

SYLLABUS

OBJECTIVES

To understand the importance of strategic and risk management, and to be a facilitator and build tools for effective evaluation and controls, for strategies formulated. Also the ability to understand the risks both internal and external and build capabilities to manage risks appropriately and efficiently.

Learning aims

- ◆ Understand the process of strategic management
- ◆ Ability to analyze the performance of the organization vis a vis business environment
- ◆ Ability to formulate the strategy and techniques for implementation
- ◆ Understand the role with regard to internal control and risk management.
- ◆ Identify and define the risks of a business organization and evaluate & recommend alternatives strategies and identify ways of managing risks

Skill set required

Level C: Requiring all six skill levels - knowledge, comprehension, application, analysis, synthesis, and evaluation

SECTION I : STRATEGIC MANAGEMENT (60%)

1. Introduction to Business Strategy (10%)

- ◆ Meaning and implications of corporate planning, long range planning, business policy planning and strategic planning; strategic management processes; meaning and use of mission, goals, objectives and targets, profit gap, sales gap, risk gap and other strategies;
- ◆ SWOT analysis; target selling strategy formulation and implementation, monitoring mechanism, strategies for stagnation versus growth, strategies for growth through expansion versus diversification & diversification vs core competency.
- ◆ Acquisition and merger strategy, strategy of joint venture both in India and abroad.
- ◆ Marketing strategy as a part of corporate strategy, growth under inflation and protection of shareholder, real capital.
- ◆ Financial objectives, non- financial objectives, resources analysis and evaluation.

2. Forecasting and planning for strategy (10%)

- ◆ Forecast trend and changes – social, political, legal and technological impacts.
- ◆ Distribution channels and competitive forces. Government policies, economic growth and government expenditure.
- ◆ Public and private sector investments,
- ◆ International trade practices and government policies for capacity expansion, new industries, subsidiaries and substitutes

3. Model Building and models (10%)

- ◆ Strategies in the development of models, Delphi Model, econometric, mathematical programming, budgetary and heuristic model.
- ◆ Sensitivity analysis and the characteristics of models.
- ◆ Limitations in model building vis- a-vis simulation techniques.
- ◆ Life cycles, Porters generic strategic, Ausoj's model, BCG matrix and other models

4. Marketing strategy (10%)

- ◆ Production orientation versus market orientation, marketing objectives, framework and management of marketing mix.
- ◆ Linkage between strategic planning and marketing strategy-both forward and backward.
- ◆ Research and intelligence- source for the techniques for acquiring information necessary for marketing decision-making market shares.

5. Application of management accounting in strategic management (20%)

- ◆ Marketing strategy: analysis of marketing costs and profitability, product development policy & strategy, pricing policies and strategies, budgetary control in marketing, evaluation and control of sales activities;
- ◆ Operations Management Strategy: process, technology and logistic strategies, inventory policies and strategies, Human Resource Management policies and strategies,
- ◆ Financial Strategies and Strategic Total Cost Management

SECTION II : RISK MANAGEMENT (40%)

6. Risk Measurement and Management (15%)

- ◆ Introduction, Risk and Risk Management,
- ◆ Objectives of Risk Management,
- ◆ Risk Measurement and Pooling, Total Loss Distribution,
- ◆ Pooling and Diversification,
- ◆ Ruin Probability

7. Risk Insurance: (10%)

- ◆ Insurability of Risk and Insurance Contracts,
- ◆ Insurance Pricing, Analysis Tools, Demand for Risk Management (Utility Theory),
- ◆ Legal Liability, Corporate Liability, Liability Issues,
- ◆ Insurance case study: Auto Insurance (or such other insurance industry segment as may be notified)
- ◆ Commercial Insurance.

8. Corporate Risk Management: (15%)

- ◆ Risk Management and Shareholders,
- ◆ Risk Retention / Reduction,
- ◆ Financial Risk Management,
- ◆ Futures and Options,
- ◆ Asset / Liability Management,
- ◆ Project risk management, Enterprise Risk Management

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MANAGEMENT ACCOUNTING—STRATEGIC MANAGEMENT

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INTRODUCTION

Corporate Business presupposes continuity and the activities always have eventful yesterday, today and tomorrow. In other words the concept of 'Ongoing Business' implies fourth dimensional thinking, a space-time continuum. According to Indian Ethos the name is available in the concept of Desha, Kala, Vartamana – Space, Time, and Environment. Thus, management of a corporate business necessarily entails looking into the future. In the Indian scenario after the liberalization of the Indian Economy and opening the global market in the early 90s of the 20th Century, the Economy has evinced a sustained growth with a gross domestic product (GDP) of above 8.5% annually with a possible upturn to 10% GDP per annum with aggressive reforms. With this rapid transformation the formation of Security Exchange Board of India (SEBI) became necessary to protect the Investor and also regulate the capital markets. Transparency and greater disclosures of corporate performance on a quarterly basis with the annual report documenting not only the annual performance but also the future outlook, plans for expansion / diversification scanning the environment and cautionary statements have become necessary inputs of the published data. For this information to be provided to the shareholder it has become essential for any corporate body to comprehend existing rivalry, potential competitors, and technological changes, bargaining power with both the suppliers and customers apart from the changing environment. The collation of such data and development of a meaningful approach and programme for the profitability, solvency growth and sustainability of the company would necessitate strategic management.

Strategic Management is a two word phrase made up of Strategic and Management, the word strategic derives out of the Greek word 'STRATEGIA' which means a military general or a commander. As wars had to be waged strategies had to be devised and as such wars and strategies become inseparable.

Examination of a simple exhibit to understand impact of War on Business Strategies

Business wars are some times as fierce as the wars fought in the actual battlefield. Today's successful business strategies can be traced back to military strategies that have been used effectively from ancient Greece to Desert Storm. Strategic principles remain unchanged through time and context. The strategies can be identified as:

1. 'Attack Strength' strategy: Attacking the enemy in his stronghold is the aim here. The Japanese attack on Pearl Harbor is an example of this strategy. Similarly, a decade ago, Lexus (Toyota) fought Cadillac (GM) and Lincoln (Ford) in the U.S. luxury car market that was a comfortable duopoly for its rivals. In 1999, Lexus surpassed both Cadillac and Lincoln in sales.
2. 'Attack Weakness' strategy: The American attack against Germany in Morocco during the Second World War, is an example of this strategy. The Nazis ignored the impending US attack on Morocco, thinking that Morocco was hardly worth defending. The successful American attack on Morocco opened up the way for the ultimate defeat of Hitler in the Second World War. Sam Walton, the founder of Wal-Mart, executed this strategy in the early 1960s by opening retail stores in small towns ignored by the then giant – Sears.

3. **Bringing Change to a failing company:** When Moses freed the Hebrews from slavery under Rameses II, he did not hesitate to strike down those who were recalcitrant. This was part of the change he needed to bring about, for the construction of a new Israel. In the corporate world, when Jack Welch took over as CEO of GE in 1981, he foresaw the potential problems that lay ahead for GE and instituted an aggressive strategy aimed at a complete overhaul. His detractors called him “Neutron Jack” for his ruthless change strategies. Welch continued with the implementation of his plans. The result – when Jack Welch left the company in 2001, GE was the company with the highest profits in the world.
4. **Concentration of Forces:** This strategy is most relevant in today’s business scenario. Organizations should coordinate their resources and concentrate on the areas where the competition is most intense. Using this strategy, in ancient times, generals like Caesar and Genghis Khan overwhelmed rivals with much bigger armies. Companies like Nike, Nokia and FedEx excel because of their concentration strategy.
5. **Forging a Strategic Alliance:** The alliance among the US, the UK and the USSR overcame Nazi Germany in the Second World War. This underlines the importance of strategic alliances. Similarly, in today’s highly competitive business environment, organizations are increasingly entering into alliances to take advantage of various synergistic benefits.
6. **Patience and Time:** When the rival is blundering, a well-run organization should not attack it but wait patiently for the rival’s self destruction. Napoleon’s failed invasion of Russia is a classic illustration of this strategy. Companies such as Yahoo and Boeing practice this strategy.
7. **Control the Choke Point:** The Spartans, with the army of three hundred soldiers blocked the Persian Army with 4,00,000 soldiers at a narrow pass in northern Greece called Thermopile. At this geographic choke point, the Spartans killed 15,000 Persians, before themselves being overrun and killed. The blocking of the Persian army gave other Greek states the time to prepare for war and to defeat the Persians ultimately. At one time, the AOL portal with its 26 million-person service that links the customer and the Internet was a perfect example of the strategy used at Thermopile. Any organization that hoped to reach potential customers online was forced to use the AOL portal.
8. **Containment is Good Enough:** The Cold War between the US and the erstwhile USSR during the later half of the 20th century is an example of containment strategy. In business, when there is competition between two organizations of equal size, if one organization tries to eliminate the other, then both firms will end up with shattered profit margins and mountains of debt, and, in the end, bankruptcy. So, containment is often preferred.
9. **A Combat-ready Company:** Netscape was an early entrant on the Internet. However, Microsoft took only six months to develop a competitive product. Cisco, which went on an acquisition spree in order to strengthen its technology, displays impressive battle-readiness too. These companies learnt from the example of the American defense forces, in always being ready to face attack.

Source: Dennis Laurie, From Battlefield to Boardroom

Strategic Management Process

Management includes planning, organization, motivation and Control. So, strategic management can be divided broadly into two parts, strategy formulation and strategy implementation. The formal strategic management process has the following steps:

Strategy Formulation

- Develop Corporate Vision
- Develop Corporate Mission
- Develop Corporate Goals / Strategic Objectives
Commission SWOT Analysis – External Analysis of Opportunities and Threats and Internal Analysis of Strength and Weaknesses
- Develop there from Functional Level Strategy, Business Level Strategy, Global Strategy and Corporate Level Strategy.
- Initiate Planning Process – Corporate Planning, Long Range Planning, Business Policy Planning.

Strategy Implementation:

- Lay Down Principles For Corporate Performance, Governance and Ethics
- Operationalising Strategy
- Execute the Strategy using various tools
- Introduce Controls
- Detect Variance, Measure Variance, Match against Control & Initiate Feed Back for Revision if Necessary