

P3 - Business Analysis

Lecture 1

16 February 2015

Introduction

1. Introduction to P3
2. Introduction to Strategic Planning

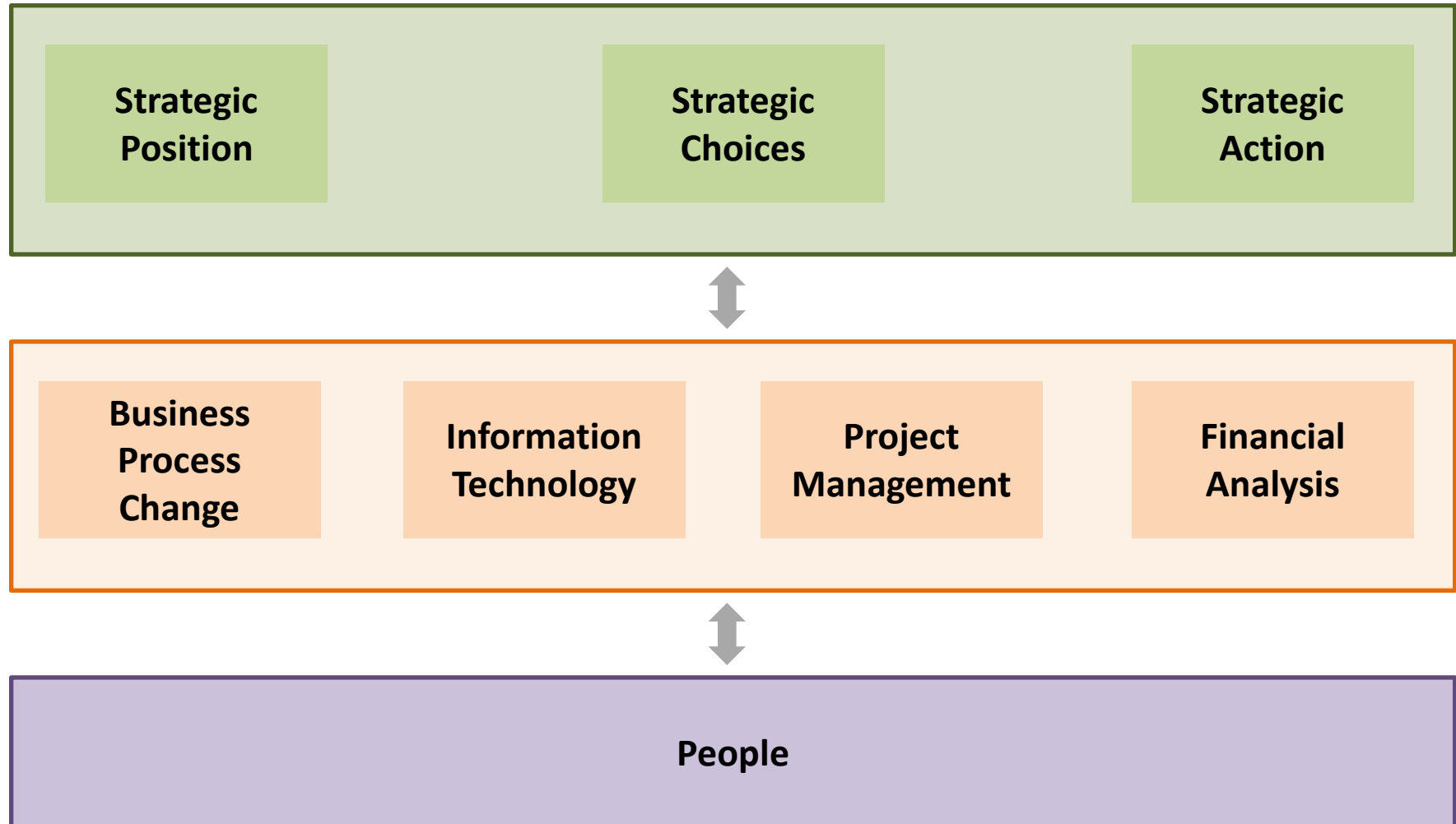
Strategic Position

3. The Environment

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1. Introduction to P3

1.1 Syllabus



1. Introduction to P3

1.2 Exam

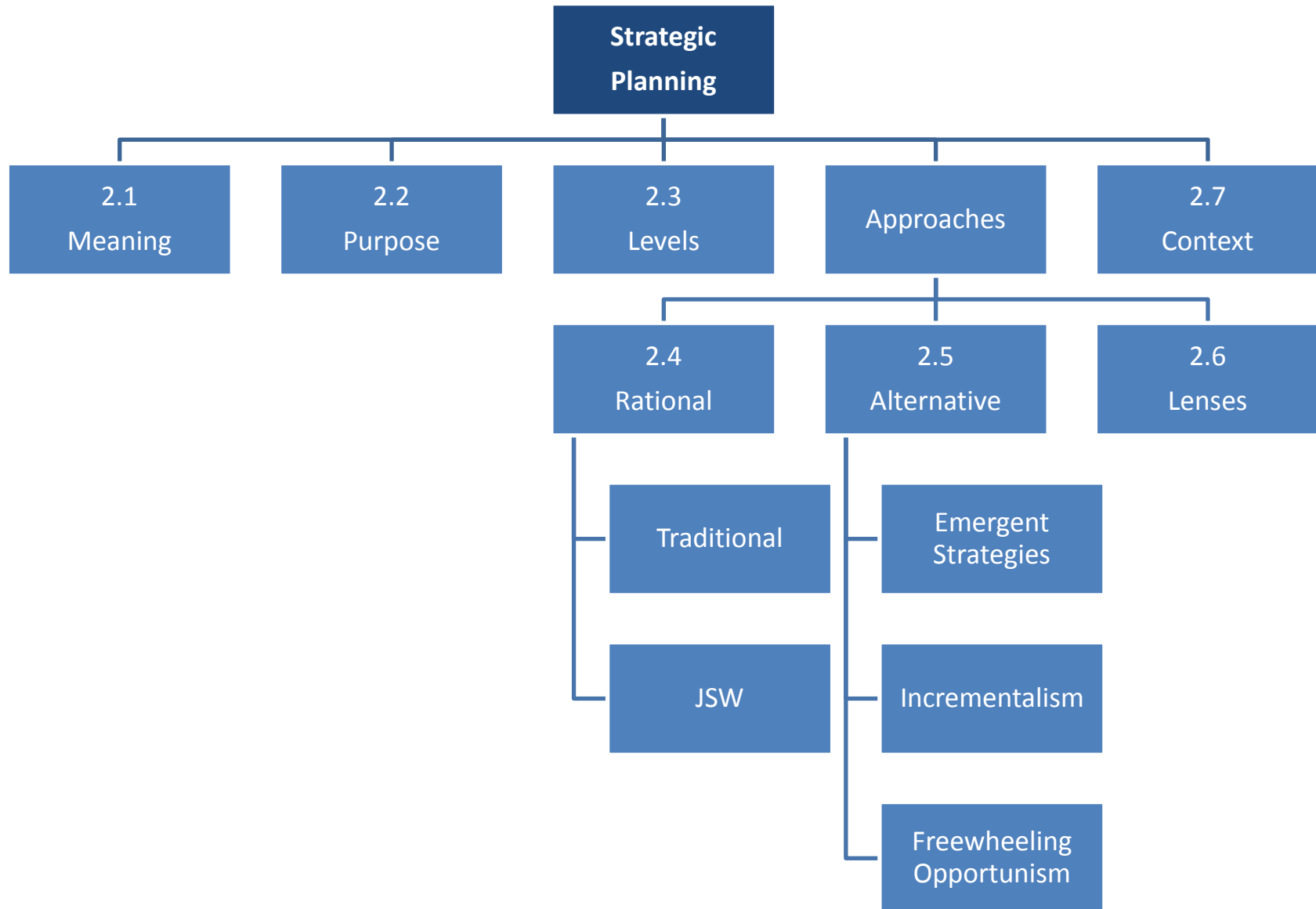
Structure

Time	3 hours
Section A 1 compulsory question	50 marks
Section B 2 questions out of 3	25 marks each

% Pass Rates

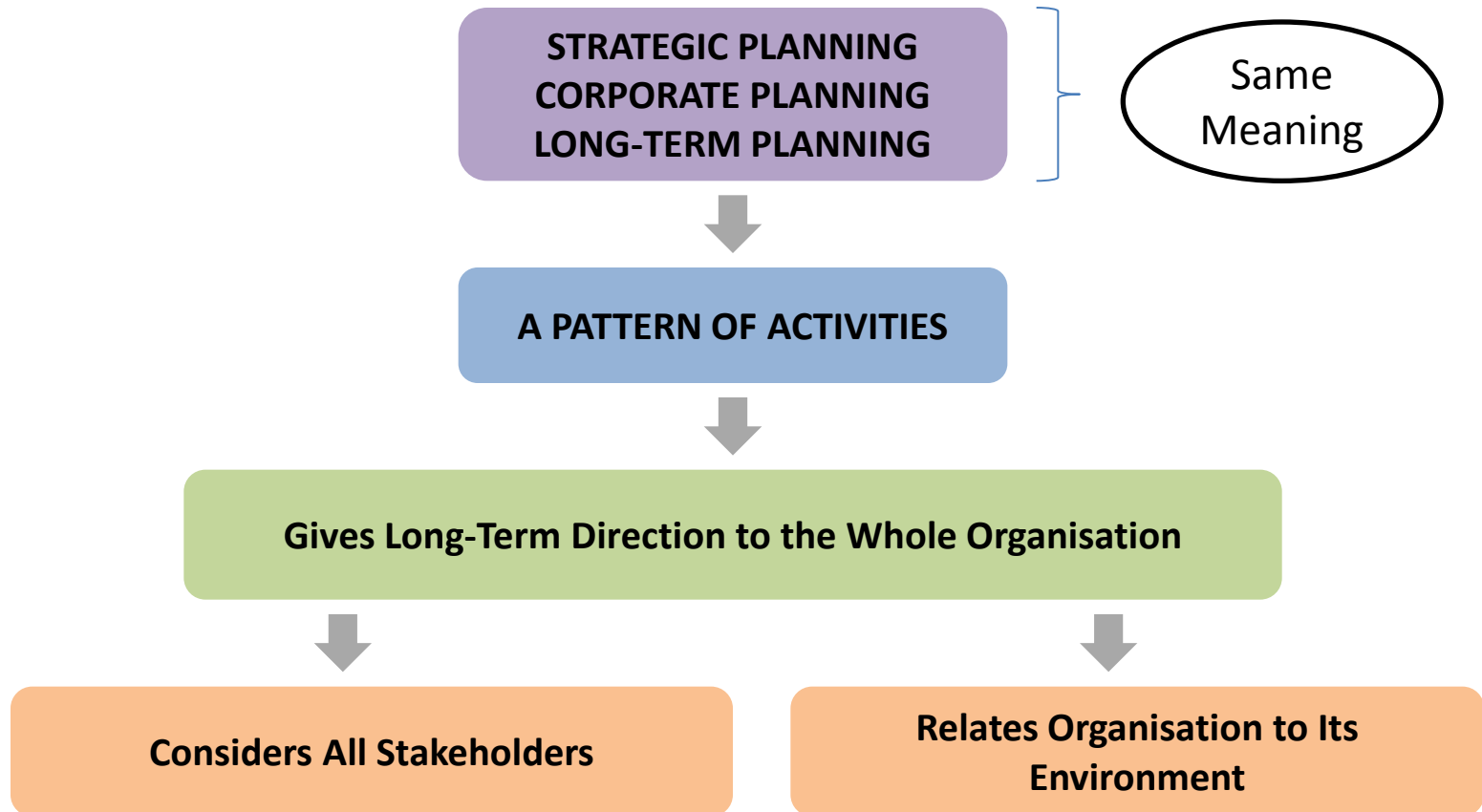
June 2011	47
December 2011	51
June 2012	48
December 2012	48
June 2013	51
December 2013	49
June 2014	46
December 2014	48

2. Introduction to Strategic Planning



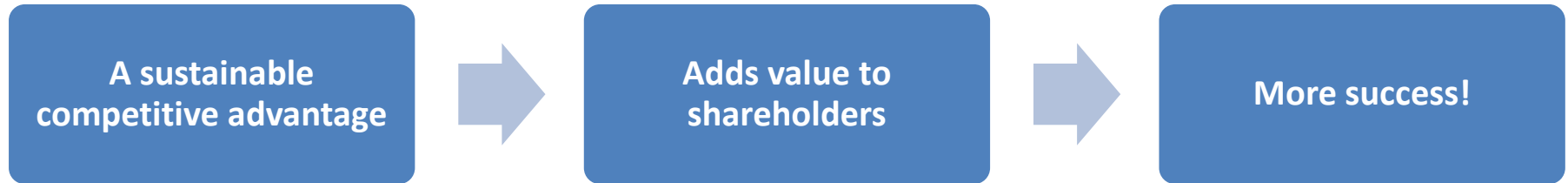
2. Introduction to Strategic Planning

2.1 Meaning of Strategic Planning



2. Introduction to Strategic Planning

2.2 Purpose of Strategic Planning



Benefits:-

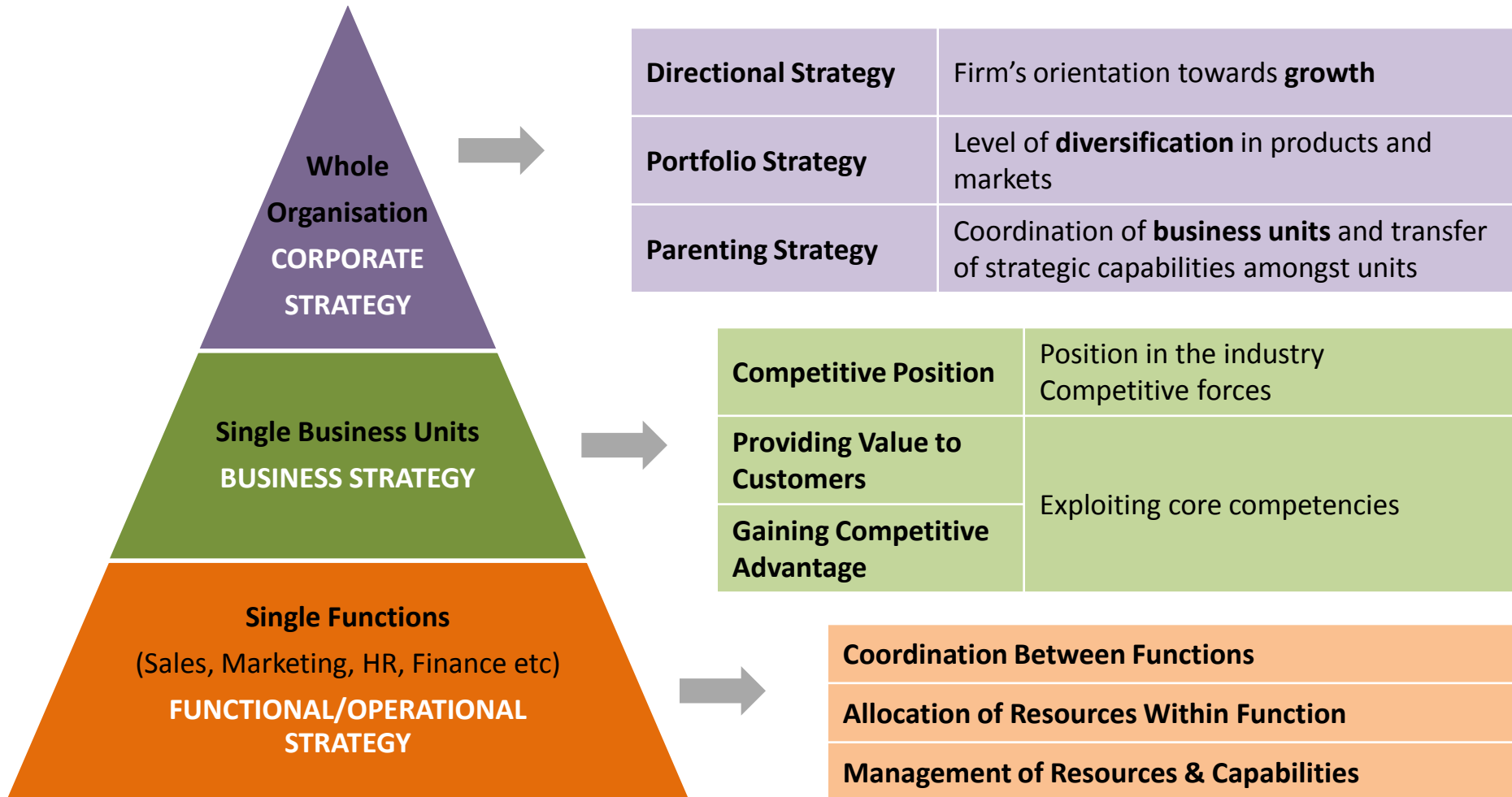
- Provides direction
- Helps communicate the organisation's direction and may foster ownership of such direction
- Ensures goal congruence and coordination
- Encourages a longer term view
- Encourages a forward looking approach (proactive preparation for change vs reactive to change)
- Achieves a better fit with the environment
- Makes better use of resources
- Provides a measure for monitoring progress and control

Pitfalls:-

- Time consuming and expensive
- Difficult in crisis and rapid changes
- Bureaucratic and restrictive
- The reason for missed opportunities

2. Introduction to Strategic Planning

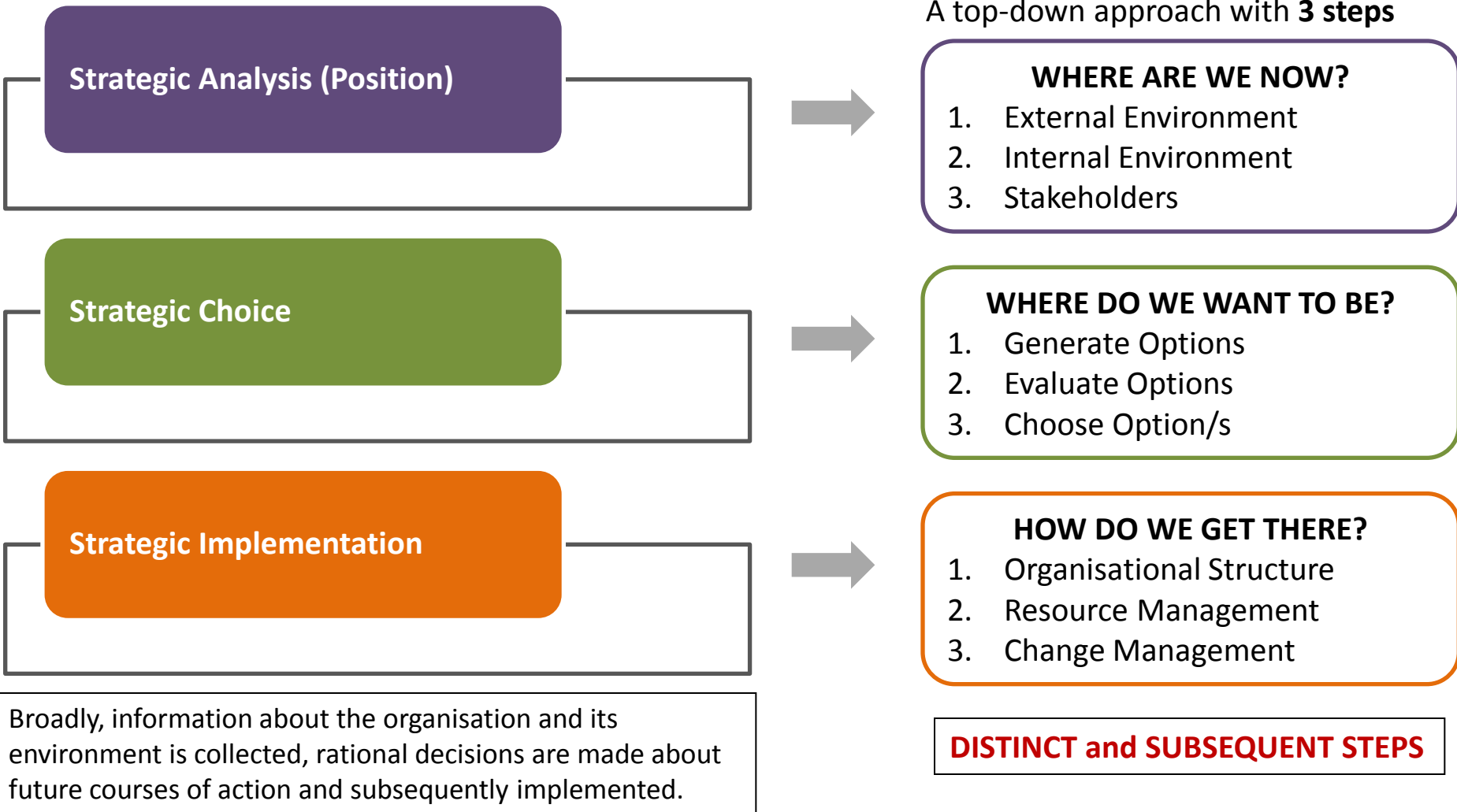
2.3 Levels of Strategic Planning



2. Introduction to Strategic Planning

2.4 Rational Approach

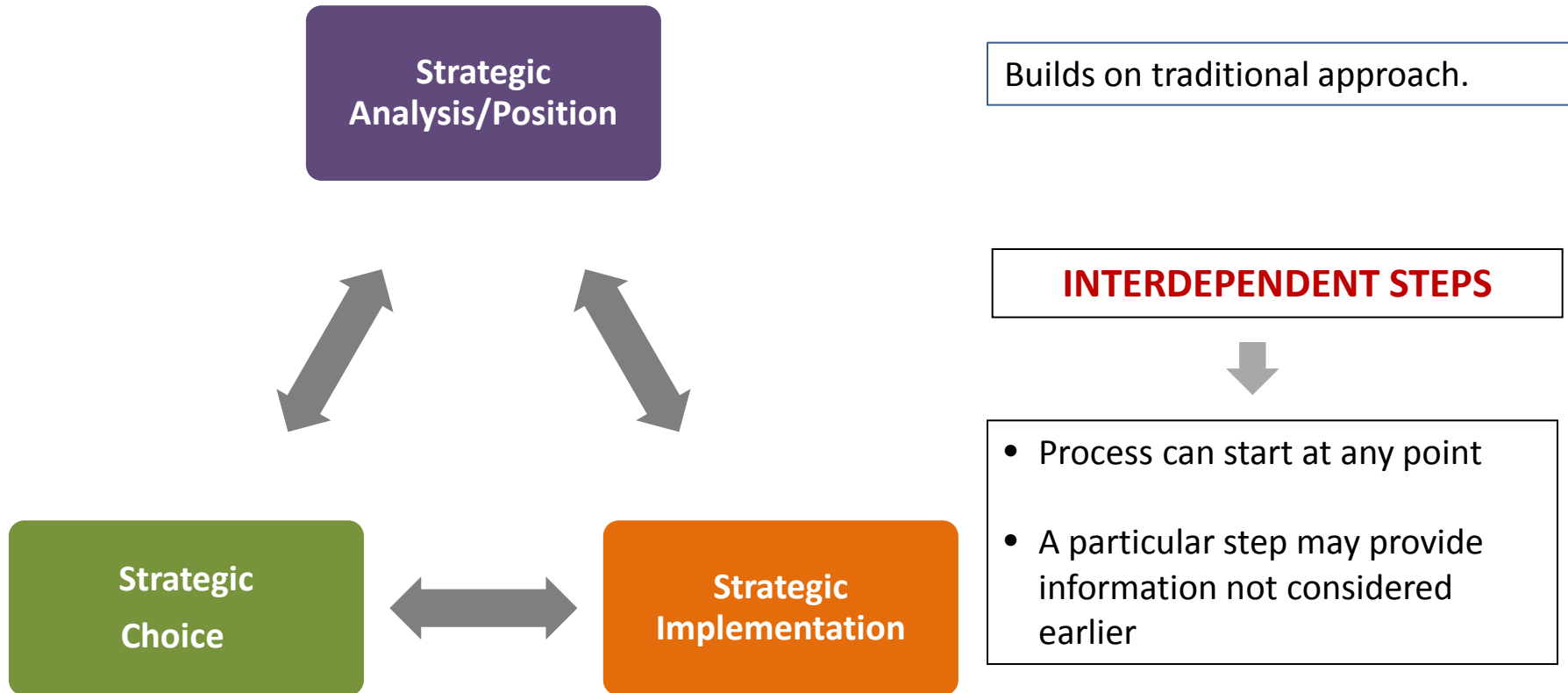
A. Traditional Approach



2. Introduction to Strategic Planning

2.4 Rational Approach

B. Johnson, Scholes and Whittington (JSW) Model



2. Introduction to Strategic Planning

2.5 Alternative Approaches

Rational	Emergent	Incrementalism	Freewheeling Opportunity
<ul style="list-style-type: none">• A formal, systematic (structured) approach• Results in a deliberate or intended strategy• Directive: top-down objective setting• Largely ignores learning and cultural (particularly political) influences	<ul style="list-style-type: none">• Questions rational approach• Strategy continuously evolves (emerges)• Focus on diversity and variety: top-down and bottom-up• Focus on learning, ideas that result in patterns of behaviour• Most strategies are a mix of deliberate and emergent strategies	<ul style="list-style-type: none">• Rejects rational approach• Not all options are considered• Strategic choice is NOT impartial• Small scale extensions (incrementals) of past strategy – building on existing strategy• NO radical strategy shifts• Past practices more acceptable due to: compromise, consultation	<ul style="list-style-type: none">• NO planning as planning takes too much time• Grab opportunities as they arise• Very informal approach• No long-term vision – focus on present and immediate future• Relies on individual entrepreneurial skills of owner/manager

- Larger, established organisations
- Centralised Control
- Government institutions
- Public companies



- Very small organisations, especially in early stages
- Responsibility vested in owner/managers
- Turbulent, creative markets

2. Introduction to Strategic Planning

2.5 Alternative Approaches

Exam Question Dec 2001 - Exam Kit 69(a) [Section B Question: 10 marks]

Lionel Cartwright considers himself to be an entrepreneur. He has been involved in many business ventures, each with minimal planning. He claims that this allows him to respond quickly to changing circumstances. His father had left him a small road haulage firm but he soon sold this to a larger operator when he recognised that operating margins were low and competition was severe. With the money received he bought a fast-food franchise, realising that this was where there was likely to be substantial growth. However the franchiser required Lionel to limit both his ambitions and ideas for expansion to the development of this single franchise site. Lionel did not like this constraint and sold out and moved on. He then invested his money in an Internet firm, having identified potential in this market. Unfortunately for Lionel, his investment in the company was insufficiently large to permit him to have much say in the management of the company so he again sold out. He demonstrated his opportunism because he managed to sell his investment before the technology shares had fallen on the global stock exchanges. Lionel now has a cash sum of about \$12 million seeking a suitable investment.

It is clear from Lionel's track record that he enjoys involvement in the management of businesses and he also prefers some element of control. He appears to have a skill in identifying potential growth markets and he also seems to have an intuitive knowledge of the marketplace. He is currently showing an interest again in the food/restaurant markets and he is looking at organic food and juices. He has noticed a growing trend in the USA for outlets selling fresh vegetable and fruit juices which are squeezed to the customer's demand. This development is all part of the growing health-conscious climate. Lionel believes that the European market is ready for such a venture and this is his initial objective.

It appears that Lionel is a follower of the emergent school of strategy formulation as distinct from the rational model. Discuss the benefits that such an opportunistic approach may bring Lionel and comments on any problems he may experience with such an approach to setting strategy.

2. Introduction to Strategic Planning

2.5 Alternative Approaches

Exam Question Dec 2001 - Exam Kit 69(a) [Section B Question: 10 marks]

Benefits	Problems
Opportunistic approach fits better with Lionel's personality	Lionel has no real direction or long term objectives/ambitions. He moved quickly through different industries: road haulage to fast foods, IT and health foods
Lionel's flexibility in quickly responding to market changes is not impeded by rigid planning	
No false sense of security from planning process which can lead to 'paralysis by analysis'	Shift in industries means no accumulated expert knowledge about a particular industry
A focus on Lionel's instincts, initiative and intuition which have proved correct in the past	No full appreciation of impact of decisions , therefore, difficult to inspire confidence of third parties e.g. banks
Allows for learning – development of ideas until patterns emerge	No control – no targets means that it is difficult for Lionel to measure performance and to detect weakness
Not always possible for a small company like Lionel's to have knowledge and resources needed for rational approach	No consistency – may lead to confusion, lack of integration of activities, employee de-motivation

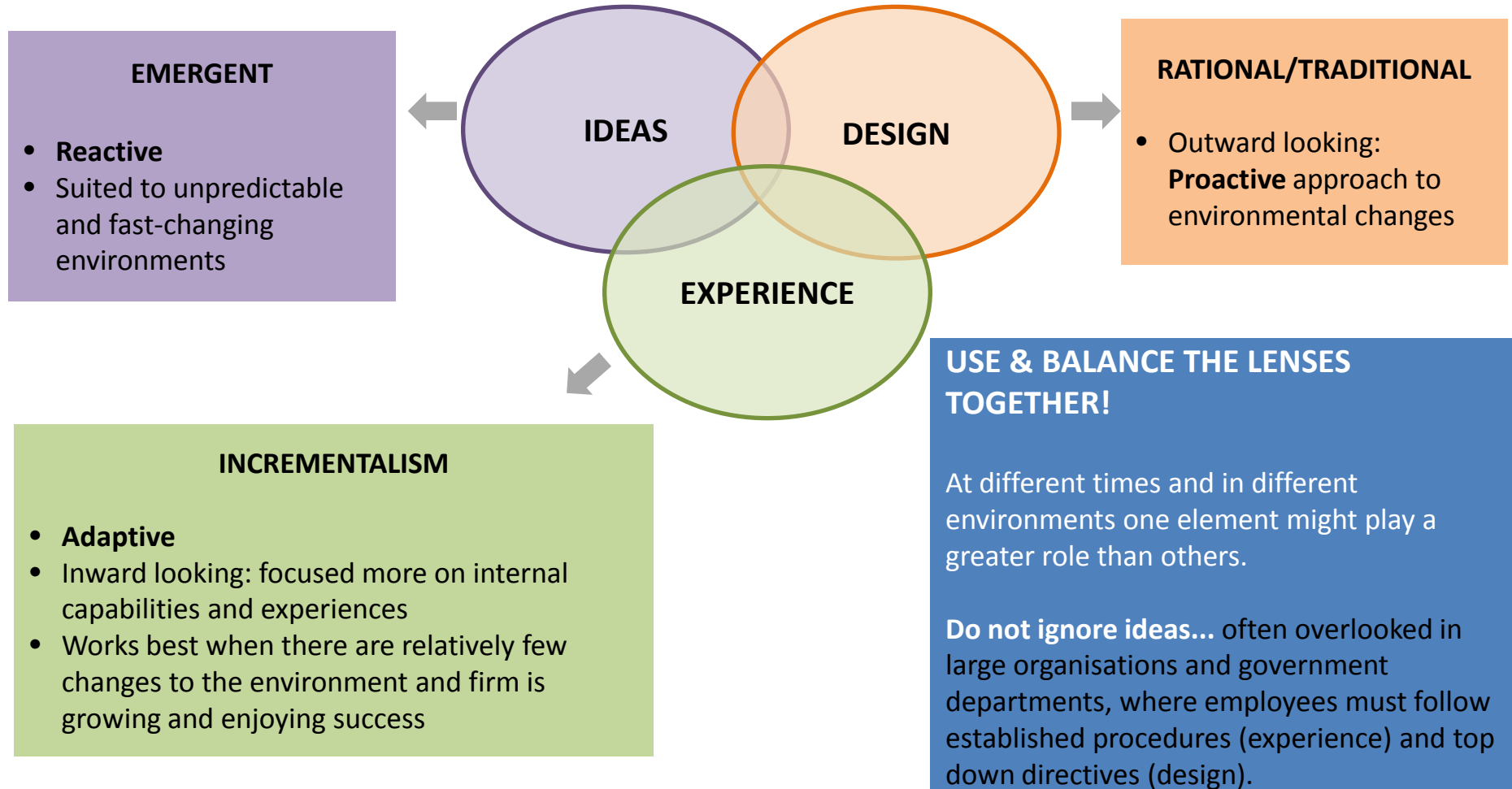
Conclusion:-

- Lionel's approach may be appropriate in the early days of an organisation when the size of the enterprise and resource commitments are sufficiently small to enable doing away with structured planning.
- As the organisation grows and lengthy projects are necessary, more structure is essential.

2. Introduction to Strategic Planning

2.6 Lenses of Strategy

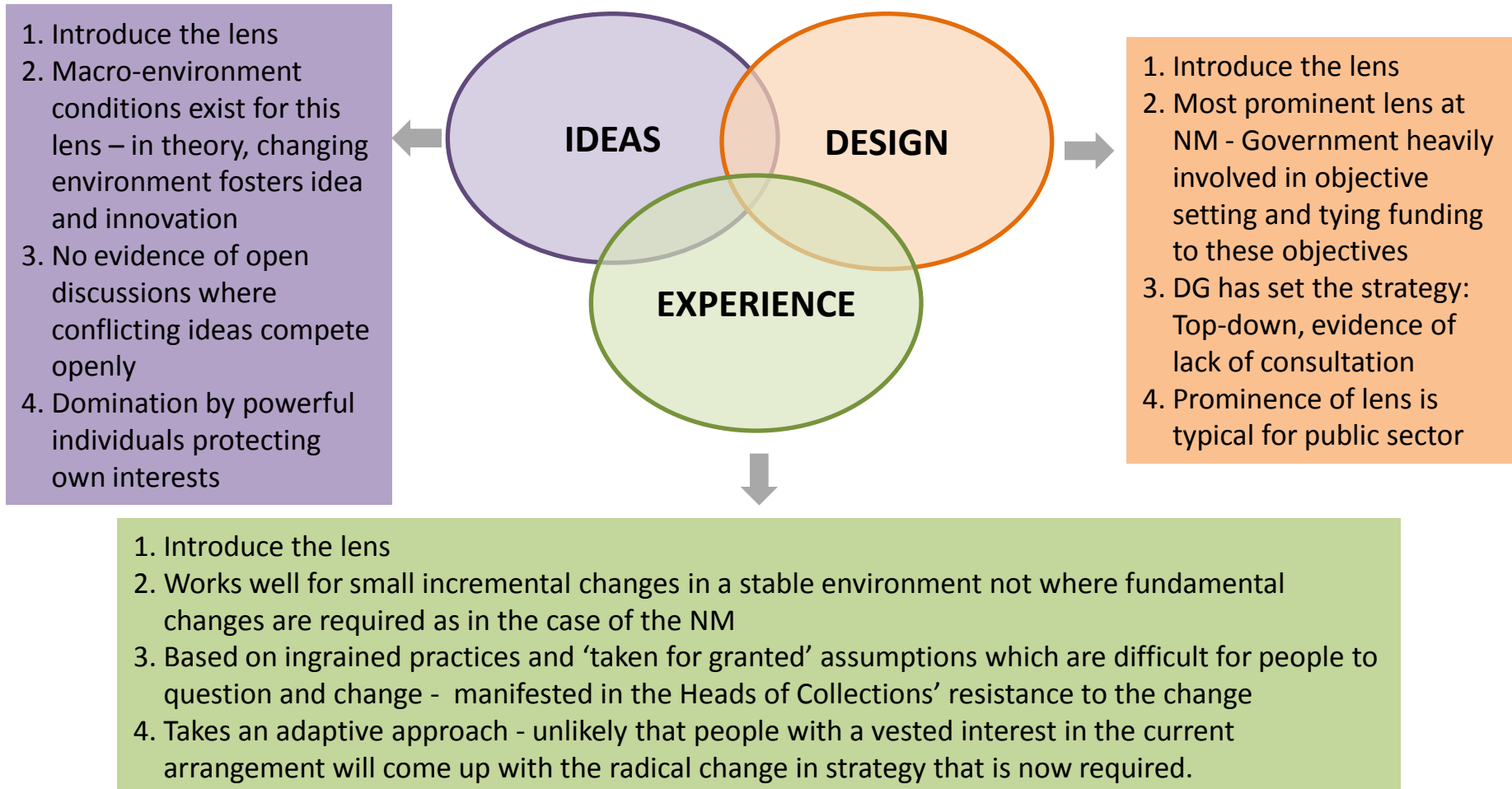
Johnson & Scholes: strategy is likely to come from a variety of sources and a combination of the above techniques. Strategy is formed through the coming together of three 'strategy lenses'.



2. Introduction to Strategic Planning

2.6 Lenses of Strategy

Exam Question Dec 2008 1(c) - Exam Kit 65(c) [Section A Question: 10 marks]



2. Introduction to Strategic Planning

2.6 Lenses of Strategy

Exam Question Dec 2008 1(c) - Exam Kit 65(c) [Section A Question: 10 marks]

Conclusions

- Difficult to change strategy in such a hierarchical structure
- DG used the design lens which is understandable given that it is a public organisation and given the pressure exerted by the newly elected government
- **Design lens** could have worked had it been more sensitive to the organisational culture for e.g.
 - Strategy could have implemented the loss of status symbols of the heads of sections gradually rather than abruptly;
 - New directors could have been added to the structure – might have worked better than stirring conflict by removing two well connected collection directors;
 - The non-government appointed trustees should have been involved in the design of strategy – in this way, they might have been more willing to support DG
- **Experience lens** is highly improbable to work in a scenario where a radical change is needed
- **Ideas lens** could have been exploited to a greater extent if there had been more consultation and communication with directors, head of sections and with the board of trustees.

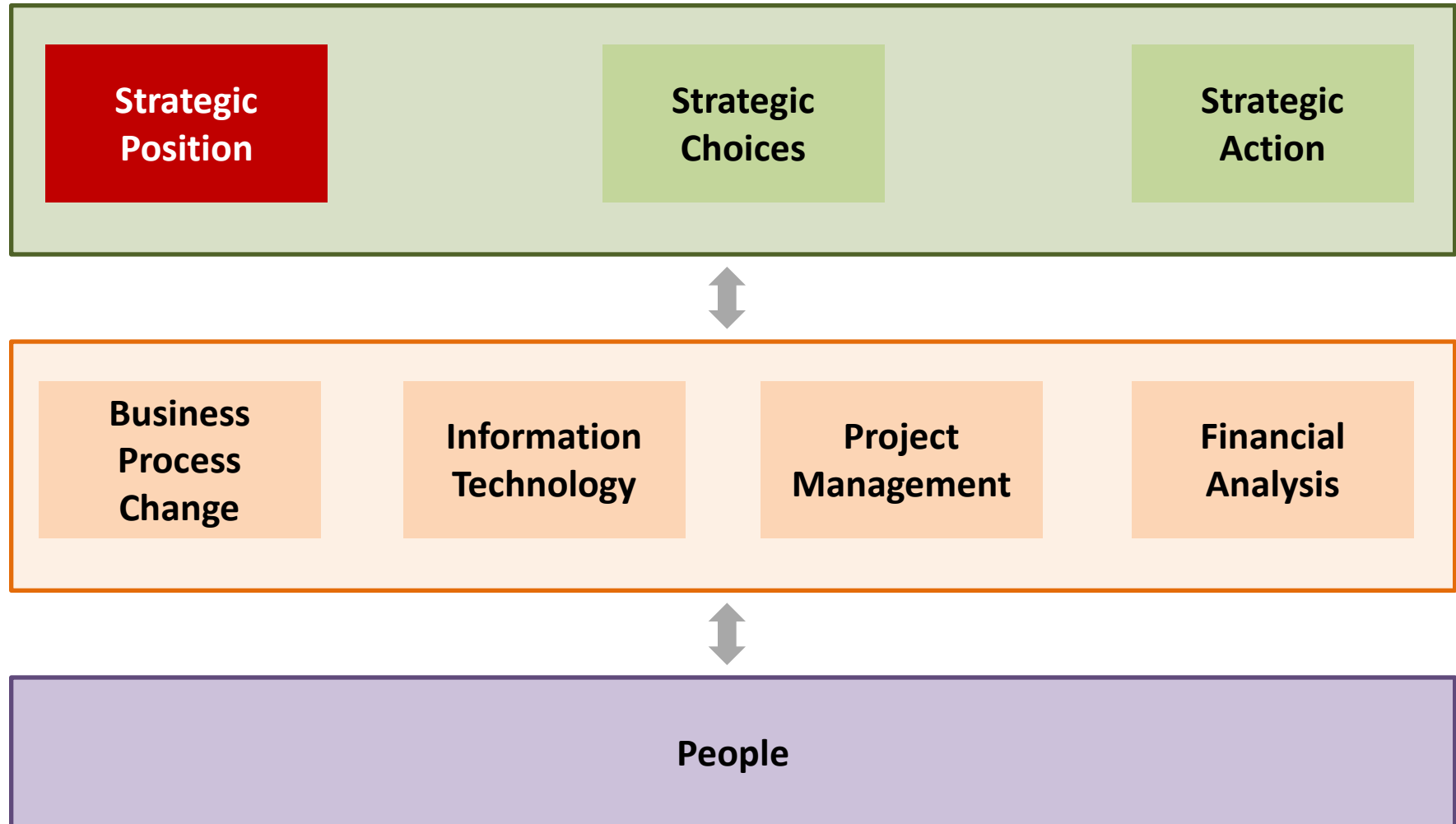
2. Introduction to Strategic Planning

2.7 Context of Strategic Planning

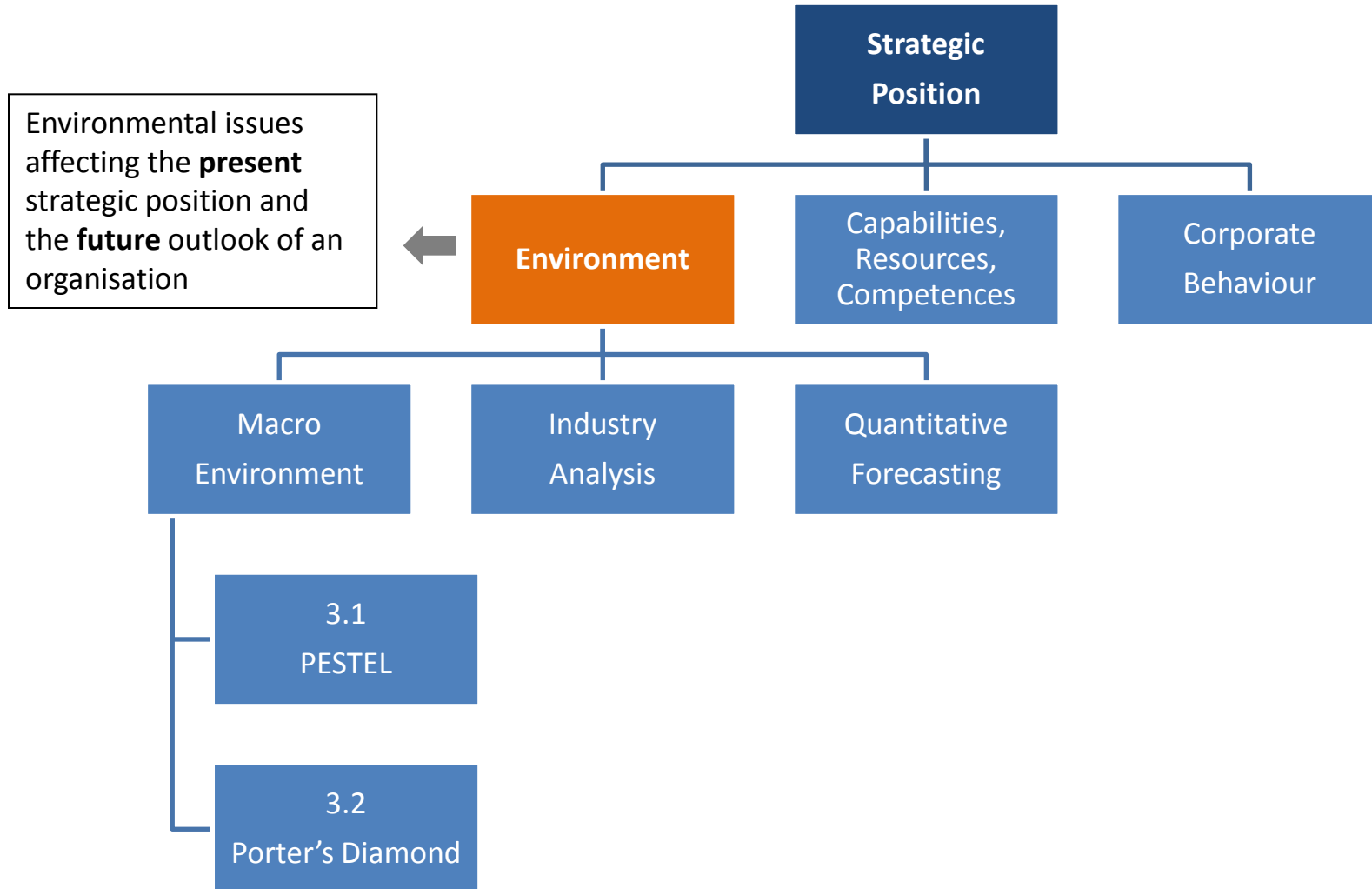
The **context of strategic planning** is very important because it **determines the key strategic issues**.

Type of Organisation	Characteristics	Key Strategic Issues
Small businesses	<ul style="list-style-type: none">• Normally operate in a single market with a limited product range• Views and expectations of founder/owner dominate	<ul style="list-style-type: none">• Dealing with pressure from larger competitors• Limited sources of finance restricting strategic choice• Certain aspects not relevant (like parental strategy) or less relevant (coordination between functions)• Strategic planning normally less formal
Multinationals	<ul style="list-style-type: none">• Normally operate in very diverse markets with a wide product range	<ul style="list-style-type: none">• All levels of planning are distinct and vital• Strong influence of design and experience lenses
Public Sector	<ul style="list-style-type: none">• Significant government influence• Planning driven by political rather than market conditions	<ul style="list-style-type: none">• Strategic options limited by public funding• Competition for public resources• Strategic alliances often key (e.g. public/private partnerships)• Normally follow established procedures: focus on strategy as experience and design
Voluntary or non-profit organisations	<ul style="list-style-type: none">• Key objectives are non-financial	<ul style="list-style-type: none">• Role of values/ideology• Key decisions often centralised• Competition for funds (e.g. by meeting expectations of funding bodies)

3. The Environment



3. The Environment



3. The Environment

3.1 Macro Environment - PESTEL Analysis

Presents the **5 main environmental variables**

P	Political	Taxation policy Government stability	Foreign trade regulations
E	Economic	Interest rates Inflation Disposable income	Business cycle (growth) Unemployment
S	Social	Demographics (age, race and ethnicities) Income distribution Education levels	Lifestyle and value changes Attitude to work Social mobility
T	Technological	Focus on new technology New discoveries	Rate of obsolescence
E	Environmental	Environmental damage	Pressure groups
L	Legal	Employment law Environmental protection laws	Legislation on competition

Helps to assess **growth prospects of the industry**

Limitations:-

- Results in just a list that can be oversimplified
- Possible 'paralysis by analysis' where too much information is gathered, losing sight of the objective

Therefore, **best used in conjunction with other tools**

3. The Environment

3.1 Macro Environment - PESTEL Analysis

Exam Question Dec 2008 1(a) - Exam Kit 65(a) [Section A Question: 20 marks]

P	Political	<ul style="list-style-type: none">• Museum currently reliant on government funding.• Political context has changed.• Government has decided to reduce public funding, a move agreed to by the opposition• Government has appointed political appointees as trustees• The continued government funding relies on performance measures driven by political agenda• Senior managers failed to recognise change in political context and resisted change with the result that the government is threatening further funding cuts and further political trustee appointments.
E	Economic	<ul style="list-style-type: none">• Progressive reduction of government funding exposes museum to economic realities – using resources effectively, identifying and exploiting opportunities and setting realistic admission charges• Introducing reasonable charges will be difficult since the public was used to nominal fees
S	Social	<ul style="list-style-type: none">• Government is motivated by social inclusion – increasing attendance by young people and lower social classes• Visitors are declining and average age of visitors is on the increase – museum needs to find a way to contribute to government's targets• Museum's location provides proximity to the kind of visitors that museum has to attract. However, the type of neighbourhood may deter fee-paying visitors – museum needs to increase security both within the museum and in the vicinity. If this is unachievable, a move should be considered

3. The Environment

3.1 Macro Environment - PESTEL Analysis

Exam Question Dec 2008 1(a) - Exam Kit 65(a) [Section A Question: 20 marks]

T	Technological	<ul style="list-style-type: none">• Only 10% of collection is on-view. Technology provides opportunities for displaying articles on-line (virtual museum) against a fee, which can significantly increase the NM's customer reach as well as its revenue• Technology can help achieve accessibility targets set by government by making the museum experience more interactive and 'hands on'
E	Environmental	<ul style="list-style-type: none">• Museum located in old building that requires regular maintenance and upgrading and which is probably not energy efficient in terms of heating etc.• Old building makes it difficult to achieve disability access targets – in fact, alterations were aesthetically unpleasant• Environmental issues combined with social issues may suggest moving to a new building in a more appropriate location• However, due to its architectural importance, an alternative use for the current building might have to be suggested to the government
L	Legal	<ul style="list-style-type: none">• Museum had to adapt to legal requirements relating to disability access and health and safety requirements.• Further tightening of legislation might be expected from a government with a mandate for social inclusion.• Modifications that are legally required to be made to the building might be expensive (due to age of building) and aesthetically unpleasant• Legal requirements regulating trustees who must ensure that museum is run lawfully and in line with the purposes for which it was set up

3. The Environment

3.1 Macro Environment - PESTEL Analysis

Exam Tips

- PESTEL deals with the environment – **do not delve into internal issues**
- **Mention all the 6 forces** and try to give them equal importance
- Some influences e.g. political and legal are interlinked. No marks are lost if a point is mentioned under P instead of L or vice versa as long as the choice is logical
- 2 marks for each PESTEL area. 8 marks for extending the arguments

3. The Environment

3.2 Macro Environment - Porter's Diamond

Four main forces that determine **national competitive advantage**
Can be used to **choose between overseas destinations for expansion**



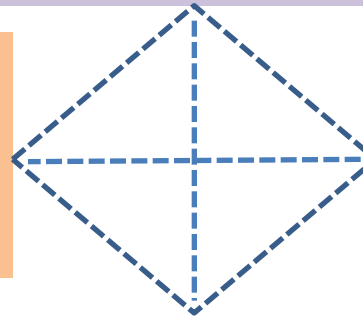
e.g. Germany in car manufacturing,
Japan in consumer electronics

Factor Conditions

- Factors = natural resources, human resources, infrastructure, knowledge, capital
- Factor disadvantages = innovation. Japanese firms developed energy efficient products to address high energy costs

Firm Strategy & Structure, Rivalry

- Local conditions affect firm strategy and structure – the way in which companies are created, organised and managed
- Local rivalry = innovation



Demand Conditions

Advantage in a product and innovation if:-

- Strong home demand
- Demanding local market
- Trend-setting local market

Related and Supporting Industries

- Innovative supporting industries = more cost-effective and innovative inputs
- Sweden's superiority in paper industries is supported by a network of related industries e.g. packaging, chemicals

Porter also mentioned:

- **the government** since it can influence the four determinants.
- **chance**, i.e. events that are outside the control of a firm e.g. war, other political developments, natural disasters

These factors interact with each other to create conditions where innovation and improved competitiveness occurs

3. The Environment

3.2 Macro Environment - Porter's Diamond

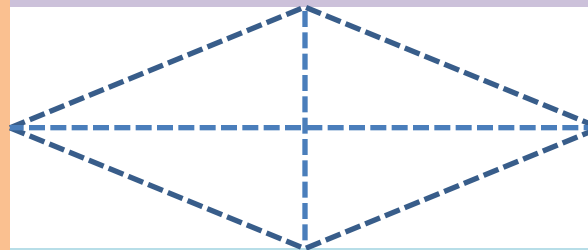
Exam Question June 2010 2(b) - Exam Kit 4(b) [Section B Question: 10 marks]

Firm Strategy, Structure & Rivalry

- Immature capital markets make it very difficult to raise finance
- Consequently, most of EVM's competitors are small and family run

Factor Conditions

- Work ethic of the people
- Investment in infrastructure, particularly road transport



Related and Supporting Industries

- Absence of internationally competitive industries related to logistics

Demand Conditions

- The move to a market economy has increased standard of living, increased demand for goods that were previously unobtainable luxuries
- The result should be stimulated demand for transport of goods
- People are demanding in their standards – passion for precision and promptness

Porter also mentioned **the government**: In Ecuria, government's approach to privatisation, infrastructural investment and capital markets affected the factor conditions

Factor and demand conditions work in favour of Ecuria. However, the stimulus experienced by a company operating in a country where there are internationally competitive suppliers or related industries, or where there is a great degree of rivalry between competitors, will be missing.

Further Work

File

Chapter 1

Chapter 2

- Framework 1: PESTEL
- Framework 2: Porter's Diamond

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Chapter 1

Chapter 2

- PESTEL
- Porter's Diamond

Past Papers	Exam Kit
Strategy Lenses	
June 2013 – 1(b)	Question 76(b)
PESTEL	
Dec 1995	Question 5(b)
Pilot Paper – 1(a)	Question 79(a)
Porter's Diamond	
Dec 2013 – 1(c)	Question 77(c)