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ACCA SBL | Express Notes

Strategic Business Leader

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Steve Crossman
CEO The ExP Group

Hello

Thank you for downloading a copy of these ExPress notes and I hope you find them useful for your studies.

We provide these ExPress notes free of charge to individual students as part of our CSR initiatives. The notes are designed to help students assimilate and understand the most important areas for the exam as quickly as possible.

A word of warning though in that they have not been designed to cover everything in the syllabus so you should only use these notes for either an overview of the key areas before you start your main studies or as part of your final revision in the run up to your exams.

Importantly though, we want you to be successful in your exams so good luck with your studies and please do let us know how you get on.

All the best,

Steve

About The ExP Group

We were born with one passion, with one aim, with one desire. To use technology the way it should be used. To use technology to open up education, and in particular financial education, to whoever needs it regardless of their income, wealth, race, sex, religion or location.

We wanted to use technology to empower individuals to develop themselves through financial expertise, organisations to improve their performance through enhanced human capital and ultimately communities and families to benefit as a result.

We're on target and since our birth we have had the privilege of working with and learning from inspirational individuals and organisations from all 4 corners of the world in countries as varied as the UK in the north, Singapore in the east, South Africa in the south and the Cayman Islands in the west.

We're only part way through our journey but we're doing better than we expected. The best is yet to come though,

Education + Technology = Ethical Empowerment.

Thank you for being part of our story.

01

Concepts of Strategy

The Big Picture

This chapter provides us with a number of key definitions as well as an introduction to some of the main strategic models.

Key Knowledge – Definitions & strategic models

Key definitions:

Strategy: Various definitions are present but a straightforward view is "Strategy is a plan of action designed to achieve a particular goal"

Strategic planning: An organisation's process for ascertaining the strategy it should adopt, taking into account what they want to do, how they are going to do it and what resources they will need. Strategic planning covers where the organisation is planning on going, impacts on the whole organisation and involves the long term view. Note the distinction in what is meant by "long term" (for example the "long term" is different when comparing the airline industry with the fashion industry.)

Strategy Hierarchy:



Corporate

Corporate strategy: covers the "big view" of the organisation. It answers the question "What business or businesses should we be in?"

Business

Business strategy: the strategy of a single business organisation or the strategies of strategic business units (SBUs)

Functional

Functional (or operational) strategy: the functional strategies involving items such as marketing, IT and HRM that support the business strategy.

It is important that the strategies support each other. For example, if the Business Strategy of a SBU revolves around providing high quality consultancy advice on certain areas, a functional strategy for HRM of minimising labour costs would cause problems.

Johnson, Scholes and Whittington (JSW) model of strategic planning



- Strategic position – analysis of external environment, internal capabilities, culture and stakeholders. These affect the present and future success of the organisation.
- Strategic choice – how to compete (Porter), direction of growth (Ansoff) and method of growth (acquisition vs organic).
- Implementation of strategy – structure of organisation, resources planning and managing change.

Strategic drift

- A situation where organisation's strategy gradually moves away from the forces at work in its environment.

02

Strategic Analysis

The Big Picture

In order to design suitable strategic plans, an organisation needs to analyse its strategic position. This includes analysis of the external environment and the internal capabilities that the organisation possesses. This chapter looks at a number of methods of reviewing the environment surrounding an organisation. It then goes on to examine strategic capabilities and value chain analysis.

Key Knowledge – PESTEL (or PEST or SLEPT) Analysis

An analysis of the external macro environment. The organisation is unlikely to be able to influence these factors but it should have an awareness of the issues.

Political - global, national and local changes and trends. Taxation policies. Relationships between certain countries.

Economic - global, regional and local issues. Exchange rates. Link to topical issues such as global recession, current interest rates for funding.

Social - changes in behaviour and expectations in society. Demographics, lifestyle.

Technological - changes including hardware, software, e-issues, materials and services. Global communications.

Environmental – what are the environmental considerations such as recycling, pollution, attitude of the media, customers, etc.

Legal - changes and predicted changes to regional (e.g. EU) and national legislation. Regulatory bodies. Changes to employment law.

Key Knowledge – Porter's 5 Forces

This model examines the role of five forces that determine how attractive a particular market/industry is.



1. Buyer power

The stronger the power of the customer the more pressure it can place on the company. Issues to consider include the size of the customer relative to the firm's customer base, switching costs and availability of substitute products.

2. Supplier power

Suppliers of materials and services can exercise power over an organisation. This depends on the level of differentiation of the product, presence of substitute products, etc. Compare the power of Intel supplying computer chips to the computer industry vs. a sugar producer supplying sugar to a soft drinks manufacturer.

3. Competitive rivalry

The rivalry will depend on the number and strength of competitors, economies of scale and exit barriers.

4. Threat of new entrants

Markets generating high returns will attract new entrants that in turn could reduce industry profits. Barriers to entry such as government licenses (mobile phone operators) are important in reducing the threat of new entrants.

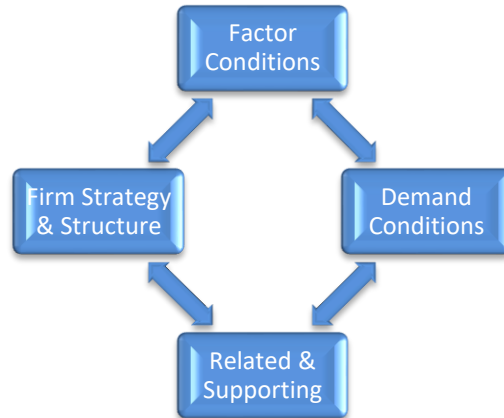
5. Threat of substitutes

If there are similar products, a customer will be more likely to switch rather than stay with a product when there are price rises (elastic demand).

Key Knowledge – Porter's Diamond

This is a model outlining the theory why certain industries are competitive in particular locations.

There are four broad factors within the diamond.



Factor conditions include physical resources, human resources and specialised resources.

Demand conditions. A country with sophisticated home buyers who "demand" quality, advanced and innovative products can create international competitiveness.

Related and supporting industries can produce inputs for a company which feed into the success of the business.

Firm strategy, structure and rivalry. Competition in the home market drives innovation and quality. Protectionism can weaken a market.

Key Knowledge – Strategic capabilities, resources and competences

Strategic capabilities: These result from the organisation's resources (e.g. machinery) and its competencies (ability to use those resources)

Threshold resources and competencies: These are the minimum required by an organisation to meet customer's minimum requirements. In effect, this is what is required to stay in business.

Core competencies: These are processes and activities undertaken by an organisation that are seen as being central to their success. Core competencies are capabilities that are critical to a business achieving competitive advantage.

They provide customer benefits and are difficult for competitors to imitate.

A core competency can take many forms such as technical knowhow or customer relationships.

Amazon.com has a number of core competencies such as reliable and efficient online ordering and delivery system.

Key Knowledge – Critical success factors (CSF)

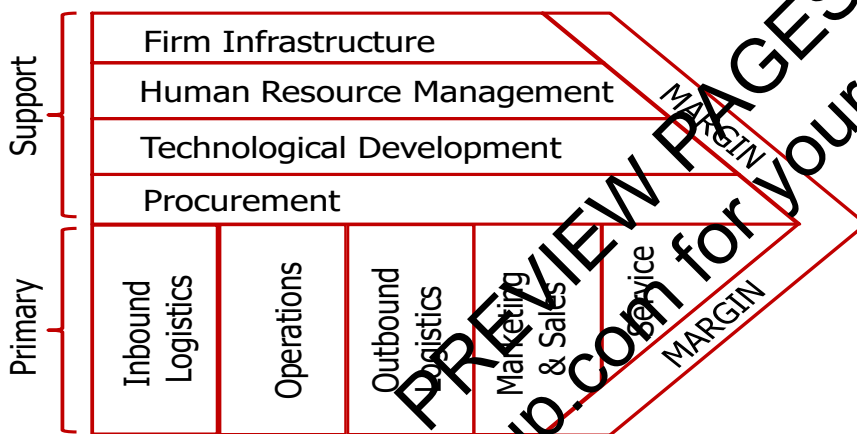
Definitions

The areas of the business that must be performed well if the business is to achieve its mission and objectives.

CSFs will vary from industry to industry. An example of a CSF for an online food delivery company would be prompt and accurate home delivery.

Key Performance Indicators (KPIs) measure the performance of the CSFs.

Key Knowledge – Porter’s value chain



Porter’s value chain represents a series of activities that both create and build value. Combined they represent the total value delivered by an organisation. The “margin” in the diagram is the added value (the difference between the total value of the activities and the cost of performing them). The model is used to help businesses identify which activities give it a competitive advantage.

Key Knowledge – SWOT

Strengths (internal) e.g. resources and capabilities	Weaknesses (internal) e.g. lack of certain resources or capabilities
Opportunities (external) e.g. arrival of new technology	Threats e.g. arrival of substitute product

03

Performance
Analysis

The Big Picture

Assessing the performance of an organisation is a skill that you should already have developed from the earlier performance management (PM) paper. This section also deals with Benchmarking and the Baldrige model for world-class organisations to achieve performance excellence.

Key Knowledge – Revision of financial ratios

- $ROCE = \frac{\text{Profit before interest and tax}}{\text{Equity plus long term debt}} \times 100$
- $\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100$
- $\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}} \times 100$
- $\text{Asset turnover} = \frac{\text{Sales}}{\text{Equity plus long term debt}}$
- $ROCE = \text{operating profit margin} \times \text{Asset turnover}$
- $\text{Current} \frac{\text{Current assets}}{\text{Current liabilities}} \text{ ratio} = \times 100$
- $\text{Gearing ratio} = \frac{\text{Debt}}{\text{Equity plus debt}} \times 100$
- $\text{Interest cover} = \frac{\text{Profit before interest and tax}}{\text{Interest expense}} \text{ times}$

Non-financial performance measures

Performance should not focus on profit alone. There should be a mix of financial and non-financial measures

KPIs measure how the organisation performs in relation to its critical success factors.

Key Knowledge – Benchmarking

Benchmarking is the process of comparing the performance of a service or process with the “best in class”. Benchmarking can be used throughout the strategic planning process.

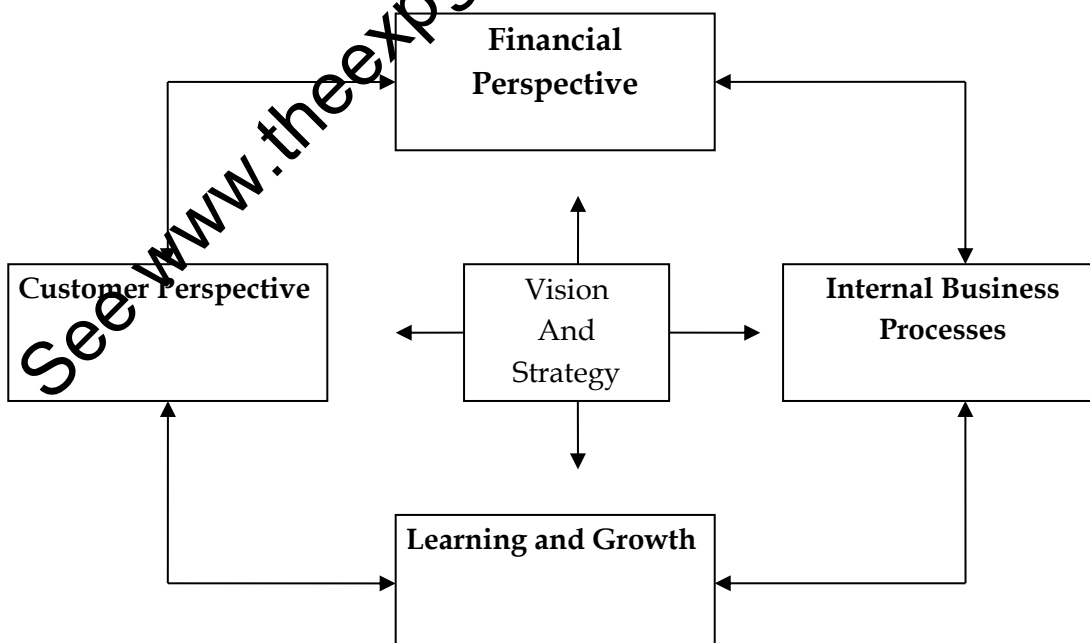
Various types of benchmarking:

- Internal
- Competitive/ industry
- Activity
- Generic

Key Knowledge – Balanced Scorecard

Measures performance from four perspectives.

- **Financial** – how do we look to our shareholders?
- **Customer** – how do our customers see us?
- **Internal business** – what must we excel at?
- **Learning and growth** – how must we grow and change to meet changes in the business environment?



Key Knowledge – Baldrige model

Baldrige model provides a number of criteria for performance excellence across seven categories:

- Leadership – the ability of senior leadership to set strategic objectives and lead the organisation. It also considers corporate governance structure and how an organisation considers its wider social responsibilities
- Strategies – the ability to develop clear strategies and implement them
- Customers – how well does the organisation build long term relationships with customers
- Measurement, analysis and knowledge management
- Workforce – how do you build up an effective workforce
- Operations – how do you manage and improve your key products and work processes
- Results – what are your results from measuring all of the above

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