The Association of Accountants and Financial Professionals in Business

Statement on Management Accounting

STRATEGIC ANALYSIS— METHODS FOR ACHIEVING SUPERIOR AND SUSTAINABLE PERFORMANCE

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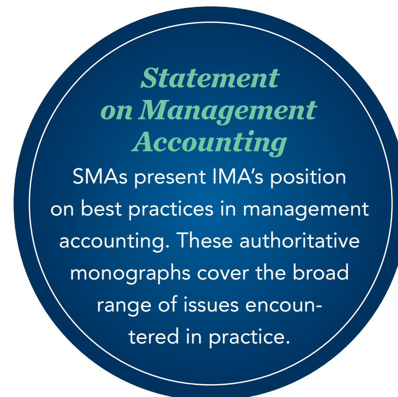

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EXECUTIVE SUMMARY

This IMA® (Institute of Management Accountants) Statement on Management Accounting (SMA) is designed for today's management accounting and financial professionals seeking to engage in strategic planning, analysis, and execution. The overall objective of this SMA is to help management accounting professionals play a valuable leadership role in the strategic management and strategic analysis processes of their organizations. It emphasizes the importance of developing a connection and alignment between the strategy, strategy execution, budgets, and financial performance to create greater long-term sustainable value for shareholders and stakeholders.

With their business and financial acumen, management accounting professionals have a great opportunity to play a valuable leadership role in the strategic management and strategic analysis processes of an organization. This SMA includes both traditional strategic analysis tools, methods, and frameworks such as Porter's Five Forces and SWOT analysis as well as the latest developments such as Blue Ocean strategy, Good to Great, creating shared value, disruptive innovation, Return Driven Strategy, reverse innovation, strategic risk management, and others. The tools, methods, and frameworks are organized into three types: (1) environmental scan and competitive analysis, (2) internal/external analysis, and (3) innovation, change, and market disruption. It includes case examples of companies achieving sustainable high performance (Apple, Netflix, The LEGO Group, and others) to illustrate the power of strategic analysis aligned with creating greater long-term sustainable value. •

INTRODUCTION

The term "strategy" refers to the strategic objectives and strategic activities that an organization employs to achieve superior and sustainable performance for an organization. Strategy describes an organization's intentions and aspirations regarding how it intends to create future value for its stakeholders. A competitive strategy means deliberately choosing a set of processes and activities to deliver a unique mix of value. Some strategy choices are incompatible. Thus, a company has to choose not only what strategy to follow but also what strategy not to follow. Successful strategies require an understanding of an organization's long-term goals, competition, resources, and effective implementation of strategy to achieve long-term goals. *Strategic analysis* is the process organizations must go through to make the right strategic choices.

The objectives of this SMA are to help management accountants and others to:

- Learn about innovative ways that management accountants and CFOs can add value to the strategic analysis process.
- Be able to apply traditional and newer strategic analysis and strategic planning concepts, tools, methods, and frameworks, organized into three types: (1) environmental scan and competitive analysis, (2) internal/external analysis, and (3) innovation, change, and market disruption.
- Identify key factors affecting strategic analysis today and ways to address them.
- Help lead strategic analysis to achieve superior and sustainable performance in today's global economy.
- Learn how strategic analysis can help organizations to create long-term sustainable value.

Strategic Analysis and the **Role of the Management Accountant**

This section describes the need for effective competitive strategy in today's environment, why strategic thinking and analysis skills are critical for management accountants, and ways management accountants can play an active role in the strategic analysis process. While a complete discussion of strategic management is beyond the scope of this SMA, this report focuses on tried and true as well as newer strategy analysis tools, methods, and frameworks. To learn more about the broader strategic management system, see the IMA Strategy and Competitive Analysis Learning Series®, available at www.imanet.org/csca-credential.

a. The importance of strategy in today's competitive marketplace

With the increasing complexity, volatility, uncertainty, and pace of change and competition in today's global marketplace, the need for strategic analysis and execution has never been greater. For example, with a slowing market for

smartphones, both Apple and Samsung turned to a strategy of high premium prices for their flagship products. The strategy has gone well for Apple, while Samsung has stumbled. Apple continues to add new features to both the iPhone itself and its iPhone operating system—and customers have been willing to pay the higher prices. Samsung, on the other hand, has seen sales decline for its flagship Galaxy S9 as consumers have not been impressed enough to pay the high price and are increasingly choosing less expensive devices made by Android rivals.[1]

More than 20 years ago, Michael Porter published a *Harvard Business Review* article titled, "What is Strategy?" In it, he wrote "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a *unique mix of value.*"[2] It is also about saying "no" to activities or products or services that are inconsistent with that mix of value. Creating the unique mix of value is what strategic analysis is all about. It requires identifying and developing a position not already occupied by others. The profit model is built with a clear strategic focus that creates and delivers value in a way that others cannot. Walmart, for example, delivers value as a low-cost provider, while Apple delivers value with differentiated technology products. JetBlue Airways focuses on certain airline routes, while Whole Foods Market caters a differentiated offering to a select consumer type.

"Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a *unique mix of value.*"

Strategy is also about strategic intent as described by Gary Hamel and C.K. Prahalad in their landmark *Harvard Business Review* article, "Strategic Intent."[3] The idea is to have an ambition beyond current resources and capabilities. It is a long-term, ongoing obsession to achieve global leadership. This approach suggests that companies should expand their resources to meet their ambitions rather than limiting strategies to existing resources. Examples of this approach would include how Canon sought to "beat Xerox" in the 1970s and Komatsu set out to "encircle Caterpillar."

Management accountants are in a unique position to oversee and even lead the strategic analysis process. To do so, however, requires strategic thinking and strategic analysis skills.

[1] Tripp Mickle, "Diverging Fortunes: High Prices Propel Apple, Sink Samsung," *The Wall Street Journal,* August 1, 2018, www.wsj.com/articles/diverging-fortunes-high-prices-propel-apple-sink-samsung-1533135010.
[2] Michael E. Porter, "What Is Strategy?" *Harvard Business Review,* November-December 1996, pp. 61-78, hbr.org/1996/11/what-is-strategy.
[3] Gary Hamel and C.K. Prahalad, "Strategic Intent," *Harvard Business Review,* July-August 2005, hbr.org/2005/07/strategic-intent.

b. Why strategic thinking and strategic analysis skills are critical for today's management accounting professionals

In today's environment, strategic thinking and strategic analysis are skills that enable management accounting professionals to create greater financial value within their organizations. Research at the DePaul University Center for Strategy, Execution and Valuation found that a key strategic leadership skill is the ability to think, act, and communicate strategically.

In a survey conducted by IMA and Deloitte, "strategic thinking and execution" was the top capability identified as most in need of improvement in the controllership function.[4] Contributing to this need is the time required to perform traditional tasks, such as closing the books and financial reporting, as well as other top management priorities and inadequate information systems. The IMA-Deloitte study found that controllers spend an average of around 70% of their time on these traditional tasks, leaving little time for strategic activities. Besides strategic thinking, other related core skills and capabilities needed include operational analysis, decision analysis, visual analytics, technology acumen, and financial planning and analysis (FP&A) skills.[5]

There is also the perception problem. Top management and other functional areas in the organization may not recognize the skills and support that management accountants provide to the organization. The IMA-Deloitte study found that the management accountants spending the most time on traditional accounting tasks receive significantly fewer requests for analysis than those spending less time on traditional tasks. Further, many management accountants said that strategic thinking and analysis is not part of their job description.

The IMA-Deloitte study identified characteristics that help management accountants be perceived as strategic partners:

- Being able to articulate a compelling reason for top management to view the management accountant as being able to provide strategic analysis support, including setting the planning calendar, allocating resources across the portfolio, and more.
- Possessing an understanding of the latest technology (such as process automation, universal ledger, and visual analytics) and cultivating good relationships with IT to influence the buying process and utilization of its capabilities.
- Demonstrating the ability to think strategically while lobbying to drive strategy and have more influence as part of their job description.
- Building cross-functional relationships and developing the soft skills needed to influence others.
- Investing in talent/commitment to foster current talent to reduce the skills gap.

70% The IMA-Deloitte study found that controllers spend an average of around 70% of their time on these traditional tasks, leaving little time for strategic activities.

[4] IMA and Deloitte, *Stepping Outside the Box: Elevating the Role of the Controller*, 2018, www.imanet.org/insights-and-trends/business-leadership-and-ethics/stepping-outside-the-box-elevating-the-role-of-the-controller.

[5] For an excellent discussion of sound FP&A principles and practices, see Lawrence Serven and Kip Krumwiede, *Key Principles of Effective Financial Planning and Analysis*, IMA, July 2019, www.imanet.org/insights-and-trends/planning-and-analysis/key-principles-of-effective-financial-planning-and-analysis.

c. Types of roles management accountants are taking in the strategic management process

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

1. Helping to develop innovation and growth strategies.[6]
2. Reviewing and refining strategies to create greater long-term sustainable value.[7]
3. Analyzing where the company is in the competitive life cycle.
4. Communicating the strategy within the company and to the board of directors.
5. Developing information for investor relations presentations by the CFO.
6. Evaluating merger and acquisition (M&A) opportunities and risks.
7. Assessing strategic risks of the organization.[8]
8. Developing a strategy for the finance organization.[9]

d. How analytical planning tools, methods, and frameworks can enable strategic analysis

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

To become trusted strategic advisors and partners in the business, management accountants need to have a firm understanding of the underlying business. They need to know how the business is run, the major influences or levers of the business, who the customers are and their buying habits, and the strengths and weaknesses of competitors. This can be achieved by asking questions about the operational side of the business, building good working relationships outside of accounting and finance, attending weekly staff meetings, or facilitating monthly reviews of plan vs. actual results—including both financial and nonfinancial metrics. Further, setting up regular strategy planning meetings using tools such as SWOT (strengths, weaknesses, opportunities, threats) or Porter's Five Forces analysis will help management accountants understand, develop, execute, and communicate the strategic priorities of the organization. •

[6] Mark L. Frigo and Darren Snellgrove, "Why Innovation Should Be Every CFO's Top Priority," *Strategic Finance*, October 2016, sfmagazine.com/post-entry/october-2016-why-innovation-should-be-every-cfos-top-priority; Mark L. Frigo with Vijay Govindarajan, "How CFOs Can Drive Innovation," *Strategic Finance*, July 2010, sfmagazine.com/wp-content/uploads/sfarchive/2010/07/STRATEGIC-MANAGEMENT-How-CFOs-Can-Drive-Innovation.pdf; Mark L. Frigo with Tony Davila and Marc J. Epstein, "Breakthrough Innovation and the CFO," *Strategic Finance*, December 2015, sfmagazine.com/post-entry/december-2015-breakthrough-innovation-and-the-cfo.

[7] See Mark L. Frigo and Dominic Barton, "Creating Greater Long-Term Sustainable Value," *Strategic Finance*, October 2018, sfmagazine.com/post-entry/october-2018-creating-greater-long-term-sustainable-value.

[8] See Mark L. Frigo and Hans Læssøe, "Strategic Risk Management at the LEGO Group: Integrating Risk Management and Strategy," *Strategic Finance*, February 2012, sfmagazine.com/wp-content/uploads/sfarchive/2012/02/Strategic-Risk-Management-at-the-LEGO-Group.pdf.

[9] Mark L. Frigo, John D. Rapp, and Roy W. Templin, "Transforming Talent at Whirlpool," *Strategic Finance*, May 2011, sfmagazine.com/wp-content/uploads/sfarchive/2011/05/Transforming-Talent-at-Whirlpool.pdf; Mark L. Frigo, Matthew Hilzinger, and James Welch, "Leadership and Vision at Exelon: Building a Forward-Looking and Strategic Finance Organization," *Strategic Finance*, May 2012, sfmagazine.com/wp-content/uploads/sfarchive/2012/05/Leadership-and-Vision-at-Exelon.pdf.

Tools, Methods, and Frameworks **for Strategic Analysis**

Strategic analysis should be anchored to the organization's mission, vision, and core values. Thus, it is imperative that the organization identify the right mission and core values. This typically begins with a scan of the external environment using a framework such as Porter's Five Forces. It should also include an internal analysis, using tools such as a SWOT analysis or value chain analysis. Further, organizations today should always be searching for innovation and market disruption opportunities. Blue Ocean strategy and creating shared value are tools that can help. This section discusses these and other strategic analysis tools, describing each tool's purpose, how it works, strengths and weaknesses, and the management accountant's potential role in its application.

Environmental Scan and Competitive Analysis Methods

When doing strategy analysis, it is critical that companies scan and assess the market and outside forces that can and should impact their strategy. Management accountants can play an important role here to make sure the environmental scan and market analysis happen regularly to manage strategic risk. They can help ensure that information and resources are devoted to this analysis and that it is considered in strategy decisions. Table 1 in the Appendix provides a summary of strategic planning tools and frameworks for scanning and analyzing the competitive environment. They include Porter's Five Forces, STEEP analysis, scenario planning, and strategic risk management. •

PORTER'S FIVE FORCES

PURPOSE: Developed by Michael Porter, this framework facilitates industry structure analysis to identify potential threats to a company's value proposition. It requires a company to consider five sources of competitive forces that could affect the attractiveness or unattractiveness of a current or potential market: threat of new entrants to the market, bargaining power of customers, bargaining power of suppliers, threat of substitute products, and level of competition intensity in an industry.[10]

HOW IT WORKS:

Consider and assess the risk within each of the five forces:

1 **THREAT OF NEW ENTRANTS TO THE MARKET:** While considering the barriers to entry, assess the threat that potential competitors will enter—or disrupt—the market. The stronger the threat of entry, the more competition there will be—leading to lower demand and prices. Conversely, when there is a weaker threat of entry, there is less competition. This results in more demand and suggests that perhaps capacity could be increased. For example, the internet has significantly reduced the barriers to entry for many industries and opened the way for global competition in almost every segment. Companies with considerable intellectual property (IP) or other strategic assets may have an advantage over others in the short term, but they will need to continue to generate new, innovative IP to dampen the threat of new competitors. There could also be threats from government action making it more difficult for foreign companies to compete in its markets.

2 **BARGAINING POWER OF CUSTOMERS:** Evaluate the bargaining power of current and potential customers. Buyers create demand in the industry and thus tend to have strong negotiating power. For example, Walmart is traditionally thought of as a king of buyer power in the United States. It uses its large purchasing volume to negotiate lower prices from its suppliers, which in turn tends to squeeze profits from those industries.

3 **BARGAINING POWER OF SUPPLIERS:** Suppliers can influence the price of goods or services in the industry and ultimately drive down industry profits. A good example is Microsoft's operating system. PC makers must pay Microsoft's price to be able to compete, but competition in the PC industry makes it difficult to raise prices accordingly. If the threat is high, consider ways to differentiate the product to achieve premium pricing.

[10] For more on Porter's Five Forces, see Michael E. Porter, "The Five Competitive Forces that Shape Strategy," *HBR's 10 Must Reads on Strategy*, Harvard Business School Publishing Corporation, Boston, Mass., 2011; or Michael E. Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review*, January 2008, hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy.

4 THREAT OF SUBSTITUTE PRODUCTS: Substitute products are those that are different but can satisfy similar customer needs. When substitute products are very similar to one another, companies may be forced to charge lower prices to avoid losing customers to the substitutes. Traditional taxicab companies are finding this out with the increased use of ride-share companies like Uber and Lyft. When the threat of substitutes is high, consider ways to differentiate the product offering in order to reduce the threat.

5 INTENSITY OF COMPETITION IN AN INDUSTRY: A company must assess the intensity of the competition and how well the company's value defends against this competition. Strong demand conditions moderate the competition among established companies and create opportunities for expansion. When demand is weak, intense competition can develop, such as Coca-Cola vs. Pepsi, Marvel vs. DC Comics, McDonald's vs. Burger King, and Airbus vs. Boeing. Rivalry affects the tactical actions of competing companies by driving down margins and profits.

Strengths: Porter's Five Forces analysis covers the different areas in which threats can arise. It helps companies identify threats they might not otherwise consider and plan how to address them. **Limitations:** Threats are not always obvious. New product ideas, competitors, geopolitical risk, and bargaining power are dynamic, not static. There may be very different perceptions within the company about the level of risk, and leaders may not wish to acknowledge potential risks to the business model they have worked hard to develop. It also takes time and effort to gather and analyze data and convert it into competitive intelligence.[11] **Role of the management accountant:** Management accountants can help ensure that the Five Forces analysis relates to the company's strategy and does not lose sight of that strategy. They can "audit" the availability and use of information within the organization's risk management activities. They can validate that the annual budget includes expenses for risk mitigation. They can also identify the need for new or improved competitive intelligence, educate top management on the need for a steady stream of reliable data and people with the talent to analyze the data to create the intelligence needed, and work with other functional areas to develop and improve competitive intelligence practices. •

[11] For more on the topic of competitive intelligence, see Ben Gilad, "Developing Competitive Intelligence Capability," IMA, February 2016, www.imanet.org/insights-and-trends/technology-enablement/developing-competitive-intelligence-capability.

STEEP ANALYSIS

PURPOSE: STEEP stands for social, technological, economic, ecological (or environmental), and political/legal.[12] (There is also STEEPLE, which includes separate legal and ethical components.) Often used in conjunction with Porter's Five Forces, STEEP analysis considers the general environment in which the company operates. It differs from the Five Forces analysis in that it is not focused on the market but rather assesses the general social, economic, and political environment for a large geographic area.

HOW IT WORKS:

Consider and assess the trends, opportunities, and risks within each of the five areas:

1 **SOCIAL:** This includes the consideration of demographics (e.g., age, gender mix, literacy rates, education levels, and geographic distribution), customs, religious beliefs, lifestyles, and mobility.

2 **TECHNOLOGICAL:** Consider trends and advances in digital communication, biotechnology, chemicals, electronics, medicine, and many other fields that might affect the companies' competitiveness.

3 **ECONOMIC:** Economic factors to consider include trends in rates of employment, currency exchange, interest, and inflation. Other economic factors to consider include credit availability, fiscal and monetary policies, consumer spending patterns, and levels of disposable income.

4 **ECOLOGICAL (ENVIRONMENTAL):** This factor includes both the physical and biological environments, such as global climate change, sustainable development of the natural resources, product life cycles, recycling, pollution, and genetically modified agricultural goods.

5 **POLITICAL/LEGAL:** The political side of the environment includes legal and regulatory policies and is affected by the public's attitudes toward certain industries, lobbying by special interest groups, market regulations, and even the political party or leader in power.

Strengths: STEEP analysis facilitates and encourages management's consideration of the general environment for which the organization competes. It can help identify additional SWOT items and external threats. Further, it can help guide the organization in its risk management process. The ultimate goal is to identify additional external opportunities and threats that may not have been identified with other strategic frameworks. Thus, STEEP analysis is a good additional framework to use in addition to any others being used.

[12] STEEP analysis is also known as PEST analysis (political/legal, economic, social, and technological). For more on this topic, see Craig S. Fleisher and Babette E. Bensoussan, *Business and Competitive Analysis: Effective Application of New and Class Methods,* Pearson, Upper Saddle River, N.J., 2015.

Limitations: Although STEEP analysis has great potential to identify additional opportunities and threats, differing opinions of the environment within the company can create challenges. It can be difficult to identify which environments the company is in (or may be in the future). Those performing the analysis may not know the big picture as seen by top management. Opinions may differ due to the potential impact of the analysis on their part of the business (or incentive bonuses). The findings of a STEEP analysis may conflict with long-held personal views or home-country biases of different players. Further, with many companies focused on short-term results, they may not support or appreciate the need for a longer-term environmental analysis. It can be a daunting task to do an in-depth analysis of the various STEEP areas. For example, how do you organize data and summarize a population with diverse customs, religious beliefs, and lifestyles?

Role of the management accountant: Management accountants can educate and remind top management of the need for both a STEEP analysis and for people with the talent to do such broad environmental analysis, including data analytics. They can help keep it on the strategic planning agenda in addition to other types of analysis performed. They can work with other areas of the business to articulate interrelationships and trends between their industry and the environment as well as the probabilities of potential scenarios.

They should be able to articulate questions that should be answered or where the information is available as well as suggest ways certain environmental impacts can be measured.

Last but not least, they should be able to assist in articulating a logical explanation between significant environmental factors and the company's competitiveness and ultimate financial performance. •

EXAMPLE OF STEEP ANALYSIS AT TESLA

1. Social: For Tesla, electric vehicles (EVs) will be more popular in countries or states where the citizens are relatively more conscious of environmental issues.

2. Technological: Tesla's innovativeness in lithium-battery technology has given it an early advantage in the growing EV industry, but it also must consider advances in other ways of making batteries.

3. Economic: The high price tag of Teslas will have a much better chance of success in countries with a strong economy and consumers with higher disposable incomes.

4. Ecological: Improving the level of success in recycling lithium could affect the types of research and development (R&D) programs Tesla pursues.

5. Political/legal: Tesla's Elon Musk recently faced U.S. Securities & Exchange Commission action based on tweets in which he suggested taking the company private. Situations like these can potentially influence legislators to impose stricter laws on companies listing its stock on U.S. stock exchanges.

SCENARIO PLANNING

PURPOSE: The purpose of scenario planning (also known as scenario analysis) is to stimulate the imagination and creative thinking to better prepare for potential future scenarios and to possibly move the industry or customers in a desired direction.[13] It involves conducting research on forces that could have a big impact; focusing on a small number of potential scenarios; articulating each of the scenarios, including both direct and indirect effects; and developing options regarding how to succeed in each of these scenarios.

HOW IT WORKS:

Scenario planning includes bringing together several components:

1 **KEY FOCAL ISSUE,** such as a big decision to be made or a significant uncertainty to deal with. An example might be Tesla trying to decide if it should build a production facility in China or how to address the growing threat of Chinese EVs.

2 **DRIVING FORCES** are themes and trends that seem likely to impact the key focal issue. Research is conducted to identify driving forces, including interviews with key stakeholders and even outside-the-box thinkers who are not part of the issue at hand. STEEP and Porter's Five Forces analyses can be helpful here. Examples include consumers' increasing consciousness of environmental issues, intense competition to develop nonlithium batteries, and growing geopolitical instability in various regions. Driving forces are further divided into those that are predetermined (i.e., inevitable, such as demographic shifts) and uncertain (everything else).

3 **CRITICAL UNCERTAINTIES** are those uncertainties ranked most likely to significantly impact the key focal issue. The two highest-ranked become the critical uncertainties. An example would be regulatory environment (high vs. low) and brand image (high vs. low).

4 **SCENARIO FRAMEWORK** is a 2x2 matrix made up of the two critical uncertainties with high vs. low spectrums. The two axes create four different scenarios to be addressed, such as high regulatory environment/low brand image and low regulatory environment/low brand image.

5 **SCENARIOS** are based on the four quadrants and represent plausible visions of the potential future. There are no "right" or "wrong" scenarios. Instead, they are viable outcomes meant to force participants to think about factors that could change the future of the company.

6 **NARRATIVES** are written descriptions or stories about each scenario. They should be logical, consistent with the scenario, and be persuasive to stretch people's thinking. Each narrative should also link the scenario back to the present time and how the world got there. The narrative basically tells the story as if it had already happened.

7 **IMPLICATIONS** are ways to deal with each of the scenarios. Participants go back to the key focal issue to identify the company's strengths, weaknesses, and options to address gaps in capabilities for the different scenarios.

8 **EARLY WARNING SIGNALS** are leading indicators suggesting which scenario(s) is (are) most likely. Good early warning indicators help companies assess their readiness and make course

[13] David A. Garvin and Lynne Levesque, "A Note on Scenario Planning," Harvard Business School Background Note, July 2006.

corrections as needed earlier than if they had no early warning signals.

Strengths: Instead of assuming there is one best answer to a strategic question, scenario planning considers different possibilities for different futures. It considers multiple uncertainties simultaneously. Unlike simulation modeling, it requires subjective thinking as well as quantitative analysis. It is especially helpful when: uncertainty is high, there have been costly surprises in the past, current strategic thinking is weak, and there seem to be few opportunities to pursue. Further, identifying early warning signals is a good practice no matter which strategic planning tool is used.

Limitations: Scenario planning is based on just two critical uncertainties that are chosen based on rankings. Focusing on two could miss other critical potential forces. There will be differing opinions about the implications of uncertainties, sometimes motivated by individuals' incentives and personal biases. Further, there is usually more than just one key focal issue. The analysis can also be difficult to do well. It generally requires a number of participants from different areas of the company and can take a long time to complete the exercise.

Role of the management accountant: As with other strategic planning tools, management accountants can lead or facilitate the process. More specifically, they help identify key focal issues, driving forces, and early warning indicators. They can also represent different stakeholders' views and assess the logic of the narratives. •

STRATEGIC RISK MANAGEMENT

PURPOSE: The purpose of strategic risk management is to assess and manage the strategic risks as part of the strategic planning and strategic management process. Sometimes referred to as enterprise risk management (ERM) or governance, risk, and compliance (GRC), strategic risk management is a process for identifying, assessing, and managing risks and uncertainties that could inhibit an organization's ability to achieve its strategic objectives.[14] With increased expectations from shareholders, regulators, rating agencies, and other stakeholders, nonexistent or underdeveloped strategic risk management plans can prove to be detrimental to a company's ability to create and protect value for its stakeholders.

HOW IT WORKS:

Strategic risk management is based on a company assessing the strategic risks and developing action plans for monitoring and managing strategic risks. Here is a seven-step process for conducting a strategic risk assessment that has been used by management teams and boards of directors.[15]

[14] Mark L. Frigo and Richard J. Anderson, "What Is Strategic Risk Management?" *Strategic Finance*, April 2011, sfmagazine.com/wp-content/uploads/sfarchive/2011/04/STRATEGIC-MANAGEMENT-What-Is-Strategic-Risk-Management.pdf.

[15] See Mark L. Frigo, and Richard J. Anderson, "Strategic Risk Assessment: A First Step for Improving Risk Management and Governance," *Strategic Finance*, December 2009, sfmagazine.com/wp-content/uploads/sfarchive/2009/12/Strategic-Risk-Assessment.pdf; Richard J. Anderson and Mark L. Frigo, *Creating and Protecting Value: Understanding and Implementing Enterprise Risk Management*, Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2020, coso.org/Documents/COSO-ERM-Creating-and-Protecting-Value.pdf.

1. Achieve a deep understanding of the strategy of the organization.
2. Gather data and views on strategic risks.
3. Prepare a preliminary strategic risk profile.[16]
4. Validate and finalize the strategic risk profile.
5. Develop the strategic risk action plans.
6. Communicate the strategic risk profile and strategic risk action plans.
7. Execute and implement the strategic risk action plans and monitor the strategic risk profile.

While the steps define a basic, high-level process, they also allow for a significant amount of tailoring and customization in their execution to reflect the maturity and capabilities of the organization. Accordingly, management accountants should see the seven-step methodology process as a beginning outline to be tailored into a detailed project plan for strategic risk assessment. The steps also reflect the fact that strategic risk assessment is an ongoing process, not just a onetime event. Reflecting the dynamic nature of risk, the seven steps constitute a circular or closed-loop process that should be ongoing and continual within the organization. One approach for introducing the strategic risk assessment process in a finance organization is to conduct a strategic risk assessment process workshop, which would include a discussion of the process and its tools.

A lack of strategic risk management can be disastrous. For example, during the financial crisis in the late 2000s, the banking industry did not have strategic plans in place to protect its firms' value when the housing market crashed. Subprime mortgages along with many other questionable banking practices and lending posed tremendous risks to these firms that were neither realized nor accounted, and those risks materialized in a disastrous way.

STRATEGIC RISK MANAGEMENT AT LEGO

A great example of strategic risk management is The LEGO Group.[17] LEGO Strategic Risk Management developed risk management in four steps:

1. Supplemented traditional ERM—including financial, operational, hazard, and other risks—by explicitly handling strategic risks. This was the starting point for LEGO to link the risk management areas and added strategic risks to its overall ERM framework.

2. Added Monte Carlo simulations to understand the financial performance volatility (which proved to be significant) and the drivers behind it to integrate risk management into the budgeting and reporting processes. This step was designed to quantify uncertainty in the budgeting and reporting data at LEGO.

3. Began active risk and opportunity planning (AROP), where business projects go through a systematic risk and opportunity process as part of preparing the business case before making final decisions about the projects. This step helped ensure that all projects are reviewed in a consistent manner relating to risks and opportunities.

4. Used scenario planning to help envision a set of different yet plausible futures to test the strategy for resilience and relevance. This step helped LEGO understand and prepare for uncertainty in the strategic planning process.

This four-step approach represents an example of how to evolve beyond traditional ERM and integrate risk management into strategic decision making and strategy execution process.

[16] A strategic risk profile includes a description of the risk facing a company and the likelihood and impact as well as velocity and readiness relating to each risk. For an example of a strategic risk profile, see Mark L. Frigo and Richard J. Anderson, *Embracing Enterprise Risk Management: Practical Approaches for Getting Started*, COSO, 2011, coso.org/Documents/Embracing-ERM-Getting-Started.pdf.
[17] Frigo and Læssøe, 2012.

Strengths: Strategic risk management is a necessary core competency in today's world.[18] Strategy drives risks and opportunities, and the integration of strategy, risk assessment, and risk management is a fundamental strength of strategic risk management.
Limitations: Strategic risk management involves developing new specialized skills and capabilities in strategy and risk management, which requires education and training. It also requires working beyond silos in risk management because financial, information security, and other risks reside in different functional departments.
Role of the management accountant:
Management accountants can help lead strategic risk assessments.[19] They can also play a leadership role in developing key risk indicators (KRIs) as part of a company's strategic risk management and performance measurement system. KRIs might include number of defects for a manufacturing company or number of worker injuries.

Internal/External Strategic Analysis Methods

Strategic analysis must include characteristics of the company internally (e.g., strengths and weaknesses) as well as external factors (e.g., opportunities and threats). Management accountants can play an important role by ensuring these issues are considered, collecting data and identifying internal and external issues to consider, and developing key performance indicators (KPIs) to track those issues. They can and should challenge long-held assumptions about the market. Table 2 in the Appendix provides a summary of the internal/external strategic analysis methods. Potential tools and methods to apply include SWOT analysis, value chain analysis, strategy maps, gap analysis, *Good to Great*'s Hedgehog Concept, and Return Driven Strategy. •

SWOT ANALYSIS

PURPOSE: SWOT analysis helps an organization understand its strengths, weaknesses, opportunities, and threats from the outside environment. SWOT analysis is typically used to identify opportunities for success in the context of threats and clarify directions and choices.

HOW IT WORKS:[20]

The first step in SWOT analysis is identifying and evaluating four areas (see next page):

Strengths: SWOT analysis has wide applicability and has been used by virtually every type of organization. It can be applied to products or services, projects, new investment options, for-profit or nonprofit organizations, and even individuals. Almost every business program includes SWOT analysis early in its curriculum.
Limitations: The basic SWOT model is descriptive and does not in itself generate any specific answers or lead to innovative ideas. It can merely provide general recommendations, such as move the company away from threats or match its strengths with opportunities. Although the framework is very simple and uses four easily understandable "boxes," they often are not so clear-cut. They may be qualitative, requiring judgment and some degree of consensus to be actionable. SWOT analysis may fail due to the blind spots of members of top management who harbor long-held beliefs or biases not easily changed or challenged.

[18] Mark L. Frigo, "Strategic Risk Management: The New Core Competency," *Balanced Scorecard Report*, January-February 2009.
[19] See Frigo and Anderson, December 2009.
[20] For an excellent discussion on conducting an effective SWOT analysis, see Fleisher and Bensoussan, 2015.

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

HOW IT WORKS

The next step is to match the organization's strengths with market opportunities and then protect and develop its internal strengths (or develop weaknesses into strengths) to further leverage market opportunities.

SWOT ANALYSIS AT TESLA

Tesla has great potential but also distinct obstacles to achieving its vision.[21]

- **Strengths:** At this time, Tesla is known for its highly innovative designs and strong brand as a manufacturer of EVs.
- **Weaknesses:** Tesla's performance and potential for future growth are hindered by its limited market presence, limited supply chain, high prices, and production capacity.
- **Opportunities:** Tesla may have strong opportunities to improve its financial performance and global competitiveness by expanding its global sales (e.g., Asia and renewable energy markets). To improve its competitiveness and financial performance, Tesla might expand its operations in new markets around the world to exploit the global demand for renewable energy, increase investments in product innovation, and diversify its supply chain to reduce supply-side risks.
- **Threats:** Like any company in today's automotive industry, Tesla faces substantial buyer bargaining power, intense global competition from large automotive companies, fluctuating material prices (e.g., lithium), and varying dealership regulations.

[21] See Daniel Kissinger, "Tesla Inc. SWOT Analysis & Recommendations," Panmore Institute, September 12, 2018, panmore.com/tesla-motors-inc-swot-analysis-recommendations.

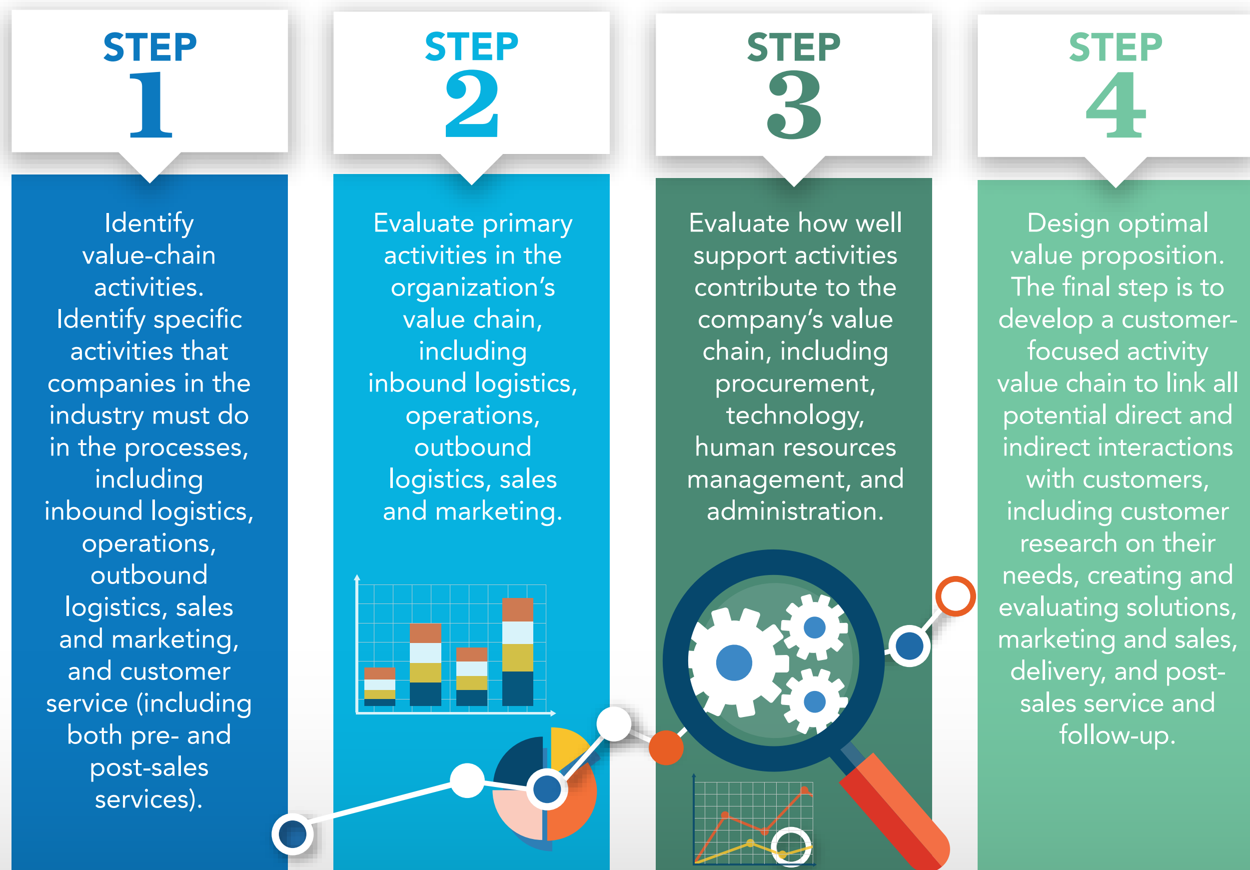
VALUE CHAIN ANALYSIS

PURPOSE: Porter's value chain analysis is a powerful tool for disaggregating a company's strategically relevant activities and focusing those activities on the sources of competitive advantage.[22] A value chain includes the entirety of the linked set of companies that participate in the design, development, production, and support of a product or service.[23] Value chain analysis provides a structure for disaggregating a company into distinct activities in order to identify:

- Factors that determine the costs of performing different activities and their relative importance;
- Why a company's costs differ from those of its competitors, and vice versa;
- Which activities a company and its competitors perform efficiently or inefficiently;
- How costs in one activity influence costs in another activity; and
- Which activities a company or its competitors should undertake itself and which activities it should contract out.

HOW IT WORKS:

A value chain identifies a series of activities for a particular value stream that must be undertaken to transform inputs into a product or service delivered to customers. There are four main steps.[24]



[22] Michael E. Porter, *The Competitive Advantage: Creating and Sustaining Superior Performance*, Free Press, New York, 1985.
[23] C.J. McNair-Connolly and Kenneth A. Merchant, *Management Accounting: An Integrative Approach*, IMA, Montvale, N.J., 2017.
[24] For an excellent discussion about value chain analysis and developing a business model, see Fleisher and Bensoussan, 2015.

Strengths: Value chain analysis helps link a company's activities to its value proposition and the larger macro environment of its industry, competitors, suppliers, and potential partners. A good example of the benefits of value chain analysis is grocery store giant Kroger beginning to sell groceries in Walgreens drug stores.[25] Walgreens wanted to sell groceries to get more traffic but did not have the core competencies or economies of scale held by Kroger. In return, Kroger got access to more customers outside of its big stores.

Limitations: Value chain analysis is effective but focuses on the current market. Companies must continuously scan their environment to identify industry and market forces for new opportunities.

Role of the management accountant: Management accountants can take the lead in the value chain analysis process by managing it and asking the strategic and operational questions needed to make it worthwhile. The management accountant is traditionally considered the resident expert on cost, profitability, variance, and financial analysis. These analytical skills are helpful for value chain analysis, but more skills and knowledge are needed if management accountants are going to help lead the effort. They should be able to understand the business, the market and industry, customer needs, and value drivers. They need to think outside the box (i.e., current business model) and look at the environment in which the company resides. •

STRATEGY MAPS

PURPOSE: Strategy maps can be an effective way to develop and articulate the strategy of an organization and competitor analysis in a simple visual form.[26] Strategies can be difficult to articulate and sometimes do not link to the ultimate objectives of the organization, whether financial goals or mission goals. With its associated balanced scorecard (BSC), strategy maps also facilitate strategy execution. This approach enables the management team to discuss which key objectives to choose and identify KPIs with targets to monitor the progress of accomplishing each of the strategic objectives.

HOW IT WORKS:

A strategy map is often made as a simple visual representation of the strategic objectives and four perspectives in a BSC as a guide: financial, customer, internal business process, and learning and growth. All objectives in a strategy map should ultimately lead to the desired ultimate outcomes logically (e.g., financial objectives). Generally, although not necessarily, learning and growth objectives should help drive internal business process objectives, which in turn help drive customer objectives, which ultimately lead to meeting the financial objectives. These paths are illustrated using arrows connecting the objectives.

Strengths: Leaders can capture and align key factors contributing to the company's strategy and present it in a single graphical depiction as a strategy map. This map then helps communicate the vision to the entire company and guides in the execution and measurement of strategic initiatives, which in turn align with the more detailed BSC.

Weaknesses: Strategy maps can take considerable time and effort to develop and require a sustained commitment and skill level. Getting all the leaders

[25] Heather Haddon, "Kroger to Sell Groceries in Walgreens Stores," *The Wall Street Journal*, December 4, 2018, www.wsj.com/articles/kroger-to-sell-groceries-in-walgreens-stores-1543921320.

[26] Robert S. Kaplan and David P. Norton, "Strategy Maps," *Strategic Finance*, March 2004; Edward A. Barrows and Mark L. Frigo, "Using the Strategy Map for Competitor Analysis," *Balanced Scorecard Report*, July-August 2008.

"on the same page" is perhaps the biggest challenge. Many organizations only construct a BSC with inadequate identification of what the KPIs should be. The strategy map should precede construction of a BSC.

Role of the management accountant: Management accountants can play a vital role by leveraging their expertise in performance measure systems. They can push the effort to a higher level by being skeptical and asking tough questions. They can validate the quality of the KPIs and the KPI targets selected by the executives intended to align the managers and employee teams with their strategy. •

ENI'S USE OF A STRATEGY MAP

Italian energy giant Eni is a good recent example of effective use of a strategy map to make sustainability a driver of its business model.[27] Like many other companies, Eni wanted to pursue the sustainable development goals (SDG) promoted by the United Nations. Eni's identification of key drivers of SDG success and execution of related business projects led to a new way to look at performance measurement and reporting.

With the intention of better understanding, communicating, and executing its business model and the strategy identified by the board, Eni innovated its management and accounting systems with integrated thinking and reporting. Championed by the vice president for sustainability and subsequently fully embraced by the finance organization, the adoption of this emerging practice was carried out by a work group composed of managers from finance, sustainability, external relations, corporate governance, and integrated risk management. The main goal was to develop a comprehensive view of the process of value creation by monitoring and connecting those key financial and nonfinancial drivers essential to execute its sustainable strategies.

Eni's performance measurement and reporting systems enabled the company to monitor and measure the results achieved in the Upstream area. The primary goal was to replace the existing reserves and, therefore, sustain organic production growth in the future through exploration, making it possible to immediately exploit certain discoveries and to generate cash flow through the sale of minority interests in some assets. Generating this cash flow without compromising the goal of sustainably replacing the reserves reduces Eni's financial risk regarding investments in key projects.

From a measurement and reporting point of view, Eni decided to capture the effects of specific actions and initiatives taken in the Upstream business and their impact on business objectives and risks in a cause-effect map showing a comprehensive connectivity of performances. As illustrated in Figure 1, Eni's Connectivity of Performances Map focused the company on developing Eni's workforce skills and expertise, building long-term relationships with its host countries, better managing exploration processes, replacing existing reserves to sustain organic production growth in the future through exploration, improving time to market, paying rigorous attention to health, safety, and environmental (HSE) aspects, and ultimately generating the needed cash flow.

[27] See Cristiano Busco, Giovanni Fiori, Mark L. Frigo, and Angelo Riccaboni, "Sustainable Development Goals," *Strategic Finance*, September 2017, sfmagazine.com/post-entry/september-2017-sustainable-development-goals.

GAP ANALYSIS

PURPOSE: After completing the internal and external environmental scans and SWOT analysis, there is often a visible gap between an organization's vision and its current situation. This difference is identified through gap analysis, which involves the comparison of actual performance with potential or desired performance to help achieve the vision.

HOW IT WORKS:

In its simplest form, gap analysis has four columns: current, desired, gap, and strategy. The first column lists the organization's *current* performance or abilities. The second column shows the *desired* performance or abilities. The third column identifies the deficiencies or areas that the company needs to focus on to achieve its vision. The final column shows the actions it will take to close the gap and get where it wants to be. For example, if Tesla sets a goal to expand global sales, it would identify its current percentage of sales outside the U.S., desired percentage, gap between current and the desired percentage, and a strategy for how it plans to achieve the desired percentage (e.g., offer and promote its renewable energy options in Asia and Europe).

STEP 1
List current performance and abilities

STEP 2
Establish desired performance and abilities

STEP 3
Identify deficiencies to focus on

STEP 4
Take actions to close the gap

Strengths: Gap analysis is very simple to understand and set up. It can be used with a wide array of strategy analysis methods to facilitate and organize strategic action plans.

Limitations: Like SWOT analysis, the weakness of gap analysis is that it is descriptive and does not generate any specific answers or lead to innovative ideas on its own. It merely provides a way to organize findings of other strategic tools, methods, and frameworks and a clear space for placing strategic action plans.

Role of the management accountant: As with SWOT analysis, management accountants can aid gap analysis by setting up processes for collecting and creating competitive intelligence to feed into strategic analyses. They can apply their skills in variance analysis to create, maintain, and promote gap analysis within the organization. •

FIGURE 1: ENI'S CONNECTIVITY OF PERFORMANCES MAPS

Leverage
0.31 at December 31, 2015
0.22 pro-forma excluding Saipem

Dividend
€ 0.8 per share in 2015

Cash Flow
€12.2 bln in 2015

Revenues
€ 21.4 bln
-24.8% vs 2014

OPEX per boe
7.2 $/boe -13% vs 2014

Commodity risk

Time-to-market
Start-up West-Hub in Angola
Perla in Venezuela

Selective Investments
CAPEX: €10.2 bln (-3%) vs 2014
Exploration: € 0.8 billion
CAPEX per boe: 19 $/boe, -11% vs 2014

Hydrocarbon production
1.76 mln boe/d
+10% vs 2014

Risk associated with complexity in technology and logistic projects

Portfolio Management (Assets)
€ 0.4 bln

Proprietary technologies and existing patents
about 2,000 existing patents

Technical risk

Reserves replacement
1.4 billion boe near-field discovered at a cost of 0.7$/bl
Proved reserves replacement ratio: 148%

HSE performance
Blowout: zero
Gas flaring emissions: -6.8%
Water re-injected: 56%
Injury frequency rate: 0.13 (No. of accidents per million worked hours)
Oil spills due to operations: +22.4%

Track record of successful exploration
1.4 bln boe

Asset Integrity Downtime
1.3% wasted barrels

Safety expenditure and expenses
€199 million

Access to discovered resources
21,500 square kilometers acquired acreage

Geopolitical risk

Investments for development of skills, know-how and expertise
Training expenditures € 29 million

Long-term relationships with Host Countries
Investments on local content € 68 million
Local employees 6,266

Operatorship Conventional Assets
10 start-ups in the year

Source: Eni, *Integrated Annual Report*, www.eni.com/assets/documents/documents-en/Integrated-Annual-Report-2015.pdf.

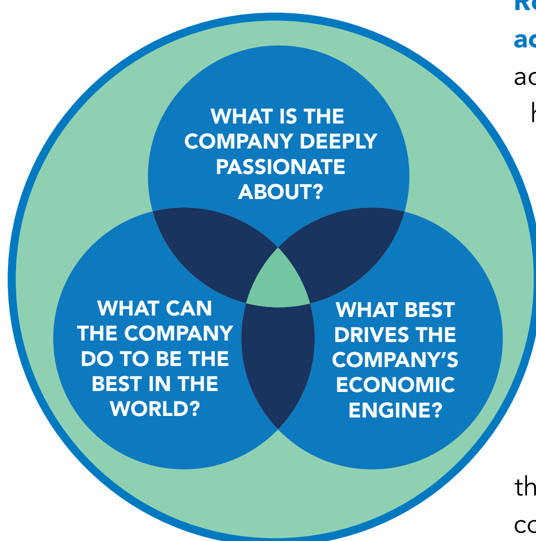
GOOD TO GREAT: HEDGEHOG CONCEPT

PURPOSE: The book *Good to Great*, by Jim Collins, addresses an important question: Can a good company become a great company and, if so, how? The book discusses concepts like the Hedgehog Concept and the Flywheel.[28] The Hedgehog Concept is a valuable strategy tool for strategic analysis. Its purpose is to provide strategic discipline for a company that matches its unique capabilities and passion with an economic engine that will drive financial performance.

HOW IT WORKS:

The Hedgehog Concept describes the importance of understanding the intersection of three circles: (1) what the company is deeply passionate about, (2) what the company can do to be the best in the world, and (3) what best drives the company's economic engine. This concept can help management teams focus their strategy on what will drive the highest long-term performance and value creation. The goal is to consistently align resources and effort toward the company's Hedgehog strategy.

Strengths: The Hedgehog Concept can provide a clear view of a company's unique value proposition that can lead to competitive advantage. It helps a company not only focus on its unique value proposition but also helps it say no (or go slow) to market trends or new opportunities that would lead the company to depart from its core competencies.



Weaknesses: The Hedgehog Concept may be difficult to define and articulate. There will usually be differing opinions on what a company is best at or most passionate about or what best drives its economic engine. If leadership makes the wrong choice, it will lead to wasted resources and missed opportunities.

Role of the management accountant: Management accountants can propose and help the Hedgehog Concept in strategic planning and in developing key performance measures about the company's value proposition. Once implemented, they can provide professional skepticism when new opportunities are being considered to help make sure the opportunities fit within the company's core competencies. •

A HEDGEHOG CONCEPT AT WALGREENS

Walgreens defined its Hedgehog Concept as:

1. **Passionate about:** "Pharmacies"
2. **Best at:** "Convenient Drug Store"
3. **Economic engine:** "Profit per Customer Visit." Profit per X is the critical economic indicator in the Hedgehog Concept (this is an area that management accountants can help develop and include in a company's performance measurement system).

So for Walgreens, this Hedgehog intersection manifested itself in the way stores are configured and laid out, the way employees are rewarded and staffed, and the way inventory is managed.

[28] Jim Collins, *Good to Great: Why Some Companies Make the Leap…and Others Don't*, HarperCollins, 2001; Jim Collins, *Turning the Flywheel: A Monograph to Accompany Good to Great*, HarperCollins, 2019.

RETURN DRIVEN STRATEGY

PURPOSE: The purpose of the Return Driven Strategy framework is to provide a structure for reviewing and evaluating strategies with the goal of creating long-term sustainable value.[29] The framework is based on extensive global research on high-performing companies that have achieved superior and sustainable return on investment while adhering to the ethical parameters of their constituents and communities.

HOW IT WORKS:

The framework is a hierarchy of 11 strategic tenets (and related questions) of strategy that have been shown to drive long-term sustainable value creation and competitive advantage. Management teams use the framework by analyzing how well the company is adhering to the 11 strategic activities (tenets) and how well it is leveraging its unique resources, managing risks and opportunities from forces of change, and how well strategic performance measures are aligned with long-term value creation.

Management rates how well the company is following each tenet on a scale of 1 to 10 (1=poor; 5=average; 10=outstanding). Here are the 11 tenets of Return Driven Strategy with specific questions to ask:

1. **Ethically Maximize Wealth:** How committed are we on creating maximum long-term sustainable value while adhering to the ethical standards of our constituents and communities?
2. **Fulfill Otherwise Unmet Customer Needs:** How well are we fulfilling needs that are highly valued by customers and drive price premiums and high margins?
3. **Target Appropriate Customer Groups:** Are we serving the right customers, meaning those customers in which we have a competitive advantage in serving?
4. **Deliver Offerings:** How focused are we on delivering our offerings efficiently and effectively?
5. **Innovate Offerings:** How well are we changing our offerings to better fulfill the changing needs of customers?
6. **Brand Offerings:** How strong is our brand in the mind of customers for connecting their needs with our company's offerings?
7. **Partner Deliberately:** Are we partnering to deliver, innovate, and brand our offerings in a way that is better than without the partnering?
8. **Map and Redesign Processes:** How well are we redesigning the value chain to better deliver, innovate, and brand the offerings of our company?
9. **Engage Employees and Others:** Are we engaging employees and others (including customers, suppliers, and partners) to better deliver, innovate, and brand our offerings?
10. **Balance Focus and Options:** How well are we focusing on the current business while also creating options (strategies) for growth and innovation?
11. **Communicate Holistically:** Are we communicating internally and externally in ways that are consistent with our strategy and with the values of our company, customers, and stakeholders?

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[29] Mark L. Frigo, "Return Driven: Lessons from High Performance Companies," *Strategic Finance*, July 2008, sfmagazine.com/wp-content/uploads/sfarchive/2008/07/Return-Driven-Lessons-from-High-Performance-Companies.pdf; Mark L. Frigo and Joel Litman, "What Is Return Driven Strategy?" *Strategic Finance*, February 2002, sfmagazine.com/wp-content/uploads/historic/2000-2002/2002-02-Strategic-Finance-v83-n8.pdf; Mark L. Frigo and Joel Litman, *Driven: Business Strategy, Human Actions, and the Creation of the Wealth, Strategy & Execution*, 2007; Mark L. Frigo, *Driven Strategy: Creating Greater Long-Term Sustainable Value*, Stanford University Press, forthcoming 2021.

Strengths: The strength of the Return Driven Strategy framework is its holistic approach to developing and refining strategies for sustainable long-term value creation. Its focus on the importance of ethical business conduct in developing strategies is also a strength. The framework architecture is consistent with the architecture of the BSC and strategy maps so it can facilitate development of performance measures to monitor the performance of strategies as well as assess and manage strategic risks.[30]

Limitations: As in any "change management" situation, the framework requires changing how the company thinks about the way it creates value for its customers. This can be a barrier and may require training.

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

EXAMPLE OF RETURN DRIVEN STRATEGY

Reading Bakery Systems implemented the Return Driven Strategy approach.[31] Before introducing the framework to the management team, the company was struggling to achieve sustainable profitable growth. After using Return Driven Strategy to reshape the strategy of the company and how it thought about its business, the company witnessed substantial growth, achieving more than 190% growth in revenue and earnings before taxes, interest, depreciation, and amortization from 2006 to 2011.

Terry Groff, CEO and chairman of Reading Bakery Systems, credits the company's turnaround to changing how the company views its customer and innovates its offerings. He especially attributes the success in applying the framework to the following tenets:

(2) **Fulfill Otherwise Unmet Customer Needs:** Focused on snack and cracker baked production lines, which were growing rapidly.

(3) **Target Appropriate Customer Groups:** Targeted customers based on their unique needs and locations as well as to prioritize customers.

(5) **Innovate Offerings:** Developed or co-created new product lines with customers in their labs.

(6) **Brand Offerings:** Actively branded the company as the name customers think of based on continually meeting customers' changing needs.

(9) **Engage Employees and Others:** Measured and rewarded employees based on financial results as well as operational metrics.

[30] Mark L. Frigo and Venkat Ramaswamy, "Co-Creating Strategic Risk-Return Management," *Strategic Finance*, May 2009, sfmagazine.com/wp-content/uploads/sfarchive/2009/05/Co-Creating-Strategic-Risk-Return-Management.pdf; Mark S. Beasley and Mark L. Frigo, "Strategic Risk Management: Protecting and Creating Value," *Strategic Finance*, May 2007, sfmagazine.com/wp-content/uploads/sfarchive/2007/05/Strategic-Risk-Management-Creating-and-Protecting-Value.pdf.

[31] E. Terry Groff, "Reading Bakery Systems: A Return Driven Strategy Case Study," DePaul University Center for Strategy, Execution and Valuation, business.depaul.edu/about/centers-institutes/center-for-strategy-execution-valuation/Documents/Reading_Bakery_Systems_-_A_Return_Driven.pdf.

Innovation, Change, and Market Disruption Approaches

Companies must continually innovate, whether it be "sustaining" innovations focused on current customers or "disruptive" innovations focused on new market applications, often with existing technologies. If management accountants are to be strategic business partners within their organization, they need to be facilitators of innovations, not hindrances. They should be on the lookout for new market needs and ask questions to spur outside-the-box thinking on how to fill those needs. It may require a shift in mind-set from a controller's traditional conservative outlook to say "no" to adopt a more innovative mind-set of trying to find a way to say "yes." New approaches to improving innovation culture and success, such as Blue Ocean strategy, have emerged in recent years. Table 3 in the Appendix provides a summary of the innovation, change, and market disruption approaches. •

BLUE OCEAN STRATEGY

PURPOSE: Blue Ocean strategy is a strategy planning approach focused on creating an entirely new market space. The strategy reconstructs industry boundaries to create a new market space and unlock latent demand. Because the company hopes to satisfy a consumer need or want that is not yet established or is being developed in the industry, the company will need to create the demand. The only way a company can truly execute a Blue Ocean strategy is through innovation and being uniquely different: "Blue Oceans…are defined by untapped market space, demand creation, and the opportunity for highly profitable growth."[32]

HOW IT WORKS:

With Blue Oceans, demand is created in two ways. The first is to create a completely new industry. Examples include eBay (online auction), Apple (iPod, iPhone), and Wikipedia (online encyclopedia written and edited by volunteers). The second more common way is to create an industry out of an existing one, often referred to as a Red Ocean. Examples include Cirque du Soleil (reinventing the circus), Netflix (video streaming), Wawa (convenience store/ quick-service food), and Nintendo Wii (video games with wireless motion-sensitive remote controllers that made games accessible to non-gamers).

To implement a Blue Ocean approach, instead of benchmarking with competitors' products, search for a disruptive leap in how value can be provided to customers. Brainstorm, bring in new people with different skills and knowledge, and focus on solving problems encountered in existing industries. Emphasize inventing ways to provide higher customer value and ways to reduce costs by eliminating lower-value offerings.

"Blue Oceans…are defined by untapped market space, demand creation, and the opportunity for highly profitable growth."

[32] For more information about Blue Ocean strategy, see W. Chan Kim and Renée Mauborgne, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, Harvard Business Review Press, 2016; chapter on "Blue Ocean Strategy" in *HBR's 10 Must Reads on Strategy,* 2011, Harvard Business School Publishing Corporation, Boston, Mass.; and W. Chan Kim and Renée Mauborgne, *Blue Ocean Shift: Beyond Competing - Proven Steps to Inspire Confidence and Seize New Growth*, Hachette Books, 2017.

Strengths: This approach encourages innovative thinking. Inventing and creating new demand can lead to higher profits and growth than by introducing incremental value in existing markets. It is generally more about value pioneering than technology pioneering.

Limitations: The biggest challenge is inventing a Blue Ocean success story. With global competition in practically every market sector, it is hard to both develop demand for and successfully introduce a new market space. Further, innovative ideas often must pass through a corporate hierarchy of individuals who have spent years providing value in historically successful ways and may not want to take resources away from a known successful product to invest a new and risky product or offering.

Role of the management accountant: Management accountants can use Blue Ocean strategy to help companies identify and define new market space for innovation, higher- vs. lower-profit product offerings, and higher-value-added vs. lower-value-added costs. They can also encourage and facilitate Blue Ocean-type brainstorming sessions. •

BLUE OCEAN STRATEGY AT CIRQUE DU SOLEIL[33]

Cirque du Soleil is an example of a tremendous success due to Blue Ocean strategy. Traveling circuses were generally regarded as a dying industry. Instead of trying to compete with competitors in a dying market space, the Canadian company reinvented the circus concept to offer its customers a whole new experience. It eliminated costly elements of the traditional circus, like animal acts and aisle concessions, and added elements of theater to pull in traditional noncustomers into the circus industry, including adults and corporate clients. In the words of the founders of the Blue Ocean strategy approach: "Cirque du Soleil succeeded because it realized that to win in the future, companies must stop competing with each other. The only way to beat competition is to stop trying to beat the competition."

[33] Kim and Mauborgne, 2016.

CREATING SHARED VALUE

PURPOSE: The concept of creating shared value (CSV) was articulated by Michael Porter and Mark Kramer. They describe it as "Creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success."[34] This approach to business is especially relevant in today's business world as the connection between businesses and their customers becomes stronger through social media attention and easy access to information on the internet. Many customers not only care about the product or service value but also want to know how the company operates and what it stands for. From the company's perspective, it is also very important to understand that not all profit is equal. Porter and Kramer state, **"Profits involving a social purpose represent a higher form of capitalism—one that will enable society to advance more rapidly while allowing companies to grow even more. The result is a positive cycle of company and community prosperity, which leads to profits that endure."**[35]

HOW IT WORKS:

There are three distinct ways in which a company can create shared value:[36]

1. Reconceive value and markets: meeting societal needs through products and serving unserved or underserved customers.
2. Redefine productivity in the value chain: utilizing resources, energy, suppliers, logistics, and employees differently.
3. Improve the local and regional business environment: improving skills, supplier base, regulatory environment, and supporting institutions that affect the business; strengthening the cluster on which the company depends.

Some critics have contended that CSV is essentially the same as corporate social responsibility (CSR).[37] But Porter and Kramer maintain that CSR is a different concept. For example, CSR is often perceived primarily as a cost center, while CSV is focused on new business opportunities that create new markets, improve profitability, and strengthen competitive positioning. CSR is about responsibility; CSV is about creating value.[38]

Strengths: CSV connects strategy and social goals. It sounds like an appealing way to achieve societal goals that helps it get adopted and may improve its chances for success. Corporations see societal issues as opportunities to improve economic performance rather than as disconnected external threats.[39]

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[34] Michael E. Porter and Mark R. Kramer, "Creating Shared Value: How to Reinvent Capitalism—and Unleash a Wave of Innovation and Growth," *Harvard Business Review*, January 2011, pp. 62-77.
[35] *Ibid.*
[36] *Ibid.*
[37] *Ibid.*
[38] See Mark Kramer, "CSR vs. CSV – What's the difference?" FSG, February 18, 2011, www.fsg.org/blog/csr-vs-csv-what%E2%80%99s-difference.
[39] Andrew Crane, Guido Palazzo, Laura J. Spence, and Dirk Matten, "Contesting the Value of 'Creating Shared Value,'" *California Management Review*, February 2014, pp. 130-153.

Limitations: CSV requires a change in mind-set from focusing primarily on profits to a higher level of thinking about meeting societal needs and being sustainable. There will always be tension within a business between its economic and social goals. Often, when the choice presents itself, leaders will choose the economic goals (i.e., higher profits).

Role of the management accountant: Management accountants can identify parts of the organization's value chain that may have opportunities for creating shared value, such as clustering the company's and suppliers' operations near each other. Management accountants can play a vital role in CSV especially in the area of measuring shared value.[40] •

EXAMPLES OF CREATING SHARED VALUE

Adidas Group is partnered with Nobel Peace Prize winner Muhammad Yunus and his microfinance organization. This partnership allows Adidas to offer very low-cost shoe options to poor people in Bangladesh. The shoes also protect people from disease.[41] Measures of success might include the number of shoes sold, the number of microenterprises supported, and the profitability of the venture.

Coca-Cola's Coletivo initiative in Brazil creates shared value by increasing the employability and life skills of low-income young adults. One program trained them to work at the Rio 2016 Olympic games, giving them valuable work experience. In return, Coca-Cola benefits by strengthening the workforce and local economy in Brazil and improving its value chain. Another program connects harvesters in the Amazon Rainforest to Coca-Cola suppliers and promotes conservation. Potential measures of success for the Coletivo include number of young adults trained and employed within Coca-Cola's value chain, partnerships with local nongovernmental organizations, tonnage recycled, and other measures of environmental footprint.

Nestlé, one of the world's largest food and beverage companies, depends on a reliable supply of high-quality raw materials, often produced by farmers in low-income communities. Nestlé implemented a rural development strategy, recognizing that farmers earning decent incomes in thriving communities would be able to supply more and better agricultural goods. Nestlé employs more than 1,100 agricultural staff and works with an additional 10,600 support staff across the world to train farmers, provide them with better technology, and assist farm communities in local development projects. Measures of success include the number of development projects, farmers assisted, tonnage produced, and quality measures for farm produce.

[40] See Michael E. Porter, Greg Hills, Marc Pfitzer, Sonja Patscheke, and Elizabeth Hawkins, "Measuring Shared Value: How to Unlock Value by Linking Business and Social Results," FSG, 2011, www.fsg.org/publications/measuring-shared-value.
[41] MJ Mueller, "Therapeutic footwear helps protect the diabetic foot," *Journal of the American Podiatric Medical Association,* August 1997, pp. 360-364; "Life Without Shoes: A Look at the Benefits of Shoes," January 6, 2017, soles4souls.org/life-without-shoes-look-benefits-shoes.

DISRUPTIVE INNOVATION

PURPOSE: The term "disruptive innovation" was coined by Harvard professor Clayton M. Christensen based on his research on the disk drive industry and later popularized by his 1997 book *The Innovator's Dilemma.*[42] Disruptive innovation focuses on making something different that creates value for customers and for the company. It focuses on making complex products simpler or making expensive products more affordable. Some examples are Uber and Lyft with the taxi industry and Airbnb with the hotel industry. Not only will successful disruptive innovators steal market share from the already established players in their respective industry, the innovation will often create new demand and attract more consumers than in the original industry. On the other hand, the innovator faces a dilemma: Will investing in the disruptive innovation now hurt its current business in the longer term?

HOW IT WORKS:

Disruptive innovation is a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up, eventually displacing established competitors.[43] It can be any disruptive strategy, process, product, or service. For example, is there a market where a current product or service seems too expensive or complicated to use, or is there a growing need that is not being met? After identifying the problem, it requires brainstorming and out-of-the-box thinking. In a large company, it may be helpful to allow employees with an idea to form a microenterprise within the company where they are given a chance to see if it will succeed.[44]

Strengths: Disruptive innovation forces a company to reconsider how it creates value for its customers and identify how things can be changed in ways that will create new value for customers and growth opportunities for the company.

Limitations: Disruptive innovation requires thinking differently, which can present both opportunities and potential risks. Uncertainty about a completely new way to provide a product or service often leads to resistance in the organization.

Role of the management accountant: Management accountants can contribute to disruptive innovation thinking by helping to come up with ideas, encouraging ideation sessions, and questioning everything. They can also develop ways to develop and assess new ideas and performance metrics to assess the success of the disruptive innovation process. •

NETFLIX'S DISRUPTIVE INNOVATION

Netflix is a recent example of a disruptive innovator. The movie rental industry previously dominated by Blockbuster has largely been replaced by Netflix's movie streaming platform, and the company has successfully changed the home movie rental landscape forever. This innovation not only drove Blockbuster out of business, it has also attracted many more customers than Blockbuster could ever have had due to the simplicity, practicality, and superior business model achieved through Netflix's platform.[45]

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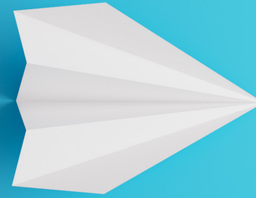
[42] Clayton M. Christensen, *The Innovator's Dilemma: The Revolutionary Book that Will Change the Way You Do Business*, HarperCollins: New York, N.Y., 2011.

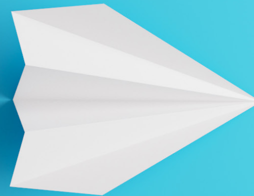
[43] *Ibid.*

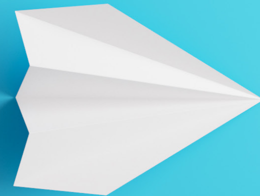
[44] See Kip Krumwiede, Raef Lawson, and Lucy Luo, "Haier's Win-Win Value Added Approach," *Strategic Finance*, February 2019, sfmagazine.com/post-entry/february-2019-haiers-win-win-value-added-approach

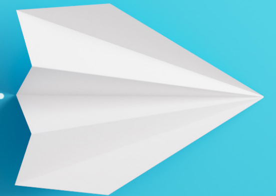
[45] Nathan McAlone, "The father of 'disruption' theory explains why Netflix is the perfect example—and Uber isn't," *Business Insider*, www.businessinsider.com/the-father-of-disruption-theory-explains-why-netflix-is-the-perfect-example-and-uber-isnt-2015-11.

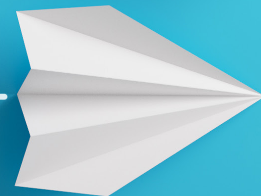
After identifying the problem, it requires brainstorming and out-of-the-box thinking.

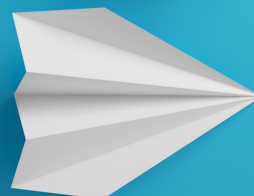












REVERSE INNOVATION

PURPOSE: Multinationals have traditionally innovated in a rich country and later sold products in a poor country. Reverse innovation is doing the opposite. It is currently being applied to various industries, including healthcare.[46] Essentially, companies develop products to meet developing countries' needs and then hope the same idea can later be sold abroad to consumers in more established countries. It can help connect developing countries with global markets by increasing cross-border production and testing marketing viability in a lower-cost environment.[47]

HOW IT WORKS:

Reverse innovation is a process of specifically designing and developing offerings to fulfill the customer needs in a developing country and, if successful there, looking for ways to deploy the offering in developed country markets for a second round of value creation. It differs from a traditional strategy of adapting offerings for developed countries without specific reference to the otherwise unmet needs of the people in those countries.

Strengths: Reverse innovation can drive growth for companies in a global market where much growth is occurring in developing countries. It differs from other tools (e.g., Blue Ocean, creating shared value, and disruptive innovation) by focusing on designing product or service offerings specifically for a developing country where there is a higher likelihood of success.

Limitations: Reverse innovation requires the additional challenge of understanding the specific needs in developing countries and taking an open-ended approach to design and develop offerings to meet those needs.

Role of the management accountant: Management accountants can propose a reverse innovation approach as part of a strategic analysis to develop new pathways for profitable growth and innovation.[48] They can also be instrumental in measuring and managing the performance of reverse innovation initiatives. •

EXAMPLE OF REVERSE INNOVATION

In 2009, General Electric (GE) announced a $1,000 handheld electrocardiogram device and a portable, personal computer-based ultrasound machine that sells for about $15,000 that were both originally designed and developed for markets in India and China where the key factors were ease-of-use, portability, and low cost. Later, GE successfully deployed these products in the U.S. for ambulances and remote rescue environments.[49]

[46] Vijay Govindarajan and Chris Trimble, *Reverse Innovation: Create Far from Home, Win Everywhere*, Harvard Business Review Press, 2012; Vijay Govindarajan and Ravi Ramamurti, *Reverse Innovation in Health Care: How to Make Value-Based Delivery Work*, Harvard Business Review Press, 2018.

[47] Vikas Khanvelkar, "Reverse Innovation: Trend, strategy and advantages it brings to India," *Business Standard*, January 20, 2013, www.business-standard.com/article/companies/reverse-innovation-trend-strategy-and-advantages-it-brings-to-india-111092800129_1.html.

[48] Mark L. Frigo with Vijay Govindarajan, "Reverse Innovation: A New Pathway for Growth," *Strategic Finance*, May 2013, sfmagazine.com/wp-content/uploads/sfarchive/2013/05/STRATEGIC-MANAGEMENT-Reverse-Innovation-A-New-Pathway-for-Growth.pdf.

[49] Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble, "How GE Is Disrupting Itself," *Harvard Business Review*, October 2009, pp. 56-65, hbr.org/2009/10/how-ge-is-disrupting-itself.

Recent Factors Affecting **Strategic Analysis**

The concept of corporate purpose is one factor increasingly impacting the way organizations develop and execute strategy. Today's business organizations and their leaders are increasingly being asked to be a force for good in society by aligning their corporate purpose to sustainable strategy and business models. One of the recent examples of this call is the 2018 letter to Standard & Poor's 500 CEOs from Larry Fink, CEO of BlackRock (the world's largest asset owner), who made a compelling case for achieving long-term value creation through corporate purpose. He said,

"Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.… One way for business organizations to address this challenge is to define their purpose and align it with a sustainable, value-creating strategy that can make a positive contribution to society."

In a 2017 article, Bartley Madden defines a two-part question for understanding corporate purpose: "An effective statement of corporate

purpose should answer the two-part question: Why does the company deserve the commitment and support of its stakeholders, and what unchanging principles will guide management's actions?"[50] The answers to these questions can be used in guiding management and board actions.

Here are some examples of corporate purpose. [51]

Barilla, an Italian food company that produces pasta and other related products:
"Our purpose: good for you, good for the planet."

BlackRock, an investment management company headquartered in New York:
"BlackRock's purpose is to help more and more people experience financial well-being."

IAG, an Australian insurance company:
"To help people manage risk and recover from the hardship of unexpected loss."

There are many other factors that affect the way organizations develop strategies today. Sustainability is a growing consideration across organizations. Integrating sustainability objectives into the strategic initiatives of an organization facilitates the alignment of strategy with long-term value creation.[52] Another important factor is the speed of change. Disruptive forces can adversely impact a company or provide great opportunities to create value.[53]

It is also important to avoid the pitfall of short-termism in strategic analysis. Companies need to understand, manage, and align their long-term value drivers to achieve sustainable value creation, especially in today's constantly changing business environment. Further, investors should understand a company's long-term value-creation strategy in order to confidently commit to investing in that company. To attract these investors, companies need to develop, communicate, and execute a long-term value-creating strategy. CFOs, finance organizations, and management accountants can play a pivotal role in helping companies refocus their strategic performance measures and deployment of resources toward greater long-term value creation.

Finally, a company's culture, organizational structure, performance evaluation, and incentive system can greatly influence its success with strategic analysis and execution. Big companies often have systems that discourage new ways of thinking. Fostering a more entrepreneurial spirit may require incentives and organizational changes. One example is Haier's Win-Win Value Added approach.[54] Haier encourages its employees to propose new ideas to management. If management likes the idea, the employee(s) suggesting the idea forms a microenterprise and receives resources and funding from the corporation similar to a venture capital-type project. If successful, the team receives part of the profits. The company uses an internal "win-win value added statement" that combines financial and nonfinancial data to track the value created by the microenterprise. •

[50] Bartley J. Madden, "The Purpose of the Firm, Valuation, and the Management of Intangibles," *Journal of Applied Corporate Finance*, Spring 2017, pp. 76-86.
[51] Graham Kenny, "Your Company's Purpose Is Not Its Vision, Mission, or Values," *Harvard Business Review*, September 3, 2014, hbr.org/2014/09/your-companys-purpose-is-not-its-vision-mission-or-values.
[52] Busco, et al., 2017.
[53] See Mark L. Frigo and Paul L. Walker, *The Strategic Financial Executive: Managing Risk in a Disruptive World*, Financial Executives Research Foundation, 2017.
[54] Krumwiede, et al., 2019.

CONCLUSION:
Strategic Analysis to Achieve Superior and Sustainable Performance

This SMA has provided an overview of several methods of strategic analysis, covering the realms of environmental scans and competitive analysis (e.g., Porter's Five Forces), internal/external analysis (e.g., Return Driven Strategy), and innovation (e.g., Blue Ocean strategy). It is not a complete set of strategy analysis methods. Other methods management accountants might consider are SERVO (strategy, environment, resources, values, organization) analysis, GE-McKinsey matrix, benchmarking, etc. Keep in mind that these methods are not mutually exclusive, and practical implementations will vary from theoretical guidelines. They should be adapted to meet a company's particular needs. Each method has strengths and limitations. Thus, it is often desirable to use multiple methods.

The main goal of strategic analysis is to develop a close alignment between strategy, strategy execution, budgeting, and financial performance.

Where to start

Knowing how to perform strategic analysis is not enough. It requires applying the right tools and frameworks to create value in your organization. Develop action items to improve strategic analysis in your company. Choose one or two strategic analysis tools that your company currently is not using, and use them as a launching point. Start with a pilot study where you can build your confidence and gain buy-in from others. If the methods show potential, become a champion for its use, as there will probably be organizational resistance. After you have gained some momentum, work on building support for the tools in your company, especially among top management.

A pattern of strategic activities that leads to long-term high performance is described in the 11 tenets of Return Driven Strategy and includes a focus on delivering offerings that are highly valued by the company's customers. From a financial strategy and performance measurement perspective, this includes a focus on achieving superior and sustainable return on investment driven by disciplined and consistent reinvestment in the company, including investment in R&D.

CFOs and management accounting professionals can play a leadership role in innovation and strategic analysis, including:[55]

1. Develop a clear understanding of how value is created in your business through innovation, allocate resources in a more dynamic way, and innovate at an increasingly rapid pace in order to survive and thrive in today's environment.
2. Use your finance and business acumen to demonstrate compelling frameworks that help the organization understand the importance of strategic analysis, innovation, and execution.
3. Measure what really drives value in the organization. This is not as easy as it sounds. Do not make your measurements too complex, but also do not make them too simple. Otherwise, you may motivate the wrong behavior. A balanced approach to measuring success is key.
4. Drive organizational agility by leveraging real-time predictive analytics to spot trends and opportunities.

The following are opportunities for management accounting professionals to contribute to an innovation-minded strategy:

- Learn about all aspects of the business and look for opportunities to pursue. Think "big picture."
- Look at everyday tasks for ways they can be done more quickly or abandoned completely. This will free up time to look for innovative ideas and perform strategic analysis.
- Listen and note when someone identifies a problem that needs solving.
- Learn about new trends and technologies in your industry. Are there "technology road maps" for your industry?[56]
- Suggest incentive and organizational changes to foster more entrepreneurial spirit, such as Haier's Win-Win Value Added approach.[57] •

[55] Frigo and Snellgrove, 2016.
[56] Jodie Moll, *The CFO's Guide to Technology Roadmapping*, IMA and ACCA (the Association of Chartered Certified Accountants), August 2017, www.imanet.org/insights-and-trends/technology-enablement/the-cfos-guide-to-technology-roadmapping; Fleisher and Bensoussan, 2015
[57] Krumwiede, et al., 2019.

For more information, please visit **imanet.org/thought_leadership.**

FURTHER **READING**

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APPENDIX

TABLE 1: ENVIRONMENTAL SCAN AND COMPETITIVE ANALYSIS METHODS

Tool or Framework	Key Purpose	How It Works	Strengths	Limitations	Role of Management Accountant
Porter's Five Forces	Identify potential market threats to a company's value proposition.	Consider and assess the potential risks from the five forces: entry, buyers, suppliers, substitution, and competition.	Good way to identify market threats that companies might not otherwise consider.	Difficult to identify all threats and associated level of risks; differs by industry and constantly changes.	Identify needs and sources for competitive intelligence, promote and facilitate discussions of potential threats from each of the five forces.
STEEP analysis	Identify nonmarket trends and issues relating to the general social, economic, and political environment.	Consider and assess social, technological, economic, ecological, and political/legal trends, risks, and opportunities.	Helps identify nonmarket issues that companies might not otherwise consider.	Can be difficult to get consensus on the various areas due to personal biases and incentives.	Help identify STEEP areas to consider and articulate logical connections between environmental factors and financial performance.
Scenario planning	Stimulate creative thinking to better prepare for potential scenarios.	Identify key focal issues and critical uncertainties, then narratives, implications, and early warning signals for four potential scenarios.	Considers different possibilities for different futures; best when uncertainty is high.	Based on just two critical uncertainties and one key focal issue; requires more time and resources than most other tools.	Lead or facilitate process; help identify key focal issues, driving forces, and early warning indicators; assess logic of the narratives.
Strategic risk management	Assess and manage the strategic risks as part of the strategic planning and strategic management process.	Based on a company assessing the strategic risks and developing action plans for monitoring and managing strategic risks.	Necessary core competency in today's world. Helps identify both risks and opportunities.	Requires new skills requiring education and training. It also requires working beyond silos in risk management.	Can use strategic risk management to identify and develop performance measures that would help the company assess and manage strategic risks.

TABLE 2: INTERNAL/EXTERNAL STRATEGIC ANALYSIS METHODS

Tool or Framework	Key Purpose	How It Works	Strengths	Limitations	Role of Management Accountant
SWOT analysis	Match market opportunities with internal capabilities.	Identify and evaluate each of the four areas: strengths, weaknesses, opportunities, and threats.	Wide applicability; easy to use and understand.	Descriptive model that does not in itself generate any specific direction to go.	Set up processes for collecting competitive intelligence; ensure that SWOT analysis is done regularly.
Value chain analysis	Identify unique value proposition.	Identify and evaluate value chain activities.	Linking the company's activities to value proposition and industry.	Focus on current market; may miss new threats and opportunities.	Take lead in the value chain analysis process and ask strategic and operational questions.
Strategy maps	Develop and articulate the strategy of an organization in a simple visual form.	Develop direct linkages for strategic objectives in the four BSC perspectives with all objectives leading to the desired ultimate outcomes.	Visually depicts the key factors contributing to the company's strategy and communicates the vision to the entire company.	Strategy maps require careful analysis of cause-and-effect factors, which will require time and teamwork.	Management accountants can play a pivotal role given their expertise in four perspectives of the BSC.
Gap analysis	Highlights where an organization desires to be on one of its goals and where it will be if no changes are made.	For a given goal, complete four columns: current, desired, gap, and strategy.	Simple to understand and set up; can be used with a wide array of strategy analysis methods.	Merely provides a way to organize findings of other strategic tools and space for placing strategic action plans.	Set up processes for collecting competitive intelligence; create, maintain, and promote gap analysis within the organization; include resources needed in the budget.
***Good to Great:* Hedgehog Concept**	Describes the unique value proposition of a company.	Intersection of three circles: 1) Deeply passionate about, 2) Best in the world at, 3) What best drives the company's economic or resource engine.	The Hedgehog Concept can provide a clear view of a company's unique value proposition.	The Hedgehog Concept may be difficult to define and articulate.	Can use the Hedgehog Concept in strategic planning and in developing key performance measures.
Return Driven Strategy	Assesses how well strategies are aligned with ethical standards, creating long-term sustainable value.	Management teams use the framework by analyzing how well the company is adhering to the 11 strategic activities (tenets) and leveraging its unique resources, etc.	Holistic approach for developing and refining strategies for greater long-term value creation. Helps link strategy with risks and KPIs.	Requires changing the way of thinking about how a company creates value for its customers which can be a barrier and may require training.	Used for assessing the company strategy and plans, doing strategic risk management, and focus the activities for the CFO and the finance organization.

TABLE 3: INNOVATION, CHANGE, AND MARKET DISRUPTION APPROACHES

Tool or Framework	Key Purpose	How It Works	Strengths	Limitations	Role of Management Accountant
Blue Ocean strategy	Create an entirely new uncontested market space.	Brainstorm to create a completely new industry or an industry out of an existing one. Create new ways to provide high customer value.	Encourages innovative thinking and can lead to higher profits and growth than existing industries.	It is challenging to create (and get approval) for a successful new market space in today's hyper-competitive global market.	Encourage the use of Blue Ocean thinking, help identify possibilities for new markets, and include resources needed in the budget.
Creating shared value	Create economic value that also creates value for society.	Brainstorm ideas for ways to reconceive value and markets, redefine productivity in the value chain, and improve the local environment.	A positive way to identify societal goals and change mind-sets to see social issues as opportunities.	Leaders may choose economic goals over social goals; can be difficult to sell shared value opportunities to management.	Help identify shared value opportunities and analyze the value created for the company and for society.
Disruptive innovation	Disrupt the market by making something unique that creates new value for customers and the company.	Focus on making complex things simpler and/or making expensive things more affordable.	Forces a company to reconsider its offerings and create new ideas that will provide growth opportunities for the company.	Requires thinking differently. There will be organizational resistance to new ways of doing things.	Help develop new ideas and strategies. Management accountants can play a leadership role in measuring the value created from disruptive innovation.
Reverse innovation	Innovate in a developing country and later sell the product in more developed countries.	Identify offerings to fulfill needs in a developing country and later deploy those offerings. If successful, launch in other markets.	Enables growth opportunities in a global market. Can increase likelihood of success elsewhere.	Requires thinking outside the box and truly understanding customer needs in a developing country.	Help identify new pathways for profitable growth and innovation. Lead in measuring and managing the performance of reverse innovation initiatives.