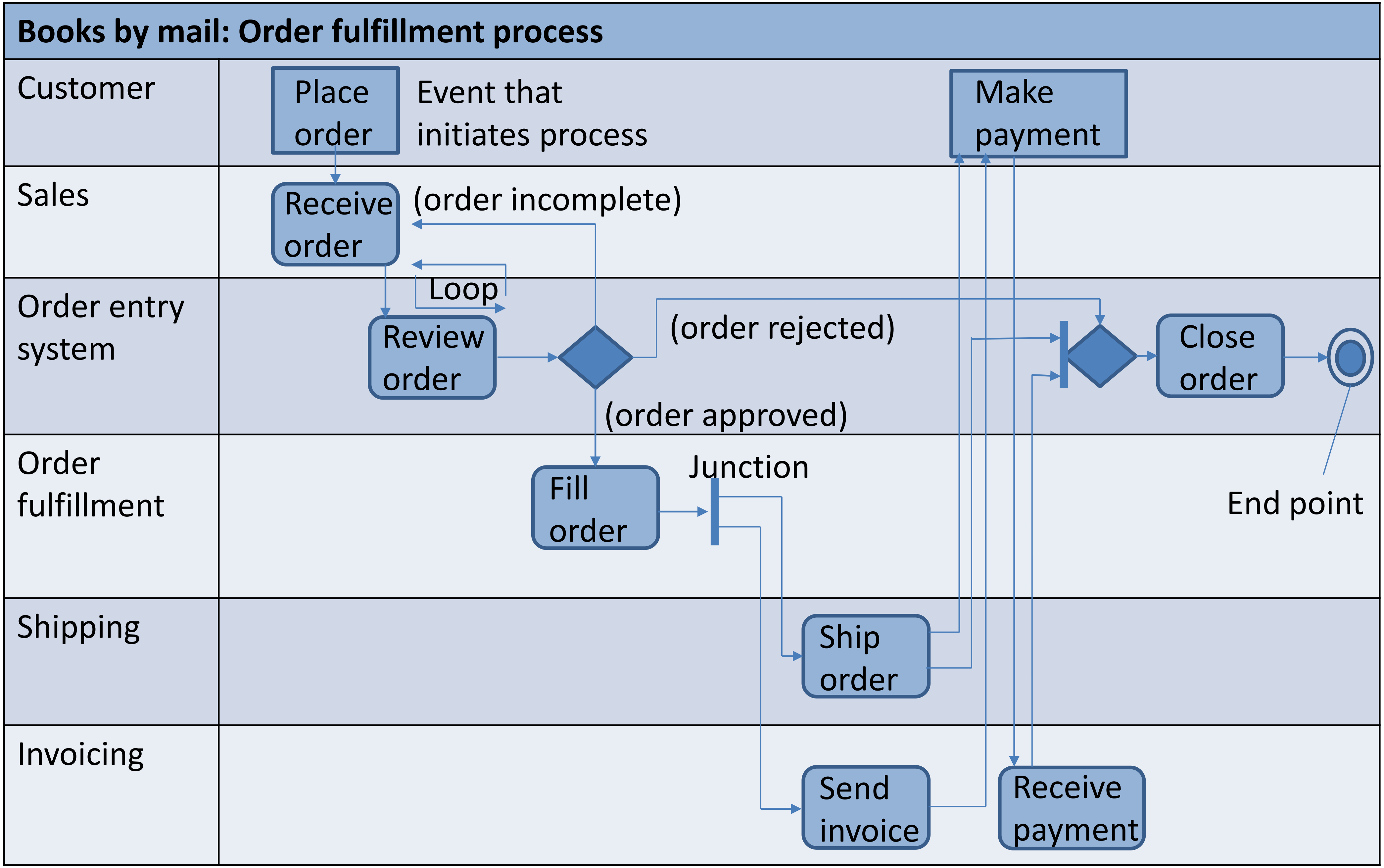
COULD process diagram

- Used to generate alternative workflows once the current processes are understood

SHOULD process diagram

- Used to show the ‘best’ new process, after evaluating the alternatives

Swimlane diagrams



Software package assessment criteria

- Functional requirements (30)
- Non-functional requirements (10)
- Supplier stability requirements (18)
- Initial implementation requirements (8)

Selecting software packages

Identifying potential suppliers and preparing and sending out ITT

↓

Assessing the responses to the ITT (tenders) – first stage evaluation → weighted ranking

↓

Second-stage evaluation → test scenarios; reference sites; financial investigation

↓

Implementation considerations → site preparation; data migration; testing; training; changeover

↓

Managing the long-term relationship → escrow; backward integrate

4Cs (Pricing)

The influences on prices

A. **Costs**

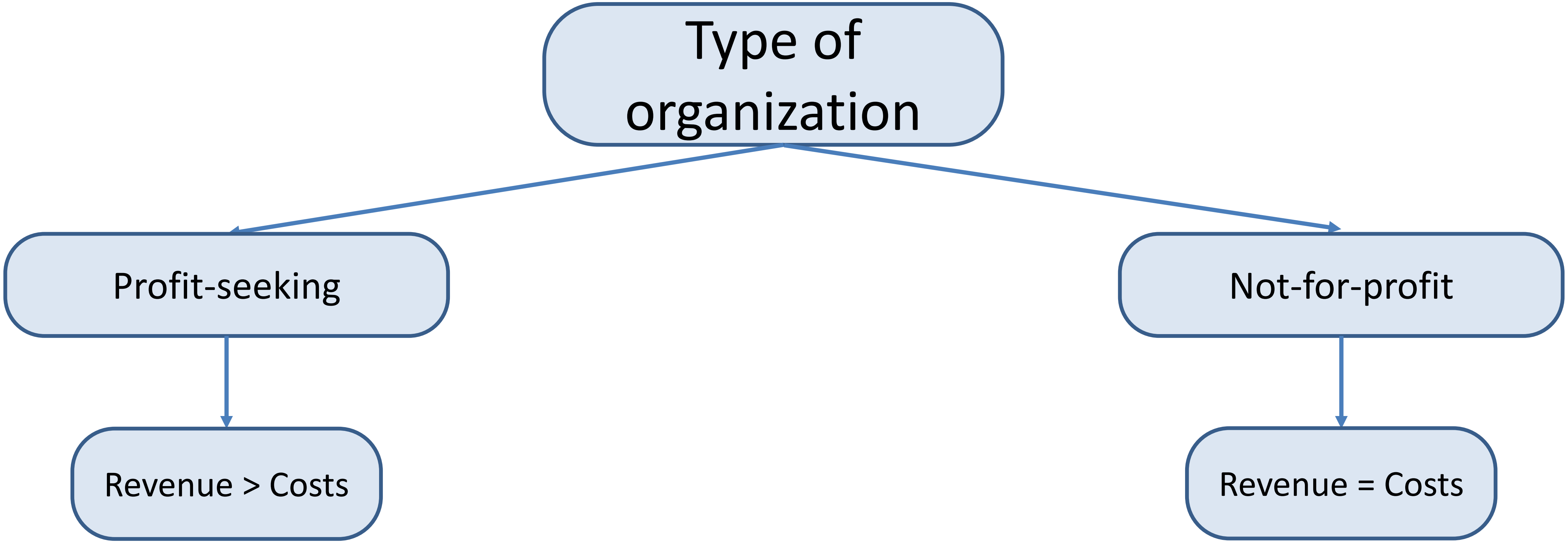
B. **Competition**

C. **Customers**

D. **Controls**

4Cs (Pricing)

A. **Costs**



4Cs (Pricing)

B. Competition → Especially for commodities

4 main types of market, each giving rise to a particular type of competition:

- Perfect competition
- Oligopoly
- Monopoly
- Monopolistic competition

C. Customers/consumers (includes intermediaries)

- Affordability/willingness

D. Controls

- Statute and regulation. E.g. price control by government
- Contracts

Benefits management

A process concerned with the delivery of the predicted business benefits defined in the business case

A. **The business case**

B. **Contents of a business case**

C. **Drivers and investment objectives**

D. **Business benefits**

E. **Changes**

F. **Benefits realization review**

G. **Benefits map**

Benefits management

A. The business case → A document providing justification for investing in a project

- Gives a reasoned account of:
  - Why the project is needed (drivers)
  - What it will achieve (investment objectives and business benefits)
  - How it will proceed (business, enabling, and IS/IT changes)

- Prepared for the board by any individual in the organization who sees a need for the project

- To prevent mission creep

- Important section: cost-benefit analysis (CBA)

- Clearly state rationale and assumptions behind cashflow projections in CBA

Benefits management

B. Contents of a business case

- Drivers of change
- Investment objectives
- Business benefits, including a benefits table
- Project costs
- Cost-benefit analysis
- Risk analysis (technical, economic, and operational – TEO)

Benefits management

C. Drivers and investment objectives

- **Business and organizational drivers**

- Views held by senior managers as to what is important to the business such that changes must occur, in a given timescale
- Should be described in detail in the business case
- To ensure an understanding of why change is needed
- Drivers **external** to an organization
- Drivers arising within (**internal**) the organization

Benefits management

C. Drivers and investment objectives

➢ Investment objectives

- Organizational targets agreed for the investment in relation to the drivers
- Paints a successful picture of the way things will be, if the project is completed successfully
- Projects should have few clearly stated investment objectives
- Each investment objective should explicitly address 1 or more of the drivers
- Objectives should therefore be **SMART**

Benefits management

D. Business benefits

Degree of explicitness	Do new things	Do things better	Stop doing things
Financial	• Attributable and by applying a valid financial formula to a quantifiable benefit, a financial value can be created		
Quantifiable	• Sufficient evidence exists to attribute and forecast how much improvement/benefit should result from the changes		
Measurable	• Attributable but not possible to predict by how much performance will improve when the changes are complete. Can only be measured after the investment by comparing against baseline		
Observable	• By use of agreed criteria, specific individuals/groups will decide, based on their experience or judgement, to what extent the benefit has been realized		

Benefits management

E. Changes → 3 types:

- ➢ Business changes
- ➢ Enabling changes
- ➢ IS/IT changes

➢ **Business changes**

- New ways of working, required to ensure the desired benefits are realized
- The way the organization wishes to work 'for ever more'
- Cannot be made until the new system is available, i.e. the necessary enabling changes have been made

Benefits management

E. Changes

- **Enabling changes**

- Prerequisite changes for achieving the business changes
- Often one-off, made before the new system can be introduced
- Required before the system goes live, or shortly thereafter

Benefits management

E. Changes

- **IS/IT changes**

- Information systems and technology changes required to support the realization of identified benefits
- May or may not require the purchase/development of new systems
- To consider what IS/IT is 'sufficient to do the job'
- To enable organizations to clearly understand what IS/IT systems are required and what are not

Benefits management

F. Benefits realization review → Compares actual costs and benefits against the planned costs and benefits in the business case

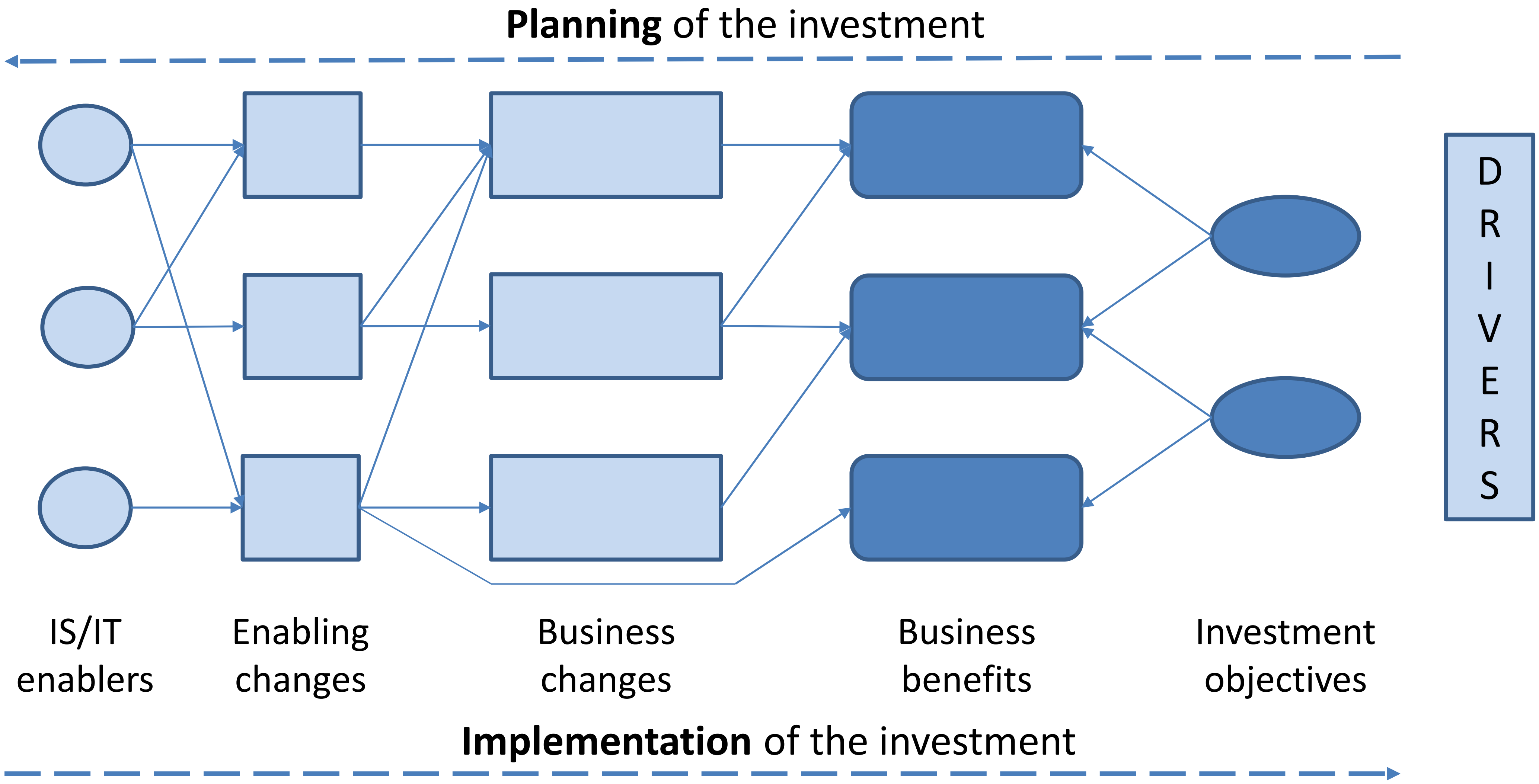
- Purposes:

- To determine which planned benefits have been achieved
- To identify any unexpected benefits and disbenefits
- To understand why certain benefits were or were not achieved
- To improve the organization’s benefits management process

- Should involve all key stakeholders
- Should not become a ‘witch-hunt’

Benefits management

G. Benefits map



Leadership and leadership theories

A. **Leadership styles (classical and modern)**

B. **Transactional and transformational leaders**

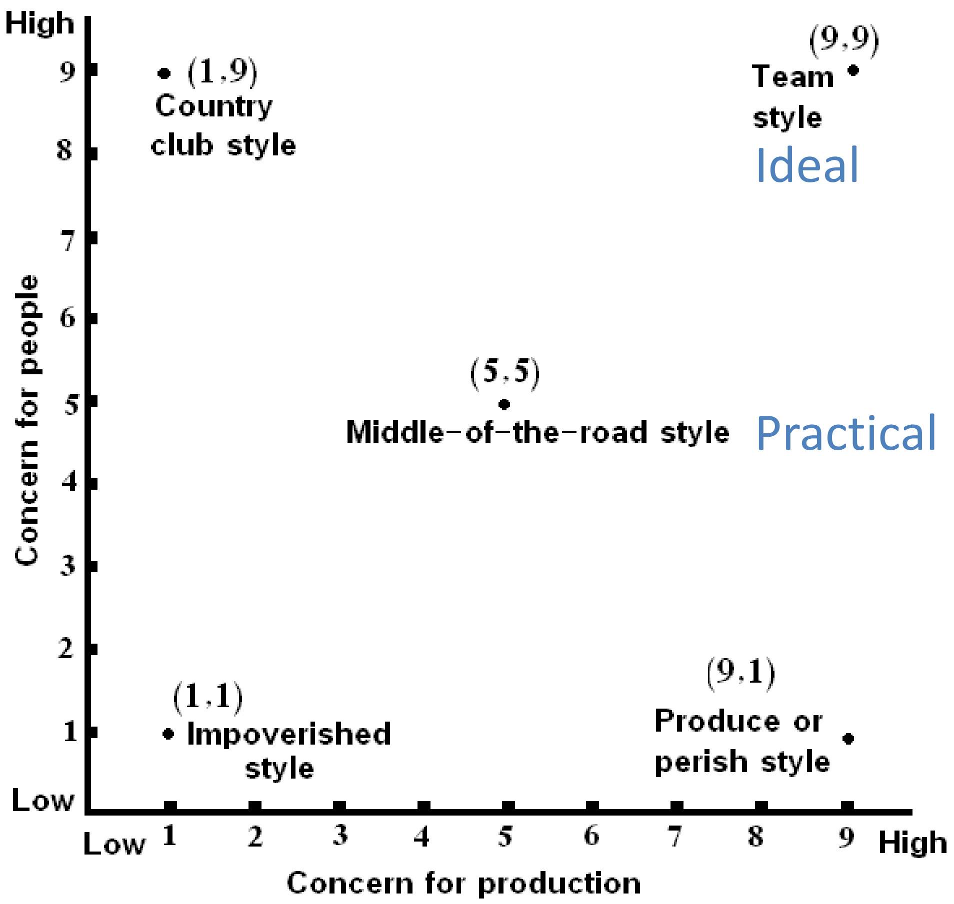
Leadership and leadership theories

A. Leadership styles

- **Classical** → There is 1 best way to lead people

- Trait
  Leaders are born

- Style/behaviour
  Leaders are made



Blake and Mouton’s management grid

Leadership and leadership theories

A. Leadership styles

- **Modern** → There is **no** 1 best way to lead people

- Contingency
  Leadership depends on the circumstances faced by the leader

Handy's best fit theory

	Tight		Flexible
Leader	Strict, authoritarian, supervises very closely. Issues orders		Participative, trusting, likes consensus
Subordinates	Prefer to be ordered; dislike risk and change. Do not crave responsibility		Want to think for themselves and contribute to solutions. Want a challenging variety of tasks
Task	Simple, repetitive		Complex, novel, unstructured

- All works well if the 3 elements line up. If mismatched, things go wrong

Leadership and leadership theories

B. Transactional and transformational leaders

- **Transactional leaders**

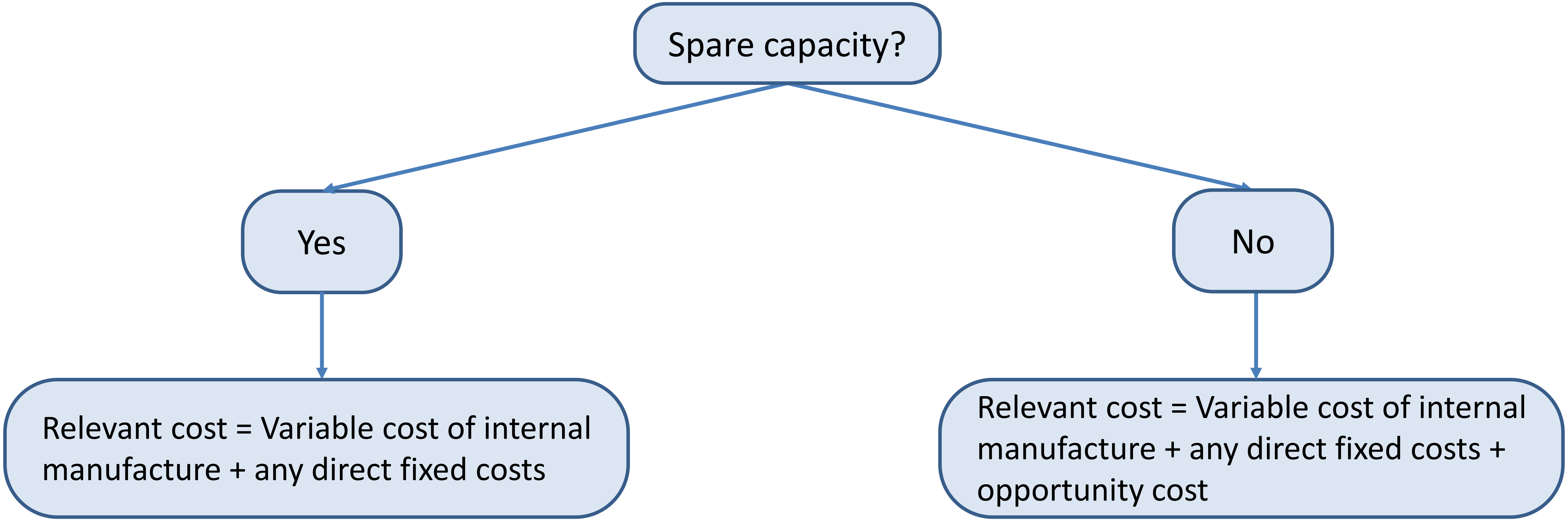
- Good managers
- More concerned about the means
- Good in organizing, planning, directing and controlling
- Prefer to take instructions from the top
- Not necessarily motivators

- **Transformational leaders**

- Good leaders
- More concerned about the ends
- Visionaries
- Great motivators

Make or buy (outsourcing)

Is relevant in-house cost < cost of buying externally?



Make or buy (outsourcing)

In addition to the relative cost of buying externally compared to making in-house, qualitative factors must also be considered:

- Reliability of external supplier
- Specialist skills
- Alternative use of resource
- Social – green consumers and unemployment
- Legal
- Confidentiality
- Customer reaction

Decision tree

└→ Diagram that illustrates the decision-making scenario

Components:

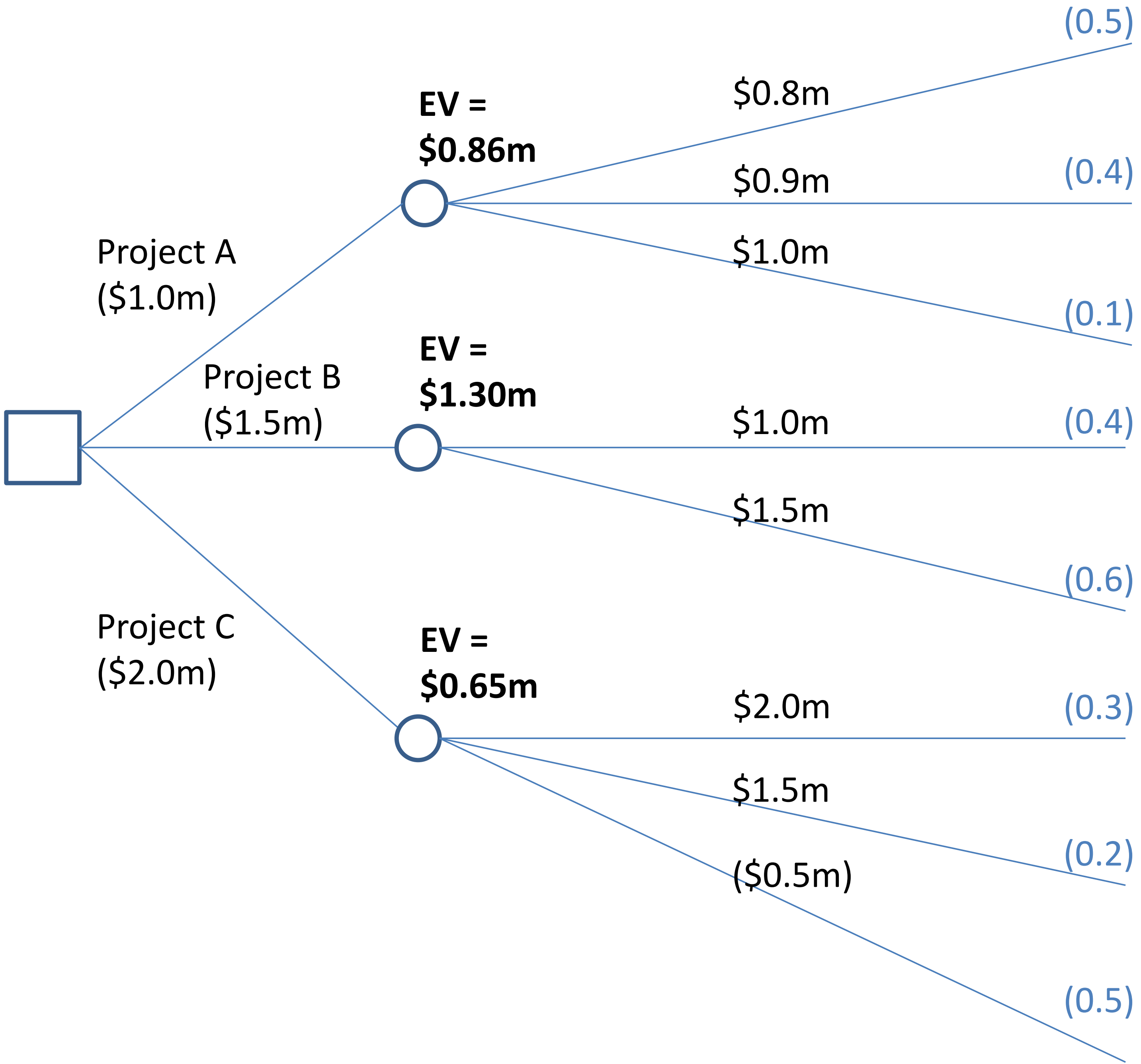
□ → Decision node

○ → Chance node

Example:

	Cost	Profit or (loss)/Probability					
3 alternatives – Project A	\$1.0m	\$0.8m	0.5	\$0.9m	0.4	\$1.0m	0.1
Project B	\$1.5m	\$1.0m	0.4	\$1.5m	0.6		
Project C	\$2.0m	\$2.0m	0.3	\$1.5m	0.2	(\$0.5m)	0.5

Decision tree



Financial/ratio analysis

A. Profitability and return

B. Liquidity/short term solvency

C. Financial stability/long term solvency

D. Efficiency/working capital

E. Shareholders’ investment ratios

Financial/ratio analysis

A. Profitability and return

Return on capital employed (ROCE)	$\dfrac{\text{PBIT/operating profit (excluding investment income)}}{\text{Capital employed (TA-CL/Equity+NCL)}}$
Gross profit margin	$\dfrac{\text{Gross profit}}{\text{Sales}}$
Operating (net) profit margin	$\dfrac{\text{PBIT}}{\text{Sales}}$
Asset turnover	$\dfrac{\text{Sales}}{\text{Capital employed}}$ (times)
Return on owner's equity (ROOE)	$\dfrac{\text{Earnings (Net profit-Preference dividend)}}{\text{Equity}}$

Note: Equity excludes preference shares; NCL includes preference shares

Financial/ratio analysis

B. Liquidity/short term solvency

Current ratio	$\frac{CA}{CL}$ (1.5-2:1)
Quick/acid test ratio	$\frac{CA-Inventory}{CL}$ (1:1)

C. Financial stability/long term solvency

Gearing/leverage	$\frac{NCL}{Equity}$ **or** $\frac{NCL}{Equity+NCL}$
Interest cover	$\frac{PBIT}{Interest}$ (times)

Note: Equity excludes preference shares; NCL includes preference shares

Financial/ratio analysis

D. Efficiency/working capital

Accounts receivable collection period/debtors day	$\frac{\text{Receivables}}{\text{Credit sales}} \times 365$ days
Inventory turnover period	$\frac{\text{Inventory}}{\text{Cost of sales}} \times 365$ days
Accounts payable payment period/creditors day	$\frac{\text{Payables}}{1\ \text{Credit purchases}/2\ \text{cost of sales}} \times 365$ days

Note: For receivables, inventory and payables → 1 Use average

2 Use closing

Financial/ratio analysis

E. Shareholders' investment ratios

Earnings per share (EPS)	$\frac{\text{Earnings}}{\text{Number of ordinary shares}}$
Price/Earnings (P/E) ratio	$\frac{\text{Share price}}{\text{EPS}}$
Dividend per share (DPS)	$\frac{\text{Ordinary dividends}}{\text{Ordinary share capital}}$
Dividend yield	$\frac{\text{DPS}}{\text{Current share price}} \times 100\%$
Dividend cover	$\frac{\text{Earnings}}{\text{Ordinary dividend}}$ **or** $\frac{\text{EPS}}{\text{DPS}}$ (times)